OUTSURANCE Holdings Limited

YEAR IN YEAR OUT

2014
ANNUAL REPORT


OUT
PERFORM
GET MORE OUT
OF YOUR CAR INSURANCE.
At OUTsurance, we want to give you the most comprehensive, all-inclusive, car insurance package ever made! We want to make sure you'll be insured for anything and everything, to include ill-timed bumper bashings; smash and grab incidents; theft and hijacking; hail damage (not all insurers cover this as standard); fire damage; and even if someone else damages your vehicle intentionally.
The most comprehensive, all-inclusive, car insurance package.
CAR

CONTENTS

OUTsurance Holdings Limited

1997/022260/06

Certain entities within the OUTsurance Holdings Group are authorised financial services providers.

OUR GROUP

The OUTsurance Holdings Group provides short and long-term insurance products in South Africa, Australia, New Zealand and Namibia. We abide by a simple client centric ethos of providing value for money insurance solutions backed by awesome client service. The Group is 83.4% owned by Rand Merchant Insurance Holdings.

Southern Africa

CAR INSURANCE **HOME** INSURANCE **BUSINESS** INSURANCE **LIFE** INSURANCE

CONTRIBUTION TO GROUP PROFIT
85%

CONTRIBUTION TO GROUP PREMIUM REVENUE
61%

EMPLOYEES
2 519

CUSTOMER SATISFACTION INDEX
89%

POLICIES
863 000

OUTSURANCE

100% owned

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

OUTSURANCE Life

100% owned

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

OUTSURANCE Namibia

49% owned

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

you always get something **out**

Australasia

CAR INSURANCE HOME INSURANCE

CONTRIBUTION TO GROUP PROFIT
15%

CONTRIBUTION TO GROUP PREMIUM REVENUE
39%

EMPLOYEES
1 527

CUSTOMER SATISFACTION INDEX
91%

POLICIES
762 000

youi AUSTRALIA

93% owned

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

youi NEW ZEALAND

93% owned

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

we get **you**

FINANCIAL PERFORMANCE HIGHLIGHTS

R3 500 million
ANNUALISED NEW BUSINESS WRITTEN
up by 35.0%

27,5 cents
ORDINARY DIVIDEND PER SHARE
up by 14.6%

R10 352 million
GROSS WRITTEN PREMIUM
up by 24.9%

38.4%
HEADLINE ROE

40,2 cents
DILUTED HEADLINE EARNINGS PER SHARE
up by 16.9%

R1 448 million
HEADLINE EARNINGS
up by 19.8%

This report covers the audited financial results of OUTsurance Holdings Limited (OUTsurance Holdings or the Group) based on International Financial Reporting Standards for the year ended 30 June 2014.

TIMEOUT
GET MORE OUT
OF YOUR LIFE INSURANCE.
In the past, the only time you got anything back from your life insurer was when you claimed. That has changed. You can now get all your life insurance premiums back in cash after 15 claim-free years. It's a 100% OUTbonus that will forever change the way you look at life insurance.
The 100% OUTbonus. All premiums back in cash after 15 claim-free years.
LIFE

EXECUTIVE REVIEW

Our Group delivered another strong financial and operational performance for the year under review. The group achieved 19.8% growth in headline earnings at a return on equity of 38.4%. The significant driver behind the growth in the Group's earnings is attributed to the profitability of Youi which generated R231 million in headline earnings.

Youi was launched in 2008 and through good operational execution, the creation of a powerful brand and management focus, Youi has grown to be a notable and profitable player in the Australian market. Youi now contributes to 39% of the Group's turnover and 15% of the Group's profits.

We are often asked to draw a comparison between the competitive landscape of the South African and Australian markets. Conventional wisdom would conclude that because of South Africa's status as a developing nation, the market would be less competitive than Australia. One has to respect the South African financial services industry as a highly advanced and developed market. In recent years, competition in the South African direct short-term insurance market intensified considerably driven by numerous new entrants and exacerbated by limited real growth. As a mature player, OUTsurance has been able to "weather the storm" and deliver consistent profitability, whilst maintaining our market share and more importantly our share of market profitability. OUTsurance generated headline earnings of R1.216 billion, in line with the prior year result.

Overall the Group achieved 35% growth in annualised new business premium written. Youi delivered excellent new business growth as the business continues to gain traction and solidify its presence in the Australian market. The South African business delivered encouraging new business growth in an environment where premium inflation continues to track below consumer inflation. The strong new business volume growth translated into 24.9% growth in the Group's gross written premium income to R10.352 billion.

OUTsurance Life, our direct life insurance offering in South Africa shifted gear this year with the launch of the innovative new product offering which allows our clients to receive all their premiums back after 15 claim-free years. Although the Life business remains small in the context of the Group, we are excited about the growth prospects of the direct life insurance market, the broadening of our customer proposition and the earnings diversification the business offers.

STRATEGIC EXECUTION

Our simple, client centric business strategy to provide value for money insurance and exceptional client service continues to drive consistent shareholder returns. We evaluate our performance against the following strategic imperatives:

PRICING DISCIPLINE

We abide by a sound insurance principle of only underwriting insurance risk that we can accurately price for. This approach has resulted in the Group achieving claims ratios which are more stable and profitable compared to our peers. This strategy is supported by a sophisticated systems infrastructure and a culture of data analytics.

Our reinsurance strategy is calibrated to manage our low appetite for earnings volatility and to protect us against infrequent large scale natural events. The success of this approach is evidenced by the relatively small net impact of record hail storm exposures over the last two years on the OUTsurance bottom line.

For the year under review, OUTsurance recorded a marginal claims ratio increase as a result of above inflation increases in claims costs. Since 2012, we have deliberately managed our claims ratio upward to align with our long-term average and target.

Although Youi benefitted from relatively benign weather conditions in the second half of the year, the claims ratio continues to show a positive trend in line with the maturing in-force book. Youi's claims ratio continues to track well below the market average, testament to the sophistication of the pricing and underwriting model.

CLIENT SERVICE

We operate in a highly competitive and commoditised market place with limited opportunity for distinction. Our value of "awesome service" is deeply embedded in our service culture and a key differentiator. We track our client service performance by measuring the success of client interactions through various innovative feedback mechanisms such as client and service provider surveys and the "wall" on our websites which provide clients with a public forum to compliment or criticise our performance.

This year, OUTsurance and Youi achieved a 95% and 85% client satisfaction ratio respectively as measured on the "wall".

BRAND STRENGTH AND REPUTATION

At OUTsurance we view our responsibility to pay legitimate claims promptly and fairly as our most important function. Our management team is highly incentivised to ensure that we abide by our equitable claims settlement philosophy.

A valuable independent source for validating our claims philosophy is the annual industry statistics published by the Ombudsman for short-term insurance (South Africa). OUTsurance has again achieved comparatively better complaints experience than the industry. OUTsurance clients submitted two out of every 1 000 claims processed to the Ombudsman compared to the industry's three out of every 1 000. Of these claims, the Ombudsman only overturned 14% of the OUTsurance claims whereas the experience for the industry was 33%.

OPERATIONAL EFFICIENCY

Excellent operational execution is key to achieving our underwriting and client service goals. Operating efficiently is also critical in meeting our objective of providing value for money insurance products.

Innovation in our business is often centred on smarter execution. We continuously invest in our dedicated and passionate people, systems and processes to ensure world-class and economical business processes. This strategy has allowed OUTsurance to consistently provide clients with below industry premium increases.

This year, Youi realised further scale benefits on the back of the fast growing in-force book. In an effort to extend the operating hours of Youi and gain client service efficiencies, Youi opened a call centre in New Zealand. The Australian client base is now serviced from Australia, South Africa and New Zealand, a strategy which has been highly successful in enhancing customer experience and positively impacting on the bottom line.

LOOKING FORWARD

Youi New Zealand, our latest organic growth initiative, was launched in July 2014. The operation is an extension of the Youi operational platform and is aimed at servicing the direct personal lines market in New Zealand. We are excited about the prospects of this venture and its ability to contribute meaningfully to the long-term growth of the Group.

Trading conditions in the South African insurance market are expected to remain tough as economic headwinds prevail and competition continues to intensify. Despite these conditions we expect to incrementally grow our core personal lines business.

Youi is expected to continue to show good top-line growth and achieve operational efficiencies. The Australian business is expected to remain the main growth and diversification engine of the Group in the medium-term.

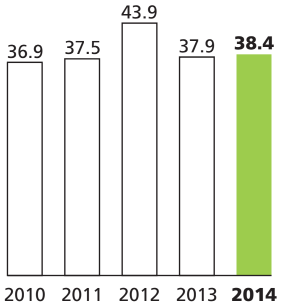
WILLEM ROOS
Joint Chief Executive Officer

LAURIE DIPPENAAR
Chairman

FINANCIAL REVIEW

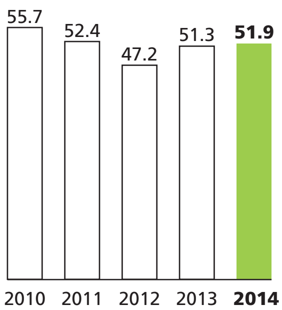
KEY PERFORMANCE INDICATORS

NORMALISED ROE
(%)



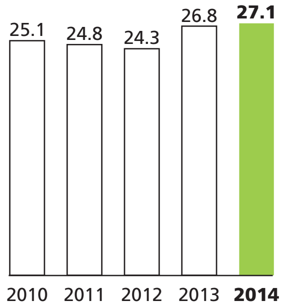
The Group achieved a ROE of 38.4% for the year under review. The ROE is measured on an "attributable to ordinary shareholders" basis. The historic stability of the Group's ROE is supported by the operational steadiness of the Group's earnings generation and conservative investment strategy.

CLAIMS RATIO
(%)



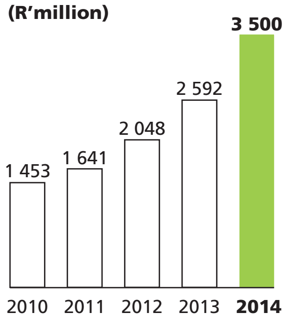
The claims ratio is the primary operational measure of Group's short-term insurance operations. The Group has a history of maintaining a claims ratio which is within a narrow and profitable range. This experience is supported by our philosophy to charge accurate premiums that are commensurate with the risk underwritten together with a conservative reinsurance strategy designed to manage earnings volatility. The Group's claims ratio increased from 51.3% in 2013 to 51.9% for the year under review.

COST-TO-INCOME RATIO
(%)



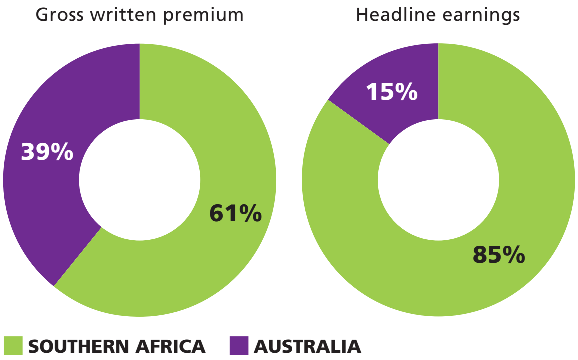
The cost-to-to income ratio is the primary measure of the Group's operational efficiency. Cost management is a key driver supporting our primary objective of providing value for money insurance products. The Group's cost ratio increased to 27.1% during the year under review. The increase is driven by the relative growth in the Youi cost base.

ANNUALISED NEW BUSINESS WRITTEN
(R'million)



The Group achieved 35% growth in the annualised new business written from R2.6 billion in 2013 to R3.5 billion in 2014. The growth was predominantly driven by the strong growth in the Australian operation and a marked improvement in the new business written in South Africa. This metric is measured as the annualised premium of new policies sold during the year under review.

GEOGRAPHICAL DIVERSIFICATION
(%)

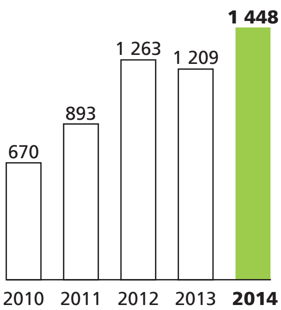


During the year under review, the Australian contribution to Group revenue has increased from 29% to 39% resulting from Youi's strong growth and a 5% depreciation of the Rand against the Australian Dollar. Youi contributed 15% to the Group's 2014 headline earnings.

OVERVIEW OF FINANCIAL RESULTS

The Group achieved 19.8% growth in headline earnings for the year under review. The growth was primarily driven by the significant profit contribution made by Youi. Diluted headline earnings per share grew by a slower 16.9% as a result of the dilution of the Group's interest in the Australasian Group.

NORMALISED EARNINGS
(R'million)



During the year under review, the Group changed its accounting policy governing the treatment of acquisition costs for short-term and long-term insurance contracts.

The rationale behind the change in the treatment of deferred acquisition costs for short-term insurance contracts is explained as follows:

- Per Australian GAAP, the Australian operation is required to defer acquisition costs for policies which have a duration of a year. Historically, the Group's accounting policy has not provided for the deferral of acquisition costs relating to direct sourced business. The Group's historic consolidated results therefore ignored the deferral of acquisition costs accounted for in the standalone results of the Australian Group.
- By allowing for the deferral of acquisition costs at a Group level, the mismatch between the Australian Group's standalone results and the consolidated results is eliminated. Driven by the strong growth of Youi, this mismatch has become material in recent years.
- The requirement to defer acquisition costs is likely to be prescribed under IFRS 4 phase 2, the new accounting standard for insurance contracts which is being developed by the International Accounting Standards Board. IFRS 4 phase 2 treats deferred acquisition costs as contractual cash flows. The standard is expected to be issued in 2015 and to be effective for the financial year ending 30 June 2018. The change in accounting policy does therefore align the accounting practice with the expected future accounting requirements.
- The revised accounting policy allows for acquisition costs incurred relating to monthly policies to be expensed as incurred. The policy change does therefore not impact the southern African short-term insurance business.

The rationale behind changing the treatment of acquisition costs relating to the long-term insurance contracts written is as follows:

- Historically the Group expensed acquisition costs as incurred when writing long-term insurance contracts. During the year under review, the Group considered that an accounting policy which defers acquisition costs over the expected lifetime of the policy to reflect a more appropriate accounting result given the long-term nature of business written.
- The long-term insurance business is also likely to be required to implicitly defer acquisition costs, as part of the contractual service margin, under IFRS 4 phase 2 when effective. The change in accounting policy does therefore align the accounting practice with the expected future accounting requirements.

The above change in accounting policy has resulted in the restatement of the historic earnings of the Group, Youi and OUTsurance Life. A full analysis of the restatement to prior year results is disclosed on page 127.

FINANCIAL REVIEW CONTINUED

GROUP KEY FINANCIAL RATIOS

The key performance indicators of the Group are presented below:

	2014	2013	% change
Gross written premium (R'million)	10 352	8 288	24.9%
Headline earnings[1] (R'million)	1 448	1 209	19.8%
Headline ROE (%)[1]	38.4%	36.2%	
Headline earnings per share (cents)	41,8	35,2	18.8%
Diluted headline earnings per share (cents)	40,2	34,4	16.9%
Dividend declared per share (cents)	27,5	24,0	14.6%
Special dividend declared per share (cents)	–	2,5	(100%)
Claims ratio (including non-claims bonuses) (%)	51.9%	51.3%	
Cost ratio (%)	27.1%	26.8%	
Combined ratio[2] (%)	81.8%	81.8%	

[1] *Attributable to ordinary shareholders.*
[2] *After profit share distributions paid to FirstRand Limited.*

SOURCES OF HEADLINE EARNINGS

The various operating entities contributed to the Group result as follows:

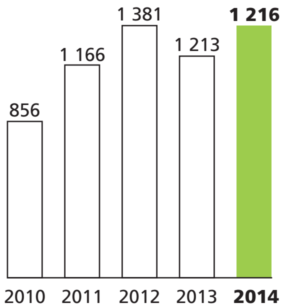
R'million	2014	2013	% change
OUTsurance	1 216	1 213	0.3%
Youi	231	3	>100%
OUTsurance Life	2	3	(33.3%)
OUTsurance Namibia (49%)	10	10	–
Central (including consolidation adjustments)	11	18	(38.9%)
NCNR preference dividend	(6)	(38)	84.2%
Non-controlling interest	(15)	–	(100%)
Headline earnings	1 448	1 209	19.8%

BUSINESS UNIT PERFORMANCE

OUTSURANCE

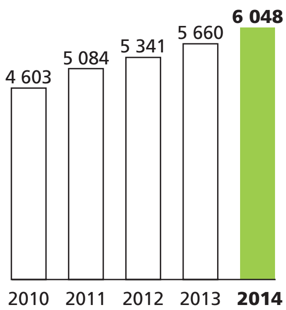
Against a backdrop of slow economic growth and increasing competition, OUTsurance delivered a pleasing operational and financial performance for the year under review. OUTsurance delivered normalised earnings of R1.216 billion representing 0.3% growth on the prior year.

NORMALISED EARNINGS
(R'million)



Premium growth accelerated from recent lows driven by an increase in the volume of new business written and a recovery in premium inflation. The increase in new business volumes is largely attributable to below industry premium inflation increases resulting in incremental market share expansion. The personal lines business grew gross written premiums by 6.3% (2013: 5.1%) and the commercial operation expanded by 10.7% (2013: 12.9%). The decrease in the growth of the commercial business is associated with the curtailment in the footprint of the sales agency force.

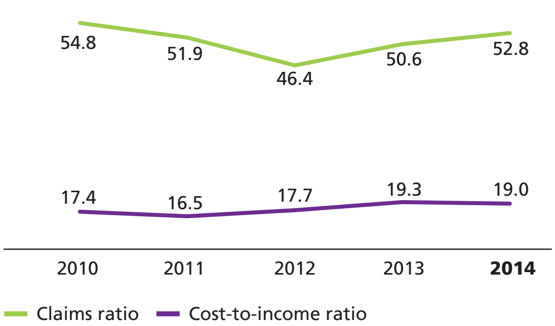
GROSS WRITTEN PREMIUM
(R'million)



The claims ratio increased from 50.6% in the prior year to 52.8% driven by premium inflation adjustments designed to increase the loss ratio to the long-term target. A higher net loss associated with the hailstorms of the first six months of the year also negatively impacted on the claims ratio.

The cost-to-income ratio decreased from 19.3% in the prior year to 19.0%. Notwithstanding various once-off costs incurred in the prior year, the cost ratio benefitted from operational efficiency gains, contained internal cost inflation and stronger top line growth.

KEY RATIOS
(%)



OUTSURANCE – KEY PERFORMANCE INDICATORS

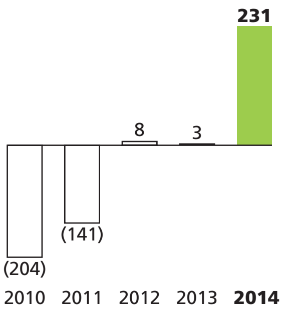
R'million	**2014**	2013	% change
Gross written premium	**6 048**	5 660	6.9%
Net earned premium	**5 930**	5 608	5.7%
Headline earnings	**1 216**	1 213	0.3%
Claims ratio (including non-claims bonuses) (%)	**52.8%**	50.6%	
Cost to income ratio (%)	**19.0%**	19.3%	
Combined ratio (%)[1]	**76.3%**	74.9%	

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

YOUI

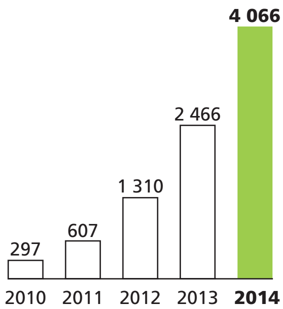
Youi delivered a strong operational and significantly improved financial performance for the year under review. The Australian Group produced headline earnings of R231 million, signalling that the business is well beyond the break-even mark. The profitability was driven by impressive top-line growth, a favourable claims ratio and economies of scale.

NORMALISED EARNINGS
(R'million)



Youi grew gross written premiums by 64.9% in Rand and 57.4% in Dollar terms during the year under review. Sales growth benefitted from improved operational execution and the advancement of the Youi brand in the Australian marketplace.

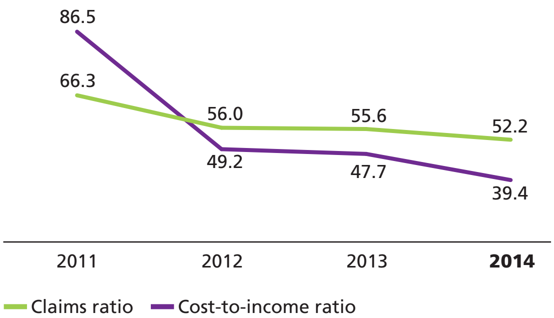
GROSS WRITTEN PREMIUM
(R'million)



FINANCIAL REVIEW CONTINUED

Youi achieved a claims ratio of 52.2% in 2014 compared to 55.6% in the prior year. The claims ratio benefitted from lower than expected natural peril claims. Youi's claims ratio continues to track well below the market average. The cost-to-income ratio decreased on the back of the growth in the size of the in-force book. Youi generated an underwriting margin of 8.4% for the year.

KEY RATIOS
(%)



YOUI – KEY PERFORMANCE INDICATORS	2014	2013	% change
Rand (R'million)			
Gross written premium	4 066	2 466	64.9%
Net earned premium	3 093	1 797	72.1%
Headline earnings	231	3	>100%
Headline earnings attributable to the Group	216	3	>100%
Australian Dollars ($'million)			
Gross written premium	425	270	57.4%
Net earned premium	322	197	63.5%
Headline earnings	22.1	0.2	>100%
Ratios			
Claims ratio (%)	52.2%	55.6%	
Cost-to-income ratio (%)	39.4%	47.7%	
Combined ratio (%)	91.6%	103.3%	
AUD/ZAR exhange rate			
– Closing	10.01	9.03	10.9%
– Average	9.52	9.09	4.7%

The Group's interest in Youi decreased from 100% to 93.1% as a result of the exercise of share options by the Youi staff members. Based on the number of options currently in issue the Group's interest in Youi can dilute to 80.8%. Refer to page 113 for a detailed description of the Youi share incentive scheme.

OUTSURANCE LIFE

OUTsurance life delivered satisfactory top-line growth by growing gross written premiums grew by 45.4%. A large investment was made to increase operational scale and marketing costs following the launch of our new OUTbonus product, increasing the cost base of the business.

OUTSURANCE LIFE – KEY PERFORMANCE INDICATORS

R'million	2014	2013	% change
Gross written premium	237	163	45.4%
Headline earnings	2	3	(33.3%)

OUTSURANCE NAMIBIA

OUTsurance Namibia experienced excellent premium growth of 28.7% during the 2014 financial year. The claims ratio increased from historic lows to a more sustainable long-term level. The increase has negatively impacted on the translation of top-line growth into bottom-line profit. OUTsurance Namibia generated headline earnings of R20 million for the year.

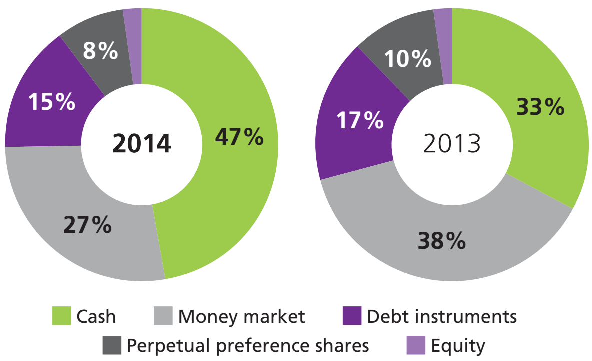
OUTSURANCE NAMIBIA – KEY PERFORMANCE INDICATORS

R'million	**2014**	2013	% change
Gross written premium	157	122	28.7%
Net earned premium	129	103	25.2%
Headline earnings	20	20	–
Claims ratio (including non-caims bonuses) (%)	55.5%	49.5%	

BALANCE SHEET MANAGEMENT

COMPOSITION OF INVESTABLE ASSETS

Our strategic approach is to generate underwriting profits which are commensurate with the nature of insurance risks underwritten. Our conservative investment philosophy supports this strategy as our cash is invested in asset classes which are characterised by low levels of market and credit risk. This investment strategy allows for a reduced capital buffer to absorb market or credit shocks. Cash which is in excess of operational and strategic requirements is returned to shareholders. The composition of the Group's investable assets are as follows:



At 30 June 2014, the Group's exposure to the African Bank Investments Limited group was R23.5 million of which R22 million are senior debt instruments and R1.5 million perpetual preference shares. It is expected that a loss of at least 10% of the senior debt investment and the full value of the perpetual preference shares will be realised in the following financial year. African Bank Investments Limited was placed under curatership in August 2014.

CAPITAL POSITION

At 30 June 2014, the regulated entities in the Group traded off adequate capital positions as summarised in the table below:

Capital adequacy ratio[1]	**2014**	2013	Target CAR
Group	1.7	1.7	
Short-term insurance			
OUTsurance Insurance Company Limited	1.7	1.6	1.2
OUTsurance Namibia of Namibia Limited	1.6	1.7	1.2
Youi Pty Limited	2.2	1.8	1.5
Long-term insurance			
OUTsurance Life Insurance Company Limited	2.5	3.1	1.8

[1] *Capital adequacy ratio is defined as the ratio of regulatory admissible net assets to the solvency capital requirement.*

The South African business is in the process of preparing for the adoption of the new Solvency Assessment and Management (SAM) regulatory regime effective 1 January 2016. With the application of the latest version of the standard formula, indications are that the capital adequacy ratios of the South African regulated entities will not materially differ from the current requirement.

DIVIDENDS

The Group's dividend strategy allows for the payment of an ordinary dividend after taking into account the target regulatory capital requirement of the various licensed entities in the Group. The Group funds strategic growth initiatives as far as possible from retained earnings.

During the year under review, the Group repurchased the remainder of the outstanding perpetual preference shares issued to Rand Merchant Insurance Holdings for R201 million. The Group earmarked R440 million to support the expansion of Youi into the New Zealand market.

DIVIDEND HISTORY
(cents per share)

The Group declared a final dividend of 15,5 cents per ordinary share resulting in a full year ordinary dividend of 27,5 cents per share which is 14.6% higher than the prior year. The slower growth in the dividend when compared to headline earnings is attributed to the funding of Youi's New Zealand expansion together with the repurchase of the preference shares.

The growth in the Group's dividend may lag behind the growth in earnings in the medium term as profits generated by the Australian Group are reinvested to support organic growth initiatives.

JAN HOFMEYR
Chief Financial Officer

ALL OUT

GET MORE OUT OF YOUR HOME INSURANCE.

Our contents insurance package takes care of all valuable items inside your house, including items such as your clothing, television, sound system, furniture and even valuable items of art.

We'll cover your household contents against theft, intentional damage to your valuables, as well as damage caused by a power surge or a burst geyser.

HOME

HEADLINE EARNINGS RECONCILIATION

R'million	**2014**	2013	% change
Earnings attributable to ordinary shareholders	1 445	1 250	15.6%
Adjusted for:			
Gain on sale of subsidiary[1]	–	(51)	
Loss on disposal of property and equipment	4	1	
Tax effect of headline earnings adjustments	(1)	10	
Headline earnings	1 448	1 209	19.8%

[1] The Group disposed of its 50% interest in Momentum Short-term insurance with effect 1 July 2012.

FIVE YEAR FINANCIAL REVIEW

Historic amounts have been restated to reflect the impact of the change in accounting policy as outlined on page 9.

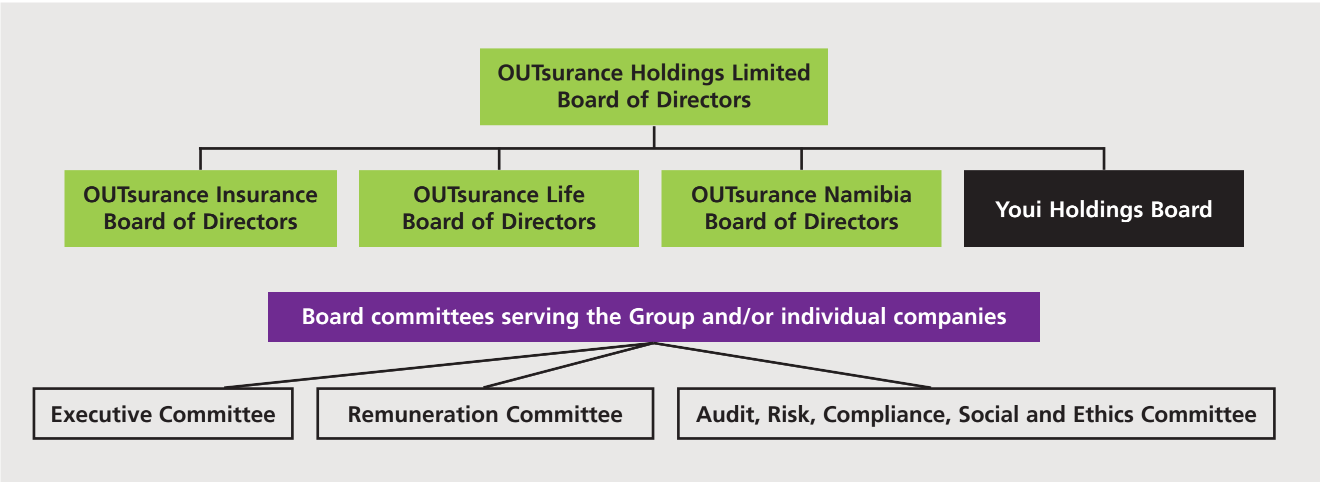
R'million	2010	2011	2012	2013	**2014**
Statement of comprehensive income – IFRS					
Gross written premium	5 138	5 990	7 032	8 288	**10 352**
Underwriting result[1]	714	1 127	1 544	1 378	**1 681**
Profit before tax	1 085	1 486	2 003	1 823	**2 089**
Headline earnings attributable to ordinary shareholders	651	899	1 514	1 209	**1 448**
Earnings attributable to ordinary shareholders	651	910	1 501	1 250	**1 445**
Earnings per share (cents)					
– Basic	19,2	26,6	43,8	36,4	**41,8**
– Diluted	18,6	26,0	41,8	35,5	**40,1**
Headline earnings per share (cents)					
– Basic	19,2	26,3	44,2	35,2	**41,8**
– Diluted	18,6	25,7	42,2	34,4	**40,2**
Dividend declared per share (cents)	10,8	16,5	22,0	24,0	**27,5**
Special dividend declared per share (cents)	–	–	10,0	2,5	**–**
Statement of financial position – IFRS					
Total assets	4 592	5 782	7 327	7 750	**9 898**
Total equity	2 662	3 480	4 291	3 784	**4 453**
Average equity attributable to ordinary shareholders	1 989	2 554	3 113	3 350	**3 818**
Key ratios					
Claims ratio (including non-claims bonuses) (%)	55.7%	52.4%	47.2%	51.3%	**51.9%**
Cost-to-income ratio (%)	25.1%	24.8%	24.3%	26.8%	**27.1%**
Combined ratio (%)	84.4%	80.7%	76.1%	81.8%	**81.8%**
Normalised results					
Normalised gross written premium[2]	4 917	5 738	7 032	8 288	**10 352**
Normalised earnings[3]	670	893	1 263	1 209	**1 448**
Normalised earnings per share (cents)					
– Basic	19,7	26,1	36,9	35,2	**41,8**
– Diluted	19,2	25,5	35,9	34,4	**40,2**
Normalised return on equity (%)[4]	36.9%	37.5%	43.9%	37.9%	**38.4%**

[1] After taking into account profit share distributions.
[2] Excludes premium written by Momentum Short-Term Insurance.
[3] The main historic variances between headline and normalised earnings relate to the change in profit share arrangement between OUTsurance and FirstRand Limited which relates to the Homeowners' Cover book, together with the back-dating of the recognition of a deferred tax asset relating to Youi's assessed loss.
[4] Attributable to ordinary shareholders and calculated based on average normalised equity.

CORPORATE GOVERNANCE

The Group's performance and results in respect of the financial and non-financial objectives are overseen by the respective boards of directors and board committees in the Group.

The Group's governance structure is outlined below:



As illustrated above, specific board committees in the Group ensure effective governance and oversight for the Southern African, Australian and New Zealand operations respectively. Where there is for example more than one Audit, Risk and Compliance committee servicing specific insurers in the Group, all such committees ultimately feed back into the OUTsurance Holdings Group board committees.

THE BOARD OF DIRECTORS

The OUTsurance Holdings Board's primary responsibility is to oversee the positive performance of the Group's operations and to drive the sustainable growth of shareholder interests. The directors have a fiduciary duty to act in good faith, with due care and diligence and in the best interests of the Group and its stakeholders. The Board is the main body responsible for corporate governance in the Group.

Board members have full and unrestricted access to management, information and property. The Board is guided by a formal charter. Amongst others, the charter gives the Board the responsibility to appoint executive officers, approve corporate strategy, risk management and governance, approval of the annual financial statements and regulatory submissions. The Board reviews and approves business plans, monitors financial performance and evaluates the successful implementation of strategic decisions.

SKILLS AND EXPERTISE

The OUTsurance Holdings Board consists of an appropriate combination of executive and non-executive appointments. The Board comprises of 11 members (excluding alternate members) of whom nine are non-executive directors. The majority of non-executive directors are also independent. The remuneration of directors is detailed on page 121. Formal procedures are followed for the appointment of new Board members. New directors are subject to a fit and proper evaluation and an informal orientation programme is available to newly appointed directors. All directors have unlimited access to the services of the company secretary, who is responsible to the Board to ensure that proper corporate governance principles are adhered to. Effectiveness evaluations take place on an annual basis.

The members of the Board and their qualifications are as follows:

Laurie Dippenaar
Non-executive director, Chairman

Masters' Degree in Accounting – University of Pretoria
CA (SA)

Appointed 27 January 1998

Willem Roos
Executive director

B.Com (Hon) (Actuarial Finance); FASSA

Appointed 30 April 2001

Howard Aron
Executive director

Diploma in Business Management – Newport University
Diploma BM (EE)

Appointed 30 April 2001

Judy Madavo
Independent director

BA (Hon) Sociology and Social Administration;
MSc Medial Sociology – University of London/Bedford College

Appointed 8 November 2004

George Marx
Independent director

BSc (Econ) Cum Laude – Potchefstroom (now North West)
F.I.A.C.; Fellow of the Institute of Actuaries (London)
Fellow of the Institute of Risk Management (SA); CFP

Appointed 20 August 2008

Kubandiran Pillay
Independent director

BA; LLB
MCJ (USA)

Appointed 19 February 2014

Neville Nightingale
Independent director

F.I.A.C.
PMD from Harvard

Appointed 8 March 1999

Rudolf Pretorius
Independent director

B.Com (Hon)
CA (SA)

Appointed 27 January 1998

Marthinus Visser
Alternate executive director

B.Com (Hon) (Actuarial Science); FASSA; FIA

Appointed 20 August 2009

Alan Hedding
Independent director

B.Com; B. Compt (Hon)
CA (SA)

Appointed 10 October 2013

Peter Cooper
Non-executive director

B.Com (Hon) – University of Cape Town
CA (SA)
Higher Diploma in Income Tax – Wits

Appointed 11 May 2000

Francois Knoetze
Non-executive director

B.Com (Hon); FIA

Appointed 19 February 2014

The activities of the subsidiary and associate boards are overseen by the OUTsurance Holdings Board. The Boards of Youi Holdings and OUTsurance Namibia are similarly constituted with the necessary diversity of skills and experience.

PROCEEDINGS 2014

The attendance details of the OUTsurance Holdings Board are noted below.

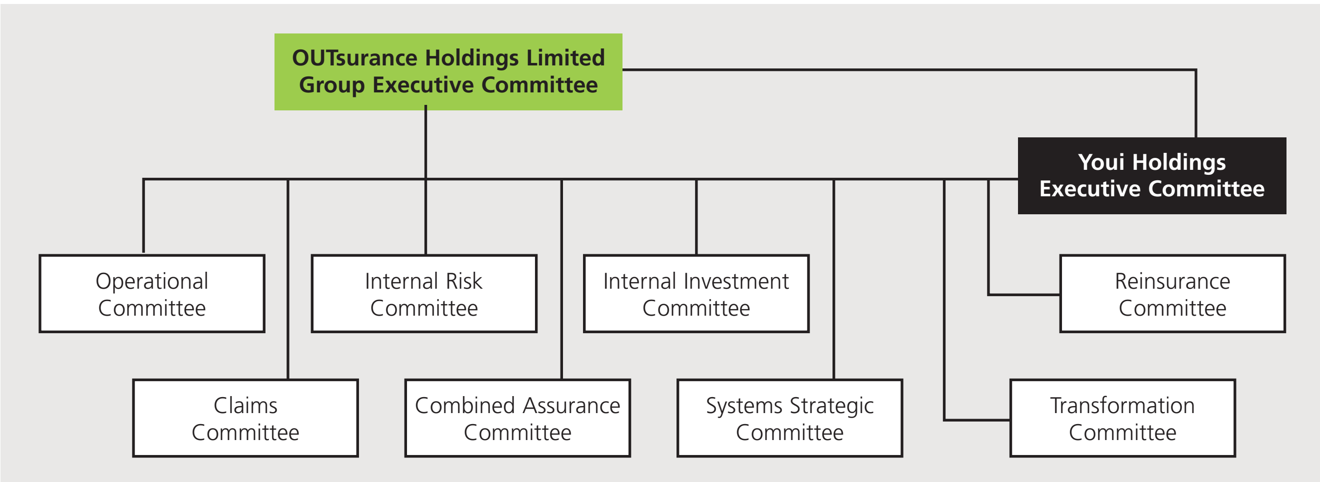
	Aug 2013	Nov 2013	Feb 2014	May 2014
Mr G Marx	✓	✓	✓	✓
Mr G Roberts-Baxter (resigned 05/11/2013)	✓	✓	–	–
Mr J Kleynhans (resigned 19/02/2014)	✓	A	A	–
Mr LL Dippenaar	✓	✓	✓	✓
Mr H Aron	✓	A	A	A
Mr M Visser (alternate to H Aron)	✓	✓	✓	✓
Mr N Nightingale	✓	✓	✓	✓
Mr P Cooper	✓	✓	✓	✓
Mr PR Pretorius	✓	✓	✓	✓
Mr WT Roos	✓	✓	✓	✓
Ms J Madavo	A	✓	✓	✓
Mr AW Hedding	✓	✓	✓	✓
Mr F Knoetze (appointed 19/02/2014)	–	–	–	✓
Mr K Pillay (appointed 19/02/2014)	–	–	–	✓

A – Apologies noted.

EXECUTIVE COMMITTEE

The OUTsurance Holdings executive committee is responsible for implementing the strategies approved by the Board and for managing the affairs of the Group. The committee is chaired by the joint chief executive officer and comprises of the chief executive officers of subsidiaries, the chief actuary, chief financial officer, chief risk officer and the chief operating officer of claims, the heads of information technology, human resources and staff training and development.

The executive committee oversees and guides the following internal committees:



REPORT OF THE AUDIT, RISK & COMPLIANCE COMMITTEE

COMPOSITION

The OUTsurance Holdings Limited audit, risk and compliance committee is composed of non-executive directors and is chaired by an independent non-executive director. The Group's chief executive officer, chief financial officer, chief risk officer, audit executive, external auditors and other assurance providers attend committee meetings in an ex officio capacity. The audit executive and the external auditors meet independently with the non-executive members as and when required.

ROLE

The audit, risk and compliance committee is appointed by the Board and has a formally approved charter prescribing the following duties:

- nominate the appointment of the independent external auditor in accordance with the Companies Act requirements;
- monitor, evaluate and review internal audit, risk management, compliance, financial accounting and reporting practices;
- monitor, evaluate and review the functioning of the internal control environment;
- monitor, evaluate and review corporate governance practices; and
- monitor, evaluate and review social and ethics practices.

ANNUAL REPORT

The committee is aware of the significance of appropriate accounting policies in presenting financial results. The committee has reviewed the accounting policies and are satisfied that they are in compliance with IFRS.

During the current financial year, the Group decided to change the accounting policy governing the treatment of deferred acquisition costs for short-term and long-term insurance contracts. The rationale for this change is explained on page 9 and the impact on the historic financial position and earnings of the Group is disclosed on page 127.

The committee has considered the conclusion of independent assurance providers in reviewing the annual report. The committee has accordingly recommended the annual report and the annual financial results contained therein to the OUTsurance Holdings Board of directors for approval.

INTERNAL AUDIT

Internal audit is a key independent assurance provider to the audit, risk and compliance committee. The committee accordingly approves the internal audit charter and the annual internal audit plan. The audit executive is responsible for reporting on the findings of the internal audit work against the agreed internal audit plan to the committee on a regular basis and has direct access to the committee primarily through its chairman.

The committee has accordingly assessed the performance of the audit executive and is satisfied that the internal audit function is independent and appropriately resourced, and that the audit executive has fulfilled the obligations of the position.

During the year internal audit performed a review of the adequacy and effectiveness of the Group's internal control environment. Based on the results of these reviews, internal audit confirmed to the committee that nothing has emerged to indicate material control weakness in the risk management and internal control process including internal financial controls whether from design, implementation or operation. This written assessment by internal audit formed the basis for the committee's recommendation to the Board in this regard.

COMBINED ASSURANCE

The Combined Assurance Forum has the objective of overseeing the internal controls assessments performed by internal audit, risk management and external audit. The forum is composed of the audit executive as chairman, chief risk officer, external audit and the chief financial officer. The primary function of the combined assurance forum is to ensure that the effectiveness of all material internal controls, including financial controls, is assessed at least annually by either internal or external assurance providers or both.

FINANCE FUNCTION EXPERTISE

The audit, risk and compliance committee considers the expertise and experience of the chief financial officer and is satisfied that the appropriate requirements have been met. The committee is also satisfied with the expertise and adequacy of the resources of the finance function and experience of the senior members of management responsible for it.

EXTERNAL AUDITOR

At the annual general meeting held in November 2013, shareholders approved the committee's nomination of PricewaterhouseCoopers Inc. as auditor of the Group and Company until the next annual general meeting. The committee, in consultation with executive management, agreed to the engagement letter, terms of engagement, audit plan and budgeted audit fees for the 2014 financial year.

There is a formal procedure that governs the process whereby auditors are considered for non-audit services.

The committee is satisfied that the external auditors were independent of the Group and Company as set out in section 90(2) of the Companies Act, which includes consideration of previous appointments of the auditors, the extent of other work undertaken by the auditors for the Group and compliance with criteria relating to the independence or conflicts of interest as prescribed by the Independent Board for Auditors. Requisite assurance was sought and provided by the auditors that internal governance processes within the audit firm support and demonstrate its claim to independence.

REGULATORY ENVIRONMENT

The audit, risk and compliance committee monitors the ever changing regulatory and legislative compliance environment applicable to the Group's operations. Progress and compliance is monitored through regular management reporting. Of particular interest is the adoption of the Solvency Assessment and Management ("SAM") regime which becomes effective in 2016. The committee is satisfied with the implementation progress of the SAM requirements as well as the skills and expertise of management in this regard.

GOING CONCERN

The audit committee has assessed the going concern status of the Group and Company and has accordingly confirmed to the Board that the Group will be a going concern for the foreseeable future.

PROCEEDINGS

Membership and attendance at the meetings held during the year were as follows:

	August 2013	February 2014	June 2014
Mr N Nightingale	✓	✓	✓
Mr G Marx	✓	✓	✓
Mr A Hedding	A	✓	✓

A – Apologies noted.

NL NIGHTINGALE
Chairman
Signed: Sandton

Date: 27 August 2014

RISK MANAGEMENT

At OUTsurance, risk management is a continuous and ever-improving process which runs throughout our business strategies and the implementation thereof.

This can only be achieved through an effective risk management system, comprising of all our strategies, policies, and procedures for identifying, measuring, monitoring, managing, controlling, mitigating and reporting all material risks to which the companies and Group may be exposed. A documented Group Risk Management Strategy and Framework ("GRMS") guides the risk management system and processes.

To ensure prudent enterprise risk management the above-mentioned risk management system operates at risk level as well as at aggregated risk level and it addresses the risks of individual companies and those of the Group.

RISK APPETITE

A business profits from taking desired risks, but will only generate a sustainable profit from its activities if the risks are adequately managed and controlled to avoid or minimise the impact of adverse outcomes. OUTsurance's approach to risk management is to establish an effective control environment to manage material risks to its business and customers.

The key business objectives and values, and related material risks addressed within our risk management strategy are to ensure sustainability, profitability and optimal return on capital, as well as safeguarding policyholders' interests. As such, the high level description of the Group's risk appetite is as follows:

- A balanced level of risk is desirable to achieve an optimal return on risk-adjusted capital, sustainability and profitability. Risks of a business nature which need to be taken will be accepted at a moderate level.
- A minimum level of risk will be tolerated in relation to the protection of policyholders' interests. Risks which impact on policyholders' interests must be tightly managed.

An additional detailed risk appetite framework which is approved by the Board is in place. It provides a breakdown of the risk appetite and key risk indicators for each main risk type. Regular assessments of actual key risk indicator measurements against the agreed risk appetite takes place and are reported on to various forums in the Group and the Board. It also forms part of our annual own risk and solvency assessment ("ORSA").

THE CONTROL ENVIRONMENT

OUTsurance relies on an effective control environment to manage the significant risks to its operations, which includes the following components:

- Regular risk management assessments, reviews and reports by the risk management function, EXCO, the audit, risk and compliance committee, the risk committee and the Board;
- Clearly defined management roles, responsibilities and governance structures;
- Formally delegated limits of authority and mandates;
- Documented and communicated policies and procedures;
- Clear segregation of duties;
- Accounting controls and reconciliations;
- Strong management reporting systems;
- Disciplined budgeting processes;
- Appropriate fit and proper requirements for key positions;
- Physical and logical security over company assets;
- Appropriate levels of corporate insurance to transfer risks;
- Independent audits of the control environment;
- Independent reviews of the key control functions.

It is the responsibility of senior management to:

- Create awareness of the importance of a robust internal control environment;
- Communicate to their staff their individual roles in the risk management process; and
- Take corrective actions where shortcomings in the risk management process are identified.

COMBINED ASSURANCE

OUTsurance follows a combined assurance model, which is a three-layered coordinated assurance approach to the effectiveness of internal controls, risk management mechanisms and sustainability information.

The assurance is provided by the management team, the risk and compliance department and on the third line by Internal and external auditors. A combined assurance forum serves to ensure that the objectives of the model are achieved and report in this regard to the Board's audit, risk and compliance committee.

First Line of Defence	Second Line of Defence	Third Line of Defence
Management Oversight	**Management of Risk**	**Independent Insurance**
Setting strategy and performance measurement and establishing and maintaining risk management, control and governance across the business.	Providing a risk framework to improve decision making, planning and prioritisation of the business activities.	Provides independent and objective assurance of the overall adequacy and effectiveness of governance, risk management and control within the organisation as established by the first and second layers of defence.

RISK MANAGEMENT CONTINUED

THE RISKS WE FACE

In terms of our risk classification system, our risks are broadly categorised into strategic, financial and operational risks. The main risks are summarised below. Risks are monitored by the Board and other governance structures in line with the Board approved risk appetite and risk management strategy.

REPUTATIONAL

CONTEXT AND IMPACT

Our brand and reputation are important to us. Our stakeholders should associate our name with a credible, long-term sustainable and trustworthy insurance group where they always get something out. Behaviour that can harm our reputation and credibility is therefore closely monitored.

MITIGATION

One of our corporate values is to provide awesome service to our clients. Related risks include staff errors and behaviour which is not aligned with the principles of Treating Customers Fairly ("TCF").Various initiatives to continuously improve service and to support TCF initiatives exist in the organisation.

COMPLIANCE

CONTEXT AND IMPACT

Regulatory compliance describes the goal to ensure that we are aware of and take reasonable steps to comply with the relevant laws and regulations. Constant and significant regulatory changes that are relevant to the insurance industry will affect our operations once enacted.

MITIGATION

We provide continuous training and awareness programmes throughout the organisation. Our governance processes are proactive in identifying and acting on legislative changes. Compliance consultations and assessments of our business practices and processes support other efforts.

OPERATIONAL

CONTEXT AND IMPACT

Operational risk refers to the exposure to potential losses caused by internal shortcomings and/or failures of processes, people and systems. Internal shortcomings include errors and fraud.

MITIGATION

This risk is managed with various processes and procedures to identify, mitigate and report on operational risks. The internal control environment is subject to reviews by the Internal audit, quality assurance and risk management functions.

FRAUD

CONTEXT AND IMPACT

Insurance related fraud, internal and external fraud, dishonesty, collusion with third parties and syndicates operating in our industry as well as unauthorised activities remain a main risk in our industry.

MITIGATION

The activities of our fraud risk unit and investigators are specifically focused on the prevention and detection of fraud and we collaborate closely with the South African Insurance Crime Bureau in this regard.

UNDERWRITING

CONTEXT AND IMPACT

Due to the unpredictable nature of our business and the many factors that can affect business volumes, profitability and claim incidents, underwriting risk is a major consideration for any insurer to ensure long-term sustainability and protecting the interest of policyholders.

MITIGATION

Our underwriting processes are based on a trusted and robust underwriting philosophy of prudent consideration of risk factors. We have a documented underwriting risk policy and underwriting risk indicators are monitored closely and regularly.

COUNTERPARTY DEFAULT

CONTEXT AND IMPACT

The risk of loss resulting from the default of other parties such as a reinsurer where payments are due to us.

MITIGATION

The risk is managed through the compliance with our reinsurance policy and placing reinsurance treaties with reputable reinsurers with a prescribed credit rating as well as the diversification of our treaties amongst multiple reinsurers. Investment counterparty exposure is limited by Board approved investment mandates.

INFORMATION TECHNOLOGY

CONTEXT AND IMPACT

There are various risks linked to information technology, our networks and our business operating systems. Information security and cyber-attacks are main risks as well as the possible disruption of operating systems.

MITIGATION

We have numerous policies and processes in place to ensure the continuity and stability of our information technology systems, recovery in a possible disaster situation, the security of data and that of our operating systems are aligned with business objectives and strategy.

BRAND & MARKETING

CONTEXT AND IMPACT

As a direct insurer Group our marketing and advertising initiatives and the brands linked to it are of utmost importance to our business. Risks may arise if we do not ensure that our advertising remains responsible and complies with legislation and regulatory requirements.

MITIGATION

There are internal marketing committees responsible for screening and approval of all marketing material. This is supported by compliance checks and processes to mitigate these risks.

You leave your
car at home
because
these days
the
bike
paths
ROCK
You used to drive to work. Then you bought a bike. Then you discovered the bike paths. You've never looked back.
There's no one you'er than you, that's why there's Youi. We save you money by insuring you for how you use your car.
So if you leave your car at home and cycle to work we could save you lots on your car insurance.
youi
you.insured
car home contents

OUR VALUE ADD

ECONOMIC IMPACT STATEMENT

R'million	**2014**	2013	2012	2011	2010
Economic value created					
Premium income and reinsurance recoveries	**9 519**	7 740	6 693	5 789	4 800
Non-claims payments to outside service providers[1]	**(998)**	(579)	(582)	(544)	(477)
Net Investment and other operating income	**338**	368	343	300	318
Payments relating to profit sharing arrangements	**(191)**	(201)	(220)	(133)	(106)
Total economic value created	**8 668**	7 328	6 234	5 413	4 534
Total economic value distributed amongst stakeholders					
Employees					
Salaries and other benefits	**1 416**	1 342	943	805	670
Policyholders	**5 071**	4 061	3 208	3 046	2 785
Claims and policyholder claims and increase in reserves	**4 770**	3 790	2 928	2 776	2 562
Cash bonuses on insurance contracts	**301**	271	280	270	223
Government (in the form of taxes)	**542**	456	647	541	402
Providers of capital	**940**	1 208	806	453	438
Ordinary dividends paid to shareholders	**919**	1 170	738	392	401
Earnings attributable to preference shareholders	**6**	38	57	51	32
Earnings attributable to non-controlling interests	**15**	–	11	10	5
Reinvested to support future growth	**699**	261	630	568	239
Retained earnings[2]	**600**	162	558	505	186
Depreciation and impairments	**99**	99	72	63	53
Economic value distributed	**8 668**	7 328	6 234	5 413	4 534
Percentage of economic value distributed					
Employees (%)	**16%**	18%	15%	15%	15%
Policyholders (%)	**59%**	56%	52%	56%	61%
Government (%)	**6%**	6%	10%	10%	9%
Providers of capital (%)	**19%**	20%	23%	19%	15%
	100%	100%	100%	100%	100%

[1] *Net of deferred acquisition costs.*
[2] *Net of deferred taxes.*

OUR STAKEHOLDERS

OUR PEOPLE

Permanent staff, temporary staff and contractors

HOW WE COMMUNICATE WITH THEM
Electronic communications, diversity forums, salary forums, social committees, weekly and monthly meetings, values surveys, wellness initiatives, company and department functions, awards presentations, disability newsletters and "TalkOUT" forums.

OUR CLIENTS

Clients, prospective clients, businesses and companies

HOW WE COMMUNICATE WITH THEM
Telecommunications centre, surveys, electronic media, social media, press releases, policy and contract documentation.

OUR SUPPLIERS

Member and non-member claims service providers and financial creditors

HOW WE COMMUNICATE WITH THEM
Road shows, newsletters, electronic communications, telecommunications centre and formal contact departments.

OUR COMMUNITY

Deserving institutes that strive to make a valid and lasting impact on the welfare of less privileged communities

HOW WE COMMUNICATE WITH THEM
Staff Helping SA OUT committee, staff volunteer involvement, electronic communications and face-to-face visits.

REGULATORS & INDUSTRY BODIES

The South African Insurance Association
The Financial Services Board
The Department of Trade and Industry
The Financial Advisory and Intermediary Services Ombud
The Short-Term Insurance Ombud
The Long-Term Insurance Ombud
The South African Insurance Crime Bureau
Namibia Financial Institutions Supervisory Authority
Association for Savings & Investment SA
The National Treasury
Australian Prudential Regulation Authority

HOW WE COMMUNICATE WITH THEM
Electronic communications, telecommunications, dedicated officers as direct contact for liaison, Board meetings and statutory returns as well as quarterly and monthly meetings.

OUR PEOPLE

Over the years, a lot of focus and effort has gone into our people and creating careers for staff at OUTsurance. On average our existing staff members in South Africa have been in our employment for 41 months. 89% of our people are operational staff members in call centres with an average of 37 months' service. The other 11% of the staff complement consists of employees in support departments who on average have 73 months service in our employment.

	2014	2013	2012	% change (2013/2014)
Total Group workforce	**4 036**	3 329	3 154	21.2%
South African ACI[1] ratio	**61.5%**	62.7%	62.4%	(1.9%)
South African female ratio	**45.7%**	45.2%	44.7%	1.1%
South African disabled staff members	**33**	37	36	(10.8%)

[1] Africans, Coloureds and Indians.

Included in the Group workforce number above is our Youi staff compliment, which grew by over 70% from 2013 to over 1 500 employees in 2014. The average employment period of staff in Australia remained consistent at 18 months in 2014.

OUR VALUES

The OUTsurance culture can be described as work hard, play hard. Our values are an integral part of our company culture as we strive to be a great company to work for. Every six months, values surveys are done to measure how well we do.

PASSION – Passion is the energy and commitment which guides our attitudes and actions.

PEOPLE DEVELOPMENT – Our people are our strength and we invest time, effort and energy ensuring continuous learning development and achievement.

RESPECT – We respect each person's individuality and know that diversity is our strength.

AWESOME SERVICE – Awesome Service is unique and exceptional; it influences the way we treat our clients and ensures that they become our best marketing tools by recommending us to their family, friends and colleagues.

PROFITABILITY – This underpins the success of the business and ensures its sustainability.

RECOGNITION – Recognition highlights our individual and collective contributions and achievements because success breeds success.

HONESTY – We strive to be honest, trustworthy and reliable in the smallest things we do.

LEADERSHIP – We lead by example and are ambassadors of our Values, in and outside the workplace.

PEOPLE DEVELOPMENT

We believe in developing our people by encouraging them to grow their knowledge and skills. The Group therefore provides study assistance for staff to develop themselves in their relevant fields. OUTsurance invested in excess of R500 000 towards formal studies in 2014. Youi doubled their spend towards formal study assistance in 2014 to more than $30 000 (R300 000).

	2014	2013	2012	% change (2013/2014)
Study assistance (R'000)	500	796	412	(37.2%)
Skills development[1]	88.8%	86.8%	73.1%	2.3%

[1] The score is expressed as a percentage of total possible points available. The figure is externally calculated and confirmed by AQRate (B-BBEE verification agency). Our full B-BBEE certificate can be found on our website. This measure is only applicable to the South African operation.

Our Group Learning Academies provide intensive training programmes for new employees as well as continuous training for other staff. In South Africa, we attain skills development points on our Broad-Based Black Economic Empowerment ("B-BBEE") certificate for the training we provide and we qualified for 88.8% of the available points on the scorecard in 2014.

We have a dedicated occupational health and safety ("OHS") officer and committee to look out for the health and safety of our people. We train our staff in disciplines like emergency evacuation, first aid and firefighting. An annual emergency and evacuation drill and regular training sessions are held, overseen and certified on completion by independent specialists.

HEALTH IS WEALTH

OUTlive is an internal campaign that encourages all our staff to improve the quality of their lives focusing on financial, health and physical activities. These activities are linked to a points system and staff can view their progress with the click of a button. This also ensures some healthy competition between our various departments.

Our campus caters for a variety of sports activities such as action cricket, netball and volleyball with regular tournaments being held between the departments. The running track around the perimeter of the campus sees regular activity, be it members of our running club or staff stretching their legs.

Healthy lifestyle activities include: quit smoking campaigns; breast cancer awareness; blood donations; and healthy meal choices. We also have an on-site medical clinic which offers preventative testing and medical examinations.

The campaign has proven to be a great success with over 70 000 activities registered resulting in an average of 28 activities per staff member.

Youi in Australia recently launched an exciting new employee program called "YourLife". The primary goals of the programme are to provide an opportunity for employees to improve their physical, mental and personal wealth. This is achieved through on-site activities such as physical health checks, exercise classes and financial health checks.

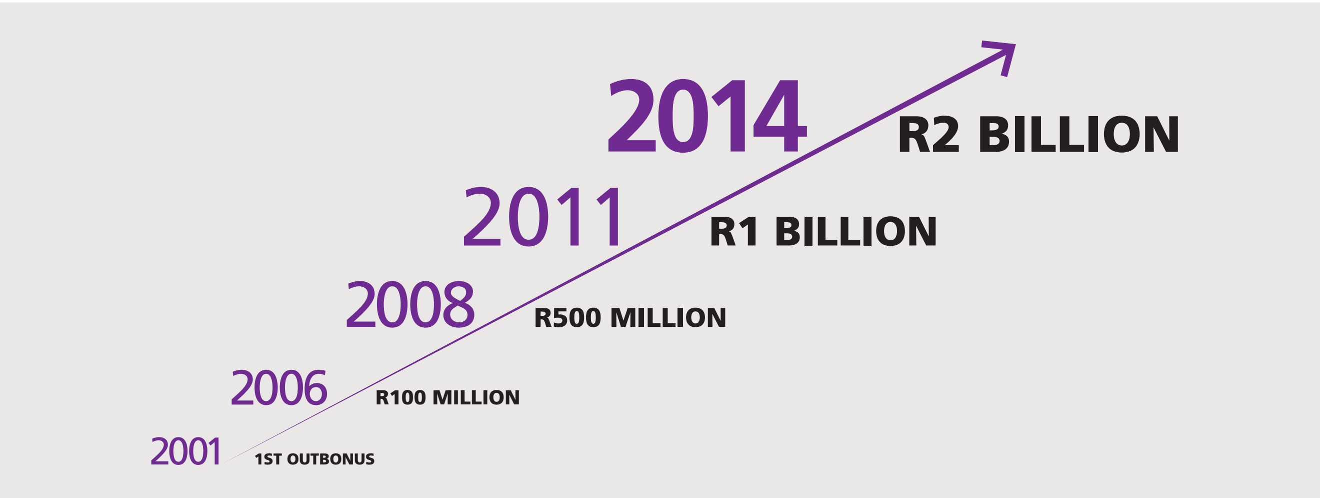
OUR CLIENTS

The total number of live policies in the Group at the end of the 2014 financial year was 22.9% more than 2013.

	2014	2013	2012	% change (2013/2014)
Number of live policies ('000)	1 624	1 321	1 113	22.9%
OUTbonus value paid out per annum (R'000)	335 525	328 008	292 104	2.3%

The value of awesome service is instilled in staff from their first day of training and throughout all levels of our business. We believe in growing a sustainable business by ensuring our clients always get something out. We are very proud of the R2 billion paid to loyal South African clients in OUTbonus pay-outs to date as well as the 57.13% growth in our Australian client base during the 2014 financial year.

R2 billion paid to loyal South African clients in OUTbonus pay-outs to date.




OUT
DELIVER
GET MORE OUT
OF YOUR BUSINESS
INSURANCE.
Our comprehensive business insurance offering is tailor-made to cater for the unique insurance needs of your specific industry.
The most comprehensive business insurance package.
BUSINESS

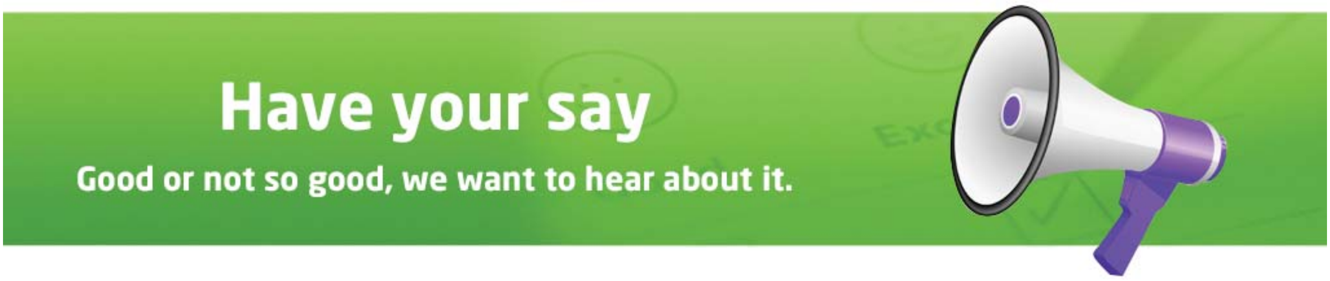
OUR CLIENTS CONTINUED

SERVICE FEEDACK

We encourage honest client feedback through an online survey feedback system that allows us to track comments and take appropriate action. This ensures that we monitor the service experience of our clients through a dedicated client relations department that responds to queries and tracks progress to ensure that these matters are resolved in a timely manner.

	2014	2013	2012	% change (2013/2014)
OUTsurance Customer Satisfaction Index (CSI)	88.6%	89.1%	89.3%	(0.6%)
Youi Customer Satisfaction Index (CSI)	91.1%	94.8%	92.9%	(3.9%)

Our Customer Satisfaction Index ("CSI") is based on an automated email survey following each sale, facility amendment or claim. Clients are asked to evaluate the service delivery of the specific advisor they dealt with by selecting either: awesome, good, acceptable, bad or very bad. The CSI is then calculated by subtracting the percentage "detractors" (sum of the "bad" and "very bad" response) from the percentage "promoters" (sum of the "good" and "awesome" responses). The CSI figure excludes social media feedback.



It's been a year since OUTsurance and Youi opened their websites for clients to share and discuss on our Talk@OUT and Youi walls respectively.

Compliment ratio
95%
OUTsurance wall

Compliment ratio
85%
Youi wall

The Ombudsman for Short-Term Insurance ("OSTI") in South Africa published industry statistics for 55 insurers who are members of the Ombudsman scheme in their 2013 annual report. This is an independent body where clients can submit complaints if they feel that they have not been treated fairly or when a client feels that a decision made in respect of a claim was incorrect. The report shows that OUTsurance's clients complained less compared to the average complaints ratio for the short-term insurance industry. The OSTI also overturned far less of OUTsurance's decisions compared to the average of the industry.

	OUTsurance	Industry
Claims received by insurers (FSB statistics)	295 462	2 908 968
Number of complaints received by OSTI per thousand claims	2/1 000	3/1 000
Overturn rate	14%	33%
Number of claims decisions overturned per ten thousand claims[1]	4/10 000	11/10 000

[1] *Company calculated amount, derived from expressing number of OSTI complaints and overturn rate per 10 000 claims.*

Industry figures are publised on the website of the **http://www.osti.co.za** for Short-Term Insurance.

Our clients are encouraged to choose email as their preferred method to receive their policy documents from us, rather than hard copies. In doing this, they are assisting us to reduce our carbon footprint and therefore decrease the impact we may have on the environment. All policy documentation is also available for download on **http://www.outsurance.co.za**.

Our electronic document ratio ("EDR") measures the total number of electronic policy documents distributed to clients expressed as a percentage of all the documents sent to clients. The table below shows that our EDR, including confirmation of cover documents, increased in 2014.

	2014	2013	2012	% change (2013/2014)
Electronic Document Ratio (EDR)	77.2%	76.4%	73.8%	1%
EDR excluding "sticker" letters	83.5%	81.9%	79.7%	2%

OUR SERVICE PROVIDERS

OUTsurance is committed to Broad-Based Black Economic Empowerment As a Company we empower people through, amongst others:

- Black ownership, management and employment equity.
- Procurement of raw materials, products and services from B-BBEE rated companies.
- Assisting the black community through socio-economic projects.

We currently have more than 2 200 service providers throughout South Africa. Our clients rate the service they receive from our service providers on customer surveys sent out via email after each and every claim. The valuable feedback is provided to our service providers on a regular basis.

	2014	2013	2012	% change (2013/2014)
Preferential procurement[1]	94.8%	95.4%	91.8%	(0.6%)
South Africa service provider CSI ratio	87.3%	85.0%	90.0%	2.7%
Australia service provider CSI ratio	82.6%	83.0%	80.0%	(0.5%)

[1] The score is expressed as a percentage of total possible points available. The figure is externally calculated and confirmed by AQRate (B-BBEE verification agency). Our full B-BBEE certificate can be found on our website.

The CSI score is calculated by subtracting the percentage negative scores ("bad" and "very bad" responses) from the positive scores ("acceptable", "good" and "awesome" responses). The CSI figure excludes social media feedback.

We have a host of web-based and mobile applications to enhance the efficiency of our service provider interactions.

User-friendly mobile applications for iOS and Android devices can now be downloaded by our service providers and used to conduct inspections on cars, motorcycles, trailers, caravans and even watercraft. This project does not only allow us to save paper, but also avoids the risk of stolen inspection books, reduces the risks of vehicles being cloned and speeds up the process as the completed inspection is instantly delivered electronically and automatically attached to the correct facility.

OUR COMMUNITY

STAFF HELPING SA OUT

All our South African employees have the opportunity to donate funds to our Staff Helping SA OUT fund. These funds are matched by the Company and used for projects during the year to help those less fortunate in the communities where our staff are involved in projects. This year was no different.

Our staff donated more than R237 000 from their salaries, over and above their other equally important donations for projects such as the CANSA Shavathon where we collected over R21 000, and a further 2 059 blankets were handed out by our Street Knights reaching people in need from primary schools, old age homes, and homeless people during our winter warmer drive.

Our staff members donated 663 hours of their time volunteering to make South Africa a better place to live in.

	2014	2013	2012	% change (2013/2014)
Staffing Helping SA OUT (R'000)	655	973	1 219	(33%)
Employee payroll giving (R'000)	237	237	209	–

At Youi we increased our projects from four to 13 during 2014, these projects crossed three countries and over $12 000 (R120 000) was raised towards these worthy causes. Projects are selected based on passion, involvement and impact. The hands-on effort of the staff in these projects far outweighs the monetary contribution.

Blood donations have become a crucial part of the OUTsurance culture. The South African National Blood Service brings their mobile units to the OUTsurance campus for staff to conveniently donate blood at work. In 2014, 165 new donors joined the cause to become a hero and save a life.

	2014	2013	2012	% change (2013/2014)
Units blood donated	1 156	1 059	761	9.2%
New blood donors	165	137	117	20.4%

In Australia, Youi won the 2013 Club Red Queensland Challenge and Co-ordinator of the Year award for the company with the highest donation total in their state, with 216 donations made and 648 lives saved.

POINTSMEN

Leading by example, OUTsurance does not hold back when giving back to the community and caring about our environment. We increased the total number of traffic pointsmen by adding another 24 friendly faces on the busiest street corners of our cities and with the OUTsurance App, motorists can now suggest a location where pointsmen are needed.

	2014	2013	2012	% change (2013/2014)
Total pointsmen programme spend (R'000)	28 504	22 373	20 747	27.4%
Total number of OUTsurance pointsmen	156	132	122	18.2%

OUR COMMUNITY CONTINUED

CARBON FOOTPRINT

We continuously endeavour to keep our carbon footprint as low as possible. While this is not always possible, various initiatives are in place to minimise our impact on the environment.

Apart from our recycling efforts, we employ other carbon reducing methods such as using geyser timers, energy saving LED lights and air conditioning that deactivates during periods of inactivity.

NightWatchman[TM] Enterprise Solutions are used to power off our idle call centre computers outside business hours.

The total carbon emissions calculated for the Group appears below:

Total carbon emissions per annum (TCO_2e)	**2014**	2013	2012	% change (2013/2014)
Business fleet travel and fuel use	1 657	2 177	2 124	(23.9%)
Refrigerants	214	99	162	116.2%
Electricity	10 314	9 813	6 433	5.1%
Paper use	2.8	2.5	6.4	12%
Business air and road travel	2 215	2 804	2 690	(21%)
TCO_2e Per Annum	14 403	14 895	11 415	(3.3%)
Number of employees	4 035	3 329	3 154	21.2%
TCO_2e per employee	3.6	4.5	3.6	(20%)

An overall reduction of our carbon footprint is evident from the above table from the previous year, despite the growth shown in our business and the number of employees.

We recycle our waste in an environmentally friendly manner through certified recyclers.

During 2014, we recycled more paper (in kg) than what we bought due to staff being more conscious about our environment and recycling personal waste. We also experienced a vast increase in our E-waste recycling. We saved more trees than we did the previous year and look forward to saving a lot more trees with our innovative strategies in giving our clients the best service, making OUTsurance a great company to work for and making it easier for our service providers to do fast, reliable and secure online transactions that require the least amount of paper possible.

INTERNAL AUDIT ASSURANCE STATEMENT

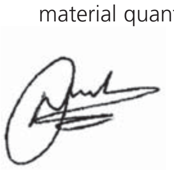
OUTsurance Holdings Internal Audit performed an agreed upon procedural review of the information outlined on pages 28 to 36 with the objective to give limited assurance on the selected non-financial information presented based on the procedures performed.

The following items were excluded from the scope of our procedures:

- B-BBEE skills development and procurement spend was audited by AQRate as part of the annual verification process.
- Statistics reported on in terms of overturn rates of complaints is based on the published Ombudsman's annual report for Short-Term Insurance for the period January to December 2013.
- The audit report focuses on the sustainability reporting process and not the underlying areas reported on.

Based on the results of the work performed, Internal Audit confirms that:

- Information which required improvement was identified and all suggested changes were corrected.
- Quantifiable material statements were verified against supporting documentation.
- OUTsurance shows continued improvement and refinement on its method of collecting data regarding its stakeholder engagement.
- Nothing has come to our attention that suggests that the reported sustainability information has not been prepared correctly for all material quantifiable information.



MARIUS BOTHMA
Chief Audit Executive

27 August 2014


TIMEOUT
GET MORE OUT
OF YOUR LIFE INSURANCE.
In the past, the only time you got anything back from your life insurer was when you claimed. That has now changed. You can now get all your life insurance premiums back in cash after 15 claim-free years. It's a 100% OUTbonus that will forever change the way you look at life insurance.
The 100% OUTbonus. All premiums back in cash after 15 claim-free years.
LIFE

GROUP ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

The reports and statements set out below comprise the consolidated financial statements presented to the shareholders:

STATEMENT OF RESPONSIBILITY BY BOARD OF DIRECTORS

In accordance with Companies Act requirements, the directors of OUTsurance Holdings Limited are responsible for the preparation of the annual financial statements which conform with International Financial Reporting Standards ("IFRS") and, in accordance with IFRS, fairly present the financial position of the Group and Company as at the end of the financial year and the comprehensive income and cash flows for that period.

It is the responsibility of the Group's independent external auditors to report on the fair presentation of the financial statements. Their unqualified report appears on page 45.

The directors are ultimately responsible for the Group's system of internal control. Management enables the directors to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements in terms of IFRS and to adequately safeguard, verify and maintain accountability for Group assets. Accounting policies supported by judgements, estimates and assumptions which comply with IFRS are applied on a consistent and going concern basis.

Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties. Systems and controls are monitored throughout the Group.

Based on the information and explanations given by management, internal audit and the audit, risk and compliance committee, the directors are of the opinion that the accounting controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the Group's assets and liabilities. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the Group and Company, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The preparation of the financial statements for the year ended 30 June 2014 was supervised by JH Hofmeyr (Chief financial officer) of the OUTsurance Holdings Group. The financial statements have been audited in compliance with section 30(2)(a) of Companies Act, 71 of 2008.

The financial statements for the year ended 30 June 2014 prepared in accordance with IFRS which appear on pages 42 to 44 and 46 to 150, were approved by the Board of directors on 27 August 2014 and are signed on its behalf by:

LL Dippenaar

LL DIPPENAAR
Chairman

Signed: Sandton
Date: 27 August 2014

Cooper

P COOPER
Non-executive director

Signed: Sandton
Date: 27 August 2014

CERTIFICATE BY THE GROUP COMPANY SECRETARY
FOR THE YEAR ENDED 30 JUNE 2014

As Company secretary, I hereby confirm, in terms of section 88(2)(e) of the Companies Act of 2008, that for the year ended 30 June 2014, the Group and Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

AH WILSON
Company secretary

Signed: Centurion
Date: 27 August 2014

DIRECTORS' REPORT

NATURE OF THE BUSINESS

OUTsurance Holdings Limited ("the Company") is a public company and the holding company of the OUTsurance Holdings Limited group of companies ("the Group"). The Group conducts short-term and long-term insurance business and related investment activities. Homeowners' cover is provided to clients with mortgages at FirstRand Bank Limited via a profit sharing arrangement. The Group also provides a cell captive insurance facility to FirstRand Group divisions for specific cell captive needs. Long-term insurance is provided to individuals in the form of credit life policies, credit protection policies and fully underwritten life policies.

The Group is based in South Africa and has international operations in Australia, New Zealand and Namibia.

An organogram of the Group is provided on page 2 of this report.

ANNUAL REPORT

The Board acknowledges responsibility for the integrity of this annual report. The Board believes that this report fairly represents the performance of the Group and Company.

During the current financial year, the Group changed its accounting policy governing the treatment of deferred acquisition costs for short-term and long-term insurance contracts. The revised accounting policies are described in 2.4.2 and 2.4.3. The impact of the accounting policy change for the Group and the affected subsidiaries is disclosed in note 37.

GROUP RESULTS

A general review of the financial results of the Group and Company and the operations of its major subsidiaries is provided in the executive review on page 6. The results are presented in the statement of comprehensive income on page 46. A segmental analysis is provided on page 89.

DIVIDENDS

ORDINARY DIVIDEND

The following ordinary cash dividends were declared in respect of the 2014 financial year:

	Year ended 30 June	
Cents per share	**2014**	2013
Interim (declared 28 February 2014)	12,00	12,00
Final (declared 27 August 2014)	15,50	12,00
Special	–	2,50
Total	27,50	26,50

The final dividend is payable on 03 October 2014 to shareholders registered on the 30 September 2014.

PREFERENCE DIVIDEND

Dividends on the "A" preference shares were calculated at a rate of 83.3% of the prime lending rate of First National Bank.

The following dividends have been declared and paid.

	Year ended 30 June	
Rand per share	**2014**	2013
Period November 2012		25 909
Period December 2012		39 702
Period May 2013		32 882
Period June 2013		39 242
Period November 2013	33 154	

ORDINARY SHARE CAPITAL

Details of the holding company's authorised and issued share capital is provided in note 24 to the financial statements.

There were no changes to the authorised or issued share capital during the course of the financial year.

PREFERENCE SHARE CAPITAL

Details of the holding company's authorised and issued share capital is provided in note 24 to the financial statements.

During the period under review, the Group repurchased the remainder of the non-cumulative non-redeemable preference shares to the value of R200.5 million from Rand Merchant Insurance Holdings Limited, the Group's parent company. No gain or loss arose from this transaction.

SHAREHOLDER ANALYSIS

The following shareholders have a beneficial interest of 5% or more in the issued share capital of the holding company:

	2014	2013
Firness International (Pty) Limited[1]	45.0%	45.0%
RMI Holdings Limited	38.4%	38.4%
OUTsurance Investment Trust	6.4%	6.5%
WT Roos[2]	5.1%	5.0%

[1] Firness International (Pty) Limited is a wholly owned subsidiary of RMI Holdings Limited.
[2] Direct beneficial interest of 2.8% and indirect beneficial interest via the OUTsurance Investment Trust of 2.3%.

EVENTS SUBSEQUENT TO REPORTING DATE

The directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report.

DIRECTORATE AND PRESCRIBED OFFICERS

The following individuals were directors of the holding company throughout the period under review:

	Date appointed	Date resigned
Mr LL Dippenaar (Chairman)	27/01/1998	
Mr H Aron (CEO)	30/04/2001	
Mr WT Roos (CEO)	30/04/2001	
Mr MC Visser (alternate to H Aron)	20/08/2009	
Mr P Cooper	11/05/2000	
Mr J Kleynhans	14/08/2007	19/02/2014
Mr PR Pretorius	27/01/1998	
Mr NL Nightingale	08/03/1999	
Ms J Madavo	08/11/2004	
Mr G Marx	20/08/2008	
Mr G Roberts-Baxter	26/05/2011	05/11/2013
Mr AW Hedding	28/05/2013	
Mr F Knoetze	19/02/2014	
Mr K Pillay	19/02/2014	

The following individuals were prescribed officers of the Group throughout the period under review:

Mr H Aron	(Joint Group CEO)
Mr WT Roos	(Joint Group CEO)
Mr MC Visser	(Group Chief Actuary)
Mr E Gouws	(CEO of OUTsurance Insurance Company Limited)
Mr JH Hofmeyr	(Group CFO)

Please refer to page 19 for the register of Board meeting attendance.

DIRECTORS AND PRESCRIBED OFFICER EMOLUMENTS

Details of director and prescribed officer remuneration is provided in note 36 to the financial statements.

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

The report of the audit, risk and compliance committee appears on page 20.

MANAGEMENT BY THIRD PARTIES

The directors had no interest in any third party or company responsible for managing any of the business activities of the Group except to the extent that they are shareholders in Rand Merchant Insurance Holdings Limited which has management control over OUTsurance Holdings Limited.

DIRECTORS' INTEREST IN CONTRACTS

During the financial year, no contracts were entered into in which directors or officers of the Company had an interest and which significantly affected the business of the Group.

DISPOSAL OF SUBSIDIARY

During the prior financial year, the Group disposed of its 50% interest in Momentum Short-Term Insurance Limited to MMI Holdings Limited, resulting in a pre-tax gain of R51.2 million (net after-tax gain of R43 million).

PROPERTY AND EQUIPMENT

There is no change in the nature of the property and equipment of the Group or in the policy regarding their use during the year, other than that described below.

INSURANCE

The Group adequately protects itself against the occurrence of specified events. The level of insurance cover is commensurate with the size and stature of the Group.

SUBSIDIARIES AND ASSOCIATES

Interests in subsidiaries and associates are disclosed in note 18 and 19 of the financial statements.

COMPANY SECRETARY AND REGISTERED ADDRESS

The Company secretary is Mr AH Wilson whose addresses are:

Business address:	Postal address:
1241 Embankment road	PO Box 8443
Zwartkop Ext 7	Centurion
Centurion	0046

REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF OUTSURANCE HOLDINGS LIMITED

We have audited the consolidated and separate financial statements of OUTsurance Holdings Limited set out on pages 46 to 150, which comprise the statements of financial position as at 30 June 2014 and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and fair presentation of these 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of OUTsurance Holdings Limited as at 30 June 2014, and its consolidated and separate financial performance and its 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.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2014, we have read the directors' report, the audit, risk and compliance committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: J Goncalves
Registered Auditor

Johannesburg
27 August 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 R'000	Restated 2013 R'000
Gross insurance premium written	5	10 351 566	8 288 477
Outward reinsurance premiums		(336 111)	(234 398)
Net premiums written		10 015 455	8 054 079
Change in provision for unearned premiums	25	(774 224)	(500 777)
Earned premiums, net of reinsurance		9 241 231	7 553 302
Other income	6	7 305	1 003
Investment income	7	327 468	306 517
Net gains from fair value adjustments on financial assets	8	1 609	519
Income		9 577 613	7 861 341
Claims on insurance contracts net of reinsurance	9	(4 470 697)	(3 590 635)
Gross insurance contract claims incurred		(4 748 028)	(3 777 662)
Reinsurers' share of insurance contract claims		277 331	187 027
Non-claims bonuses on insurance contracts		(300 686)	(271 257)
Acquisition expenses	10	(28 744)	(33 445)
Marketing and administration expenses	11	(2 485 155)	(1 990 203)
Transfer to policyholder liabilities under insurance contracts		(21 729)	(12 162)
Fair value adjustment to financial liabilities		(190 810)	(200 758)
Result of operating activities		2 079 792	1 762 881
Finance charges	12	(1 188)	(722)
Equity accounted earnings from associate	19	10 398	10 015
Gain on sale of subsidiary	18	–	51 220
Profit before taxation		2 089 002	1 823 394
Taxation	13	(622 546)	(535 101)
Net profit for the year		1 466 456	1 288 293
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Fair value gains and losses on available-for-sale financial instruments	8	40 638	19 211
Deferred income tax relating to available-for-sale financial instruments		(16 152)	–
Exchange differences on foreign operations		125 554	70 866
Total comprehensive income for the year		1 616 496	1 378 370
Net profit attributable to:			
Ordinary shareholders		1 445 288	1 249 980
Non-cumulative non-redeemable preference shareholders		5 824	38 313
Equity holders of the Group		1 451 112	1 288 293
Non-controlling interest		15 344	–
Net profit for the year		1 466 456	1 288 293
Total comprehensive income attributable to:			
Ordinary shareholders		1 595 328	1 340 057
Non-cumulative non-redeemable preference shareholders		5 824	38 313
Equity holders of the Group		1 601 152	1 378 370
Non-controlling interest		15 344	–
Total comprehensive income for the year		1 616 496	1 378 370

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

	Notes	30 June 2014 R'000	Restated 30 June 2013 R'000	Restated 1 July 2012 R'000
ASSETS				
Property and equipment	17	514 195	459 598	412 768
Employee benefits	27	106 712	39 685	47 052
Investment in associates	19	25 589	23 031	17 916
Reinsurers' share of insurance contract provisions	25	101 740	51 300	50 786
Deferred acquisition costs	25	336 114	215 240	153 649
Financial assets				
Fair value through profit and loss	20	2 452 364	2 631 452	2 689 343
Available-for-sale	20	1 265 149	1 123 711	1 498 066
Loans and receivables	21	1 436 613	980 505	539 597
Deferred income tax	22	220 266	291 071	348 621
Tax receivable		2 321	1 184	1 318
Assets of disposal group classified as held for sale		–	–	211 105
Cash and cash equivalents	23	3 437 023	1 933 587	1 356 557
TOTAL ASSETS		9 898 086	7 750 364	7 326 778
EQUITY				
Capital and reserves attributable to equity holders				
Share capital	24	34 642	34 403	34 270
Share premium	24	163 296	309 296	898 644
Other reserves				
Share based payment reserve		–	–	56 336
Foreign currency translation reserve		325 090	199 536	128 670
Available-for-sale reserve		70 373	45 887	26 676
Retained earnings		3 722 442	3 194 997	3 071 565
Total shareholders' equity		4 315 843	3 784 119	4 216 161
Non-controlling interest		137 608	–	75 295
TOTAL EQUITY		4 453 451	3 784 119	4 291 456
LIABILITIES				
Insurance contract liabilities	25	4 456 382	3 257 141	2 439 856
Employee benefits	27	110 992	84 723	77 033
Share based payment liability	29	130 272	45 524	
Financial liabilities at fair value through profit and loss	28	105 488	110 425	115 369
Tax liabilities		23 714	35 548	7 992
Liabilities of disposal group classified as held for sale		–	–	59 104
Financial liabilities at amortised cost				
Insurance and other payables	26	617 787	432 884	335 968
TOTAL LIABILITIES		5 444 635	3 966 245	3 035 322
TOTAL EQUITY AND LIABILITIES		9 898 086	7 750 364	7 326 778

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

Group	Share capital R'000	Share premium R'000	Available-for-sale reserves R'000	Currency translation reserve R'000
Balance as at 30 June 2012 (restated)	34 270	96 644	26 676	128 670
As previously reported	34 270	96 644	26 676	124 972
Change in accounting policy	–	–	–	3 698
Total comprehensive income for the year	–	–	19 211	70 866
As previously reported	–	–	19 211	62 361
Change in accounting policy	–	–	–	8 505
Repurchase of preference shares	–	–	–	–
Issue of share capital	133	12 152	–	–
Share option expense transferred to retained earnings	–	–	–	–
Transfer to share based payment liability	–	–	–	–
Share based payment expense	–	–	–	–
Sale of subsidiary	–	–	–	–
Preference dividend paid	–	–	–	–
Ordinary dividend paid	–	–	–	–
Balance as at 30 June 2013 (restated)	34 403	108 796	45 887	199 536
As previously reported	34 403	108 796	45 887	187 333
Change in accounting policy	–	–	–	12 203
Total comprehensive income for the year	–	–	24 486	125 554
Profit attributable to minorities	–	–	–	–
Issue of share capital	239	54 500	–	–
Repurchase of preference shares	–	–	–	–
Share based payment expense	–	–	–	–
Issue of shares to minorities	–	–	–	–
Preference dividend paid	–	–	–	–
Ordinary dividend paid	–	–	–	–
Balance as at 30 June 2014	34 642	163 296	70 373	325 090

Share based payments reserve R'000	Retained earnings R'000	Total ordinary shareholders' interest R'000	Total preference shareholders' interest R'000	Non-controlling interest R'000	Total R'000
56 336	3 071 565	3 414 161	802 000	75 295	4 291 456
56 336	2 941 471	3 280 369	802 000	75 295	4 157 664
–	130 094	133 792	–	–	133 792
–	1 288 293	1 378 370	–	–	1 378 370
–	1 239 889	1 321 461	–	–	1 321 461
–	48 404	56 909	–	–	56 909
–	–	–	(601 500)	–	(601 500)
–	–	12 285	–	–	12 285
(38 227)	38 227	–	–	–	–
(17 412)	4 875	(12 537)		–	(12 537)
714	435	1 149	–	–	1 149
(1 411)	–	(1 411)	–	(75 295)	(76 706)
–	(38 313)	(38 313)	–	–	(38 313)
–	(1 170 085)	(1 170 085)	–	–	(1 170 085)
–	3 194 997	3 583 619	200 500	–	3 784 119
–	3 016 499	3 392 918	200 500	–	3 593 418
–	178 498	190 701	–	–	190 701
–	1 466 456	1 616 496	–	–	1 616 496
–	(15 344)	(15 344)	–	15 344	–
–	–	54 739	–	–	54 739
–	–	–	(200 500)	–	(200 500)
–	491	491	–	–	491
–	–	–	–	122 264	122 264
–	(5 824)	(5 824)	–	–	(5 824)
–	(918 334)	(918 334)	–	–	(918 334)
–	3 722 442	4 315 843	–	137 608	4 453 451

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 R'000	Restated 2013 R'000	Restated 2012 R'000
OPERATING ACTIVITIES				
Cash generated by operations	30	3 209 891	2 558 923	2 493 332
Finance charges	31	(1 188)	(722)	(1 128)
Taxation paid	32	(555 270)	(425 458)	(663 906)
Ordinary dividends paid		(918 334)	(1 170 085)	(737 387)
Preference dividends paid	33	(201 571)	(244 015)	(234 032)
Cash inflow from operating activities		1 533 528	718 643	856 879
INVESTING ACTIVITIES				
Proceeds from disposal of subsidiary	18	–	126 515	–
Intellectual property				
Payments		(115 215)	(48 826)	(48 525)
Settlements		383	11 048	23
Property and equipment acquired to maintain operations		(151 986)	(142 661)	(271 163)
Proceeds on disposal of property and equipment		563	810	400
Proceeds on disposal of financial assets		3 963 245	4 389 899	1 693 191
Purchase of financial assets		(3 883 348)	(3 937 923)	(2 635 391)
Cash inflow/(outflow) from investing activities		(186 358)	398 862	(1 261 465)
FINANCING ACTIVITIES				
Repurchase of preference shares		(200 500)	(601 500)	–
Proceeds from issue of shares to non-controlling interest		122 264	–	–
Purchase of treasury shares by share scheme participants		72 754	30 804	27 630
Purchase of treasury shares by share trust		(18 015)	(18 519)	(24 359)
Borrowings repaid		–	–	(153)
Cash (outflow)/inflow from financing activities		(23 497)	(589 215)	3 118
Increase/(decrease) in cash and cash equivalents		1 323 673	528 290	(401 468)
CHANGE IN CASH AND CASH EQUIVALENTS				
Opening balance of cash and cash equivalents		1 933 587	1 356 557	1 689 234
Effect of exchange rates on cash and cash equivalents		179 763	48 740	75 900
Increase/(decrease) in cash and cash equivalents		1 323 673	528 290	(401 468)
Cash and cash equivalents of disposal group held for sale		–	–	(7 109)
Closing balance of cash and cash equivalents (Note 23)		3 437 023	1 933 587	1 356 557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

OUTsurance Holdings Limited ("the Company"), its subsidiaries and associate (collectively forming "the Group") is a financial services Group offering both short-term and long-term insurance products. The Group has operations in South Africa, Australia, New Zealand and Namibia.

OUTsurance Holdings Limited is an unlisted public company and a subsidiary of Rand Merchant Insurance Holdings Limited.

The financial statements were authorised for issue by the directors on 27 August 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. During the course of the current financial year, the Group decided to change the accounting policy governing the treatment of deferred acquisition costs for short-term and long-term insurance contracts.

The rationale behind the change in the treatment of deferred acquisition costs for short-term insurance contracts is explained as follows:

- Per Australian GAAP, the Australian operation is required to defer acquisition costs for policies which have a duration of a year. Historically, the Group's accounting policy has not provided for the deferral of acquisition costs. The Group's consolidated results therefore ignored the deferral of acquisition costs accounted for in the stand-alone results of the Australian Group. By allowing for the deferral of acquisition costs at a Group level, the mismatch between the Australian Group's stand-alone results and the consolidated results is eliminated.
- The requirement to, in effect, defer acquisition costs is likely to be prescribed under IFRS 4 phase 2, the new accounting standard for insurance contracts which is being developed by the International Accounting Standards Board, which treats deferred acquisitions costs as contractual cash flows. By treating the acquisition costs as a contractual cash flow, the acquisition costs are effectively deferred and amortised through the contractual service margin under the new proposal. The standard is expected to be issued in 2015 and to be effective at the earliest for the financial year ending 30 June 2019. The change in accounting policy does therefore align the accounting practice with the expected future accounting requirements.
- The revised accounting policy allows for acquisition costs incurred relating to monthly policies to be expensed as incurred. The policy change does therefore not impact the southern African short-term insurance business.

The rationale behind changing the treatment of acquisition costs relating to the long-term insurance contracts written is as follows:

- Historically the Group expensed acquisition costs as incurred when writing long-term insurance contracts. During the year under review, the Group considered that an accounting policy which defers acquisition costs over the expected lifetime of the policy reflects a more appropriate accounting result given the long-term nature of business written.
- The long-term insurance business is also likely to be required to implicitly defer acquisition costs, as part of the contractual service margin, under IFRS 4 phase 2 when effective. The change in accounting policy does therefore align the accounting practice with the expected future accounting requirements.

The revised accounting policies are described in 2.4.2 and 2.4.3 below. The impact of the accounting policy change for the Group and the affected subsidiaries is disclosed in note 37.

All other accounting policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PRESENTATION

The Group financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements are prepared in accordance with the going concern principle using the historical cost basis except for certain financial assets and liabilities where it adopts the fair value basis of accounting. Such financial assets and liabilities include financial assets and liabilities held for trading; financial assets classified as available-for-sale; and financial instruments elected to be carried at fair value through profit and loss. The South African life insurance liabilities are valued based on the Financial Soundness Valuation ("FSV") method as detailed in the Standard of Actuarial Practice ("SAP") 104 issued by the Actuarial Society of South Africa ("ASSA").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PRESENTATION (continued)

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements that affect the reported amounts in the statement of financial position and the statement of comprehensive income. Where appropriate, details of estimates are presented in the accompanying notes to the financial statements. All monetary information and figures presented in these financial statements are stated in thousands of Rand (R'000), unless otherwise indicated.

The Group adjusts comparative figures to conform to changes in presentation in the current year. For details refer to note 38.

2.1.1 Amendments to published standards effective in the current year:

During the year new accounting standards, interpretations and amendments were adopted by the Group for the first time, including:

- IFRS 1: *First-time Adoption of International Financial Reporting Standards* (Effective from 1 January 2013) was amended to provide guidance on how entities would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also provides an exception to the retrospective application of IFRS, which provides first-time adopters with the same relief as was granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. The amendment does not have an impact on the Group as the Group has already adopted IFRS.
- IFRS 7 (amended) *Financial instruments: Disclosures* (Annual periods commencing on or after 1 January 2013) – the amendments to IFRS 7 requires additional disclosure of gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed and the related net credit exposure to enable investors to understand the extent to which an entity has set off in its statement of financial position and the effects of rights of set-off on the entity's rights and obligations. This amendment results in additional disclosures in the annual financial statements and does not affect recognition and measurement. The amendment does not have an impact on the Group as the Group has no instruments that are set-off or have rights subject to set-off.
- IFRS 10: *Consolidated Financial Statements* (Effective for all annual periods beginning on or after 1 January 2013) – this standard replaces the consolidation requirements in SIC 12: *Consolidation – Special Purpose Entities* and IAS 27: *Consolidated and Separate Financial Statements*. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The Group has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10. The adoption of IFRS 10 has had no impact on the scope of consolidation within the Group.
- IFRS 11: *Joint Arrangements* (Effective for all annual periods beginning on or after 1 January 2013) – this standard provides for a more realistic reflection of joint arrangements by focusing more on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. There is no impact on the Group as the Group has no joint ventures.
- IFRS 12: *Disclosures of Interest in Other Entities* (Effective for all annual periods beginning on or after 1 January 2013) – this standard includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Please refer to notes 18 and 19 for the revised disclosures as required by IFRS 12.
- IFRS 13: *Fair Value Measurement* (Effective for all annual periods beginning on or after 1 January 2013) – this standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The implementation of IFRS 13 has not had a material impact on the Group and the additional disclosures are provided in note 3.3.1.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PRESENTATION (continued)

2.1.1 Amendments to published standards effective in the current year (continued)

- IAS 27: S*eparate Financial Statements* (revised 2011) (Effective for all annual periods beginning on or after 1 January 2013) – this standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The standard did not have a significant impact on the Group.
- IAS 28: *Associates and joint ventures* (revised 2011) (Effective for all annual periods beginning on or after 1 January 2013) – this standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The standard did not have a significant impact on the Group.
- As part of its annual improvements project the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The annual improvement project for 2011 is effective for annual periods commencing on or after 1 January 2013. The Group has adopted these amendments during the current financial year. These amendments have not had a significant impact on the Group's results nor has it resulted in the restatement of prior year numbers.

2.1.2 Standards, amendments and interpretations published that are not yet effective and have not been early adopted by the Group:

The following new standards and interpretations to the existing standards are not yet effective for the current financial year. The Group will comply with the new standards and interpretations from the effective date:

- IFRS 9: *Financial Instruments* (The Standard has a mandatory effective date for all annual periods beginning on or after 1 January 2018, but earlier adoption is permitted) – new standard arising from the IASB's three-part project to replace the current IAS 39 *Financial Instruments: Recognition and Measurement.* The three phases are: phase 1: Classification and measurement (completed); phase 2: Impairment methodology (outstanding) and phase 3: Hedge accounting. Phase 1 only deals with the classification and measurement of financial assets and includes guidance on financial liabilities and derecognition of financial instruments. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The accounting and presentation for financial liabilities and for derecognising a financial instrument has been relocated from IAS 39: *Financial Instruments: Recognition and Measurement* without change, except for financial liabilities that are designated at fair value through profit or loss. Phase 2 replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities. IFRS 9 is partially complete with impairment measurement on amortised cost designated assets still to be finalised. The Group is yet to assess IFRS 9's full impact but material reclassifications are not expected for the Group.
- IFRS 10: *Consolidated Financial Statements (*Effective for all annual periods beginning on or after 1 January 2014) – this amendment to IFRS 10 defines investments entities and requires that investment entities not be consolidated but rather accounted for at fair value under IFRS 9: *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*. This amendment is not expected to have an impact on the Group.
- IFRS 12: *Disclosures of Interest in Other Entities* (Effective for all annual periods beginning on or after 1 January 2014) – Additional disclosure requirements for investment entities as defined per IFRS 10: *Consolidated Financial Statements*. The impact on the revised disclosure is not expected to be significant on the Group.
- IFRS 15: *Revenue from Contracts with Customers* (The Standard has a mandatory effective date for all annual periods beginning on or after 1 January 2017, but earlier adoption is permitted) – new standard arising from the IASB's and FASB's joint project. The core principle of the new standard is to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration expected to be received in exchange for those goods or services. The new standard also sets out enhanced disclosures about revenue and provides guidance on certain transactions that were not previously dealt with in sufficient detail. The Group is yet to assess IFRS 15's full impact but material reclassifications are not expected for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PRESENTATION (continued)

2.1.2 Standards, amendments and interpretations published that are not yet effective and have not been early adopted by the Group (continued)

- IAS 27: *Separate Financial Statements* (Effective for all annual periods beginning on or after 1 January 2014) – this standard has been amended to include a requirement to account for interests in investment entities as defined in IFRS 10, under IFRS 9 *Financial Instruments,* or IAS 39 *Financial Instruments: Recognition and Measurement,* in the separate financials statements of a parent. This amendment is not expected to have a significant impact on the Group.
- IAS 32 (amended) *Financial Instruments: Presentation* (Annual periods commencing on or after 1 January 2014) – arises from the amendments to IFRS 7 which requires additional disclosure regarding set-off. The amendments clarify the application of certain offsetting criteria in IAS 32 namely, the meaning of legally enforceable right of set-off; and that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payments in a single settlement process. The amendment is not expected to have an impact on the Group.
- IFRIC 21: *Levies* (Annual periods commencing on or after 1 January 2014) – this is an interpretation of IAS 37: *Provisions, Contingent Liabilities and Contingent Assets* and clarifies that the obligating event that gives rise to a liability to pay a levy imposed by government (other than income taxes) is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not expected to have a material impact on the Group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Annual Improvements Project:

The IASB has issued its 2012 and 2013 annual improvement projects. The annual improvement project's aim is to clarify and improve the accounting standards. The improvements include clarifications or removal of unintended inconsistencies between IFRSs. These improvements are effective for annual periods commencing on or after 1 July 2014 but early application is permitted, and must be applied retrospectively. There are no significant changes in the improvement projects that are expected to affect the Group.

2.1.3 Standards, amendments and interpretations published that are effective but not relevant to the Group:

- IAS 19: *Employee Benefits* (revised June 2011) (Effective for all annual periods beginning on or after 1 January 2013) was amended to eliminate the corridor approach and recognise all gains and losses in other comprehensive income as they occur. Further amendments included recognising all past service costs immediately, replacing interest cost and expected return on plan assets with a net interest amount calculated by applying the discount rate to the net defined benefit liability (asset). The amendment does not have an impact on the Group as the Group has no defined benefit plans.

2.1.4 Standards, amendments and interpretations published that are not yet effective and not relevant to the Group:

- IAS 19: *Employee Benefits* (Effective for all annual periods beginning on or after 1 July 2014) was amended to provide additional guidance on the accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan. The amendment does not have an impact on the Group as the Group has no defined benefit plans.

2.1.5 Other potential accounting developments:

The IASB have issued the following exposure drafts which, if issued as standards, could materially impact the Group's current financial position:

- Insurance contracts
- Leases

Both the insurance contracts and leases exposure drafts were re-exposed in the first half of 2013. Given the significant comments received on both of these exposure drafts, re-deliberations on these projects by the IASB will continue during 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PRESENTATION (continued)

2.1.5 Other potential accounting developments (continued)

At this stage, there is still insufficient clarity to be able to report on the full implications of the proposed standards. For the proposed insurance contracts standard, the Group has considered the requirements governing deferred acquisition costs and has changed the accounting policy governing the treatment of deferred acquisition costs for short-term and long-term insurance contracts. The revised accounting policies are described in 2.4.2 and 2.4.3 and the impact of the accounting policy change for the Group and the affected subsidiaries is disclosed in note 37.

2.2 CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the assets and liabilities of the holding company and all of its subsidiary companies. The results of the OUTsurance Holdings Share Trust are also fully consolidated.

2.2.1 Subsidiary companies

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group applies the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration transferred for the acquisition of a subsidiary is measured at fair value of the assets transferred, equity instruments issued by the Group and liabilities incurred to the former owner or liabilities assumed at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the acquisition date fair value of any existing equity interest held in the subsidiary. The contingent asset or liability is initially measured at fair value at acquisition date. A contingent obligation to pay a contingent consideration is classified as equity or debt. The contingent asset or liability is subsequently measured at fair value with fair value changes recognised against the acquisition cost, where they qualify as the measurement period adjustment as per IFRS 3 as recognised in accordance with the IFRS applicable to that asset or liability. Contingent considerations that are classified as equity are not re-measured after acquisition date. Transaction costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition. The excess of the consideration transferred over the amount of any non-controlling interest in the subsidiary and the acquisition-date fair value of any previous equity interest in the subsidiary over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, as in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Gains and losses on disposal of subsidiaries are presented separately on the statement of comprehensive income. Investments in subsidiary companies in the separate financial statements of the holding company are held at cost less any required impairment (which is assessed annually). Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group and when necessary, the amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

2.2.2 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2.3 Non-controlling interest

Non-controlling interest can be measured at either:

- the proportionate share in the fair value of the identifiable net assets of the subsidiary at acquisition date; or
- fair value at acquisition date.

This measurement choice is not an accounting policy choice and the Group will apply this at acquisition date per business combination transaction.

Non-controlling interests are treated as equity participants of the subsidiary company. Therefore, all transactions of the Group with non-controlling interests in their capacity as owners, where there is no change in control, are treated as transactions within equity. In such transactions the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group. Gains and losses on disposals to non-controlling interests are also recorded in equity.

2.2.4 Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. The Group assesses at each reporting period whether there is objective evidence that an associate or joint venture is impaired. If such evidence of impairment exists, the entire carrying amount, including the goodwill, is tested for impairment in terms of IAS 36.

The Group's share of its associates' earnings is recognised in the statement of comprehensive income and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The Group discontinues equity accounting when the carrying amount of the investment in an associate reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

The Group resumes equity accounting only after its share of the profits equals the share of losses not recognised. The Group increases the carrying amount of investments with its share of the associate's income when equity accounting is resumed.

Equity accounting is discontinued from the date that the Group ceases to have significant influence over the associate. The Group measures at fair value any investment it has retained in the entity when significant influence is lost and recognises the resulting gain or loss in profit or loss. The gain or loss is measured as the difference between the fair value of this retained investment and the carrying amount of the original investment at the date significant influence is lost.

After discontinuing equity accounting, the Group accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate. The Group also applies the requirements of IAS 39 to determine whether there are any indicators of impairment. If such indicators are found to be present the requirements of IAS 36 are applied in testing the investment for impairment and determining the amount of any additional impairment loss with respect to the net investment in the associate as well as other exposures to the investee.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments were made to the accounting policies of associates to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CLASSIFICATION OF INSURANCE CONTRACTS

Contracts issued by the Group are governed by the relevant insurance legislation of the country in which the Group operates. 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. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable, that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

2.4. RECOGNITION AND MEASUREMENT OF INSURANCE CONTRACTS

2.4.1 Short-term insurance

Short-term insurance provides benefits under short-term policies, typically one year or less, under which the Group accepts significant insurance risks from the policyholder if the policyholder incurs losses relating to uncertain future events such as mechanical breakdown of equipment, theft, fire, weather-related events, fraud, third party claims etc.

Premiums

Gross premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude Value Added Tax. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business assumed. The earned portion of premiums received is recognised as revenue. Premiums relating to a future accounting period are included in unearned premium provision. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

Gross premium includes insurance related fee income which relates to policy fees, collection fees and take-on fees charged in the ordinary course of the underwriting of short-term insurance policies.

Unearned premium provision

All short-term insurance contracts have even risk profiles. The provision for unearned premiums represents the proportion of the current year's premiums written that relate to risk periods extending into the following year, computed separately for each insurance contract using the 365th method.

Insurance contract 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. Estimates are calculated based on the most recent cost experience of similar claims and includes an appropriate risk margin for unexpected variances between the actual cost and the estimate. Where applicable, deductions are made for salvage and other recoveries. Salvage proceeds are generated upon the successful salvage of damaged insured items after the settlement of the underlying claim. Recoveries are settlements from third parties as a result of involvement in a claim incident for which the third party is responsible. Recoveries are disclosed net of liabilities where the Group settles a third party claim on behalf of the client, where the client is responsible for causing a loss to a third party. Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 RECOGNITION AND MEASUREMENT OF INSURANCE CONTRACTS (continued)

2.4.1 Short-term insurance (continued)

Outstanding insurance contract claims

Provision is made on a prudent basis for the estimated final costs of:

- claims notified but not settled at year end, using the best information available at that time. Estimates provide for claims handling expenses, inflation as well as a risk margin to allow for uncertainty in the development of claims estimates; and
- claims incurred at year end but not reported until after that date ("IBNR"), using historical experience and the best information available at the time. Estimates provide for inflation, claim handling expenses as well as a risk margin to allow for the uncertainty in the development of such claims.

Claims handling expenses include all costs directly attributable to the administration of an insurance claim and includes the cost of claims assessments.

Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders. Premiums ceded and claims reimbursed are presented in the statement of comprehensive income and statement of financial position separately from the gross amounts. Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such reinsurance contracts are recognised in the same year as the related claim. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after initial recognition, that the Group may not recover all amounts due and that the impact of the event on the amounts that the Group will receive from the reinsurer can be measured.

Reinsurance assets are held on the statement of financial position in connection with outstanding claims provisions at the amount of the expected recovery that will be made once the outstanding claim is finalised.

Liabilities adequacy test for unexpired risk liabilities

At the end of the reporting period, the adequacy of the unearned premium liabilities is assessed against the present value of the expected future cash flows resulting from potential future claims relating to unexpired periods of insurance contracts in force at the end of the reporting period, plus an additional risk margin to reflect the inherent uncertainty of the central estimate (liability adequacy test). If the unearned premium liabilities, less deferred acquisition costs, are deficient, then the resulting deficiency is recognised immediately in profit or loss. Reinsurance is taken into account, where appropriate.

The deficiency is recognised first by writing off any deferred acquisition costs and thereafter any excess is recognised as unexpired risk liabilities in the statement of financial position.

Non-claims bonuses on insurance contracts

The Group provides for its contractual obligation per the contract of insurance to pay a non-claims bonus to a client in the event that the client remains claim free for a specified period of time. To derive the best estimate of the expected future cash flows, the non-claims bonus percentage per the contract of insurance is adjusted for the following factors:

- The bonus percentage is reduced to allow for the probability that the client may claim (and hence forfeit eligibility for the OUTbonus) over the OUTbonus cycle.
- The bonus percentage is reduced to allow for the probability that the client will cancel during the OUTbonus cycle.
- A risk margin is added to allow for the uncertainty relating to the above claims and lapse assumptions.
- Where the impact of discounting is considered to be material, the expected future obligation is discounted to the present value using an appropriate discount rate reflecting the time value of money.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 RECOGNITION AND MEASUREMENT OF INSURANCE CONTRACTS (continued)

2.4.2 Long-term insurance

Benefits are provided under long-term policies for credit life, credit protection and fully underwritten life. Benefits are recorded as an expense when they are incurred.

Policyholder liabilities

Long-term insurance contracts are valued in accordance with the Financial Soundness Valuation ("FSV") method as detailed in the Standard of Actuarial Practice ("SAP") 104 issued by the Actuarial Society of South Africa ("ASSA").

The FSV basis is a prospective, discounted cash flow basis calculated as the difference between the present value of future benefit payments and expenses and the present value of future premiums and investment income. The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as prescribed by SAP 104. In addition to the compulsory margins, discretionary margins may be added to protect against possible future adverse experience.

Discretionary margins are specifically allowed for to zerorise negative reserves which may arise from the FSV calculation. Such a margin is allowed for after allowing for the acquisition costs as described in 2.4.3.

The zerorisation of negative reserves ensures that profit and risk margins allowed for in premium income are not recognised before it is probable that future economic benefits will flow to the entity.

The compulsory and discretionary margins allowed for in the measurement of the liability are contained in note 25.

Refer to note 25.4 for the calculation basis and the specific assumptions used to calculate the policyholder liabilities.

Premiums

Gross premiums comprise the premiums as received on insurance contracts during the year. Premiums are disclosed before the deduction of commission.

Gross premium includes insurance related fee income which relates to policy fees, collection fees and take-on fees charged in the ordinary course of the underwriting of long-term insurance policies.

Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders. Premiums ceded and claims reimbursed are presented in the statement of comprehensive income and statement of financial position separately from the gross amounts. Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such reinsurance contracts are recognised in the same year as the related claim. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after initial recognition, that the Group may not recover all amounts due and that the impact of the event on the amounts that the Group will receive from the reinsurer can be measured.

Insurance contract claims incurred

Claims on long-term insurance contracts, which include death, disability, critical illness and retrenchment payments, are charged to the statement of comprehensive income on notification of a claim. The estimated liability for compensation owed to policyholders is based on the sum assured. Claims which have been reported but which are outstanding at the reporting date are recognised in insurance and other payables. Reinsurance recoveries are accounted for in the same period as the related claim.

Incurred but not reported claims

Provision is made in the policyholders' liabilities under insurance contracts, on the statement of financial position, for the estimated cost at the end of the year for claims incurred but not reported at that date. These liabilities are not discounted due to the short-term nature of the outstanding claims.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 RECOGNITION AND MEASUREMENT OF INSURANCE CONTRACTS (continued)

2.4.2 Long-term insurance (continued)

Liability adequacy test

At each reporting date the adequacy of the insurance liabilities is assessed. If that assessment shows that the carrying amount of its insurance liabilities (as measured under the FSV basis) net of any related intangible present value of acquired in-force business ("PVIF") assets is inadequate in light of the estimated future cash flows (based on the best estimate basis underlying the FSV basis, but excluding compulsory margins as described in SAP 104 as well as any additional discretionary margins), the deficiency is recognised immediately in profit and loss.

Cash bonuses on insurance contracts

The expected non-claims cash bonuses to be paid in the future to policyholders on fulfilment of certain claims-related conditions are taken into account in the FSV per SAP 104.

2.4.3 Deferred acquisition costs

Short-term insurance contracts

Directly attributable acquisition costs include advertising and other selling and underwriting costs incurred in generating insurance premium revenue. These acquisition costs are deferred as a deferred acquisition cost ("DAC") asset and are amortised systematically over the contractual term of the policy.

Acquisition costs which are deferred is recognised as an asset. The amount of the asset is limited to the amount by which the related unearned premiums exceed the present value of future expected claims plus settlement and policy maintenance costs relating to the policies in force at the reporting date, plus an appropriate risk margin. Where a shortfall exists, the DAC asset is written down and any remaining excess is recognised as unexpired risk liabilities in the statement of financial position.

Acquisition costs on policies with an effective contractual term of one month or less are expensed as incurred.

Long-term insurance contracts

Acquisition costs represent all costs directly attributable to the underwriting and acquiring of long-term insurance contracts. These costs are expensed as incurred. The FSV method for valuing insurance contracts allows for the implicit deferral of acquisition costs by valuing future policy changes/premiums levied for recouping these costs and recognising day one profits up to the amount of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the statement of financial position for these contracts. The level of day one profit is determined with reference to directly attributable acquisition costs.

The level of acquisition costs deferred is compared to the negative reserve (excluding directly attributable acquisition costs) available on each individual policy. Where the implicit DAC, the day one gains arising on the deferral of the directly attributable acquisition costs, is greater than the negative reserve available on the policy, the deferral of directly attributable acquisition costs is limited to the negative reserve. Where the DAC is less than the negative reserve, the deferral is limited to the amount of DAC.

2.5 ACCOUNTING FOR PROFIT SHARING ARRANGEMENTS

A profit sharing arrangement has been entered into between OUTsurance Insurance Company Limited and FirstRand Bank Limited. In terms of this profit sharing arrangement, ninety percent of the operating profit generated on the homeowners' insurance business referred by FirstRand Bank Limited businesses is paid to FirstRand Bank Limited by way of a bi-annual preference dividend. Operating losses incurred are for OUTsurance Insurance Company Limited's account. OUTsurance Insurance Company Limited however, retains the right to offset such losses against future profits generated in the determination of any preference dividends to be paid to the preference shareholder.

These shareholders for preference share dividends are accounted for as a financial liability on the face of the statement of financial position. The profit attributable to the preference shareholder is the fair value movement and the payment of a dividend is treated as a partial settlement of the liability.

The profitability of the profit sharing business is reviewed on a monthly basis to ensure that the Group is not exposed to uneconomical risks over which it has no day-to-day management control.

The policy for the recognition and measurement of insurance contracts applied to the profit sharing arrangement is similar to the policy under 2.4 above.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 ACCOUNTING FOR CELL CAPTIVE ARRANGEMENTS

Cell captive arrangements have been entered into with businesses within the FirstRand Limited and MMI Holdings Limited Groups. Per these cell captive arrangements, certain risk products marketed and distributed by these companies are underwritten by OUTsurance Insurance Company Limited. Economic benefits generated by the cell are distributed by way of a bi-annual preference dividend to the preference shareholder, an entity independent of the cell. Losses incurred by the cell are for OUTsurance Insurance Company Limited's account and there is no recourse against the cell for such losses. OUTsurance Insurance Company Limited however, retains the right to offset such losses against future profits generated by the cell in the determination of any preference dividends to be paid to the preference shareholder.

These shareholders for preference share dividends are accounted for as a financial liability on the face of the statement of financial position. The profit attributable to the preference shareholder is the fair value movement and the payment of a dividend is treated as a partial settlement of the liability.

The profitability of cell captive business is reviewed on a monthly basis to ensure that the Group is not exposed to uneconomical risks over which it has no day-to-day management control.

The policy for the recognition and measurement of insurance contracts applied to the cell captives is similar to the policy under 2.4 above.

2.7 SEGMENT REPORTING

The Group's products and services are managed by various business units along geographical lines and product categories. The segment information is presented by each distinct revenue-generating area representing groups of similar products, consistent with the way the Group manages the business. Given the nature of operations, there are no major single customers within any of the segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers when making operating decisions and for allocating resources and assessing performance. Certain reporting adjustments are provided separately to reconcile to IFRS reported earnings.

2.8 FOREIGN CURRENCY

2.8.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in South African Rand (R), which is the functional and presentation currency of OUTsurance Holdings Limited.

None of the Group entities operate in a hyper-inflationary environment.

2.8.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year-end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.8.3 Group companies

The results and financial position of the Group entities, that have a functional currency different from the presentation currency, are translated into South African Rand as follows:

- assets and liabilities for each reporting date presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at the average exchange rate for the year. If this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction date, the income and expenses are translated at the transaction date rate; and
- all resulting exchange differences are recognised as a separate component of other comprehensive income (foreign currency translation reserve).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 FOREIGN CURRENCY (continued)

2.8.3 Group companies (continued)

When a foreign operation is partially disposed of or sold, and control is lost, the Group's portion of the cumulative amount of the exchange differences that were recorded in other comprehensive income are reclassified from other comprehensive income to profit or loss when the gain or loss on disposal is recognised. For partial disposals where control is retained, the Group re-attributes the proportionate share of the cumulative exchange differences recognised in other comprehensive income to the non-controlling interest of the foreign operation.

2.9 ASSETS, LIABILITIES AND PROVISIONS

Assets are recognised when the Group obtains control of a resource as a result of past events, from which it is probable that future economic benefits will flow to the Group and which can be measured reliably.

Liabilities are recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions, excluding provisions under short-term and long-term insurance contracts, are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

2.10 PROPERTY AND EQUIPMENT

Property and equipment is carried at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of property and equipment. Depreciation is calculated on historical cost using the straight-line basis over the expected useful lives of the assets.

Annual reviews of the residual values and useful lives of the assets are conducted in order to evaluate the continued appropriateness of the above policy. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is immediately written down to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing sales proceeds with the carrying amount of the asset, and are included in the statement of comprehensive income. Repairs and renewals are charged to the statement of comprehensive income when the expenditure is incurred.

Depreciation

Depreciation is calculated using the straight-line method to allocate cost to the residual values over the estimated useful lives, as follows:

Building fixtures and owner-occupied property	between 20 and 50 years
Computer equipment and software	2 to 5 years
Furniture, fittings and office equipment	5 to 6 years
Motor vehicles	5 years
Land is not depreciated	

Owner-occupied properties

Owner-occupied properties are held by the Group for use in the supply of services or, for its own administration purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 IMPAIRMENT REVIEW – NON FINANCIAL ASSETS

A periodic review of the carrying amount of the Group's assets is conducted and, where there are indications that the value of an asset may be impaired, an impairment loss is recognised. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The difference between the carrying amount and the recoverable amount is charged to profit or loss for the year in which the impairment is identified, to reduce the carrying amount of such impaired asset to its estimated recoverable amount. Should an event occur after the recognition of an impairment, which increases the recoverable amount of the previously impaired asset, the impairment of the asset, or a portion thereof, is reversed through profit and loss. The adjusted carrying value will not exceed what the carrying value would have been had the impairment not have been recognised before.

Refer to 2.12.8 for the impairment policy relating to financial assets.

2.12 FINANCIAL INSTRUMENTS

2.12.1 General

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, property and equipment, assets and liabilities of insurance operations, deferred tax, tax payable, tax receivable, employee benefits, share-based payment liabilities and intangible assets. The Group recognises a financial asset or a financial liability on its statement of financial position when and only when, it becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial liabilities are classified in the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

Management determines the classification of its financial instruments at initial recognition. Financial instruments are initially recognised at fair value plus transaction costs for all financial instruments not carried at fair value through profit or loss. Financial instruments carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income.

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method, less any impairment. Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in the statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit for the year as gains and losses from investment securities.

However, interest calculated on available-for-sale financial assets using the effective interest rate method is recognised in the statement of comprehensive income as part of interest income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income when the entity's right to receive payment is established and are included in investment income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 FINANCIAL INSTRUMENTS (continued)

2.12.1 General (continued)

The fair values of financial assets quoted in active markets are based on current market prices. The fair values of financial liabilities quoted in active markets are based on current ask/offer prices. Alternatively, fair values are derived from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The Group recognises purchases and sales of financial instruments that required delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date.

2.12.2 Financial instruments at fair value through profit and loss

This category has two sub categories: financial instruments held for trading, and those designated at fair value through profit and loss at initial inception.

A financial instrument is classified as a trading instrument if acquired principally for the purpose of selling in the short-term or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

Financial assets and liabilities are designated on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:

- results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
- is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

Financial assets designated at fair value through profit and loss at initial recognition comprise various investments in money market instruments including collective investment schemes.

Financial liabilities designated at fair value through profit and loss comprise preference shares held by cell captives where the dividends are accrued monthly and paid six monthly on a profit sharing arrangement.

These financial assets and liabilities were designated at fair value through profit and loss due to the fact that the investments are managed, reported on and the performance thereof, is evaluated on a fair value basis in accordance with an investment strategy.

2.12.3 Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets classified as available-for-sale comprise:

- Listed preference shares;
- Unlisted preference shares;
- Listed ordinary shares; and
- Listed debt instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 FINANCIAL INSTRUMENTS (continued)

2.12.3 Available-for-sale financial assets (continued)

The Group recognises gains and losses arising from changes in the fair value of available-for-sale assets in other comprehensive income. It recognises interest income on these assets as part of interest income based on the instrument's original effective interest rate. Interest income is excluded from the fair value gains and losses reported in other comprehensive income. When the investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investment securities.

2.12.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables comprise loans advanced by the Group and trade and other receivables. Loans advanced by the Group are measured at amortised cost using the effective interest rate method.

Trade and other receivables originated by the Group are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method. If considered necessary, a provision is made for doubtful receivables based on a review of all outstanding amounts at year end. Bad debts are written off in the year in which they are identified.

2.12.5 Financial liabilities at amortised cost

Financial liabilities are measured at amortised cost and interest is recognised over the period of the borrowing using the effective interest rate method.

2.12.6 Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position only when there is a current legally enforceable right to offset the two amounts and there is an intention and ability to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.12.7 Derecognition

The Group derecognises a financial asset when:

- the contractual rights to the asset expires; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset; or
- the Group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual cash flows to another party and consequently transfers substantially all the risks and benefits associated with the asset.

The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one.

2.12.8 Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Financial assets carried at amortised cost

The carrying amounts of the Group's financial assets are reviewed periodically to determine whether there is any indication of impairment. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Group about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 FINANCIAL INSTRUMENTS (continued)

2.12.8 Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for the individual financial assets in the group, including:
  - Adverse changes in the payment status of issuers of debtors in the group; or
  - National or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income, is removed from other comprehensive income and recognised in the profit for the year. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the profit for the year. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the net profit for the year.

2.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at hand and short-term deposits held with banks. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition.

Short-term deposits with banks are considered to be instruments which are highly liquid and have maturity dates of not more than three months from the reporting date. Short-term deposits which cannot be accessed within this period are classified as financial assets.

2.14 SHARE CAPITAL

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets. Ordinary shares and non-redeemable non-cumulative preference shares together with share premium are classified as equity. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of taxation.

Treasury shares

Where the OUTsurance Holdings Share Trust purchases the Group's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are reissued or cancelled.

On consolidation, the cost of the shares acquired is deducted from equity. Subsequently, any proceeds on the re-issue or cancellation of these shares is recognised directly in shareholder's equity.

Any net income in relation to treasury shares is eliminated in the Group's results. Dividends paid in respect of treasury shares are similarly eliminated in the Group's results.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 SHARE CAPITAL (continued)

Dividends paid

Dividends payable on ordinary shares are recognised in equity in the period in which there is unconditional certainty that the dividend will become payable, which would include approval of the dividend declaration by the Group's Board of directors, regardless of whether the formalities of the payment thereof have been finalised. Dividends declared after the reporting date are not recognised but disclosed as a post reporting date event.

2.15 CURRENT AND DEFERRED INCOME TAX

The income tax expense for the period comprises current and deferred tax. Current tax comprises tax payable as calculated on the basis of the expected taxable income for the year, using tax rates substantively enacted at the reporting date. Adjustments to provisions made for tax payable in previous years as a result of a change in the estimated amount payable, or to the extent that actual assessments differ from the provision created in prior years, are charged or credited to the current year statement of comprehensive income.

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Where a different tax rate will be applicable to the tax year in which such assets or liabilities are realised, those tax rates are used to determine deferred income tax. Deferred tax is charged or credited to the profit for the year, except where the underlying transaction is accounted for directly in other comprehensive income, in which case the attributable deferred tax is charged or credited directly to other comprehensive income.

The deduction of short-term insurance provisions is limited for the purposes of calculating taxable income in that assessable losses cannot be created through those deductions. These provisions are however recognised in full for accounting purposes and, to the extent that accounting losses arise, deferred tax assets are created as these will be reversed upon the release of such short-term insurance provisions.

Deferred tax assets relating to the carry-forward of unused tax losses are recognised in the statement of comprehensive income to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

Taxation in respect of South African life insurance operations is determined using the four fund method applicable to life insurance companies.

Indirect taxes comprise Value Added Tax. All transactions are accounted for net of the relevant Value Added Tax component.

Tax is recognised in the statement of comprehensive income in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or changes in equity.

Dividends Tax replaced Secondary Tax on Companies ("STC") on 1 April 2012 and is applicable to any dividend declared on or after 1 April 2012. All dividends declared before 1 April 2012 are subject to STC. The main difference between Dividends Tax and STC is that the liability for paying the tax is moved from the company declaring the dividend (STC) to the shareholder receiving the dividend (Dividends Tax), thus making dividends tax a withholding tax.

2.16 EMPLOYEE BENEFITS

Short-term employee benefits

The undiscounted cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The provision for employee entitlements to salaries, annual and sick leave represent the amount which the Group has a present obligation to pay, as a result of employees' services provided up to the reporting date. The provision is calculated at undiscounted amounts based on current salary rates. A provision for employee benefits in respect of their annual leave entitlement from past service is recognised in full.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 EMPLOYEE BENEFITS (continued)

Short-term employee benefits (continued)

Employees may elect to adopt a remuneration structure to allow for a non-discretionary bonus. Non-discretionary bonuses are provided for at reporting date.

Post-employment benefits

The Group's employees contribute to the OUTsurance Insurance Company defined contribution pension and provident funds. Under defined contribution plans, the legal or constructive obligation of the Group is limited to the contributions made to the plan, thus benefits received by the employee is determined by the contributions made to the plan together with investment returns arising from the contributions. The pension plans are funded by payments from employees taking into account the recommendations of independent qualified actuaries. The amount paid in respect of defined contribution pension and provident fund plans during the year is charged to the statement of comprehensive income and is included in employment cost. The Group has no further payment obligations once contributions have been made.

Intellectual property bonuses

In terms of the intellectual property bonus plan, employees were paid intellectual property bonuses based on management's discretion. The beneficiaries under the plan, which included executive directors, executive management, senior and middle management employed on a full-time basis, were subject to retention periods and amounts to be repaid should the employee be in breach of the retention period. The intellectual property bonuses are recognised as current service costs over retention periods ranging from six months to three years and are originally valued using the projected credit unit method.

2.17 SHARE BASED PAYMENTS

The Group operates both equity and cash-settled share incentive schemes.

Equity-settled share based payment transactions

The Group operates an equity-settled share based compensation plan for employees of OUTsurance Insurance Company Limited and OUTsurance Life Insurance Company Limited for options issued on or before 1 July 2010 and for employees of Youi Pty Ltd.

The Group expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the Group revises its estimate of the number of options expected to vest. The Group recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through the statement of comprehensive income.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled share based payment transactions

The Group operates a cash-settled share based compensation plan for employees of OUTsurance Insurance Company Limited and OUTsurance Life Insurance Company Limited for notional shares (share appreciation rights) issued after 1 July 2010.

For cash-settled share based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 SHARE BASED PAYMENTS (continued)

Cash-settled share based payment transactions (continued)

During the prior financial year, the Group partially converted its share incentive scheme from an equity-settled scheme to a cash-settled scheme. As a result, a liability relating to the estimated future cash payments to participants was created out of the share based payment equity reserve on 1 July 2012.

2.18 SHARE TRUST

The OUTsurance Holdings share incentive scheme is operated through a Share Trust. The Share Trust is considered to be a structured entity of the Group and therefore consolidated. All shares issued to the Share Trust are issued against the Share Trust loan which is measured at fair value. Cash payments and receipts relating to Share Trust transactions are debited and credited directly to the Share Trust loan.

2.19 ACCOUNTS PAYABLE

Trade and other payables are recognised when the Group has a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the Group. Trade and other payables are carried at amortised cost.

2.20 OPERATING LEASES

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.21 REVENUE AND INVESTMENT INCOME RECOGNITION

Interest

Interest income is recognised in the statement of comprehensive income under investment income for instruments measured at amortised cost using the effective interest rate method. Interest on cash and cash equivalents is recognised as earned.

Dividends

Dividends are recognised in investment income when the right to receive payment is legally established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. In the case of certain cumulative prime rate linked preference share investments, dividends are accrued for using the effective interest rate method regardless of the status of their declaration. This accounting treatment is consistent with the provisions of the agreements governing such investments.

Commission and insurance related fee income

Commission and insurance related fee income is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the company and the contractual conditions for the rendering of the related service have been met. Commission income relates to commission earned on the placement of reinsurance treaties.

2.22 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) 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.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE (continued)

When the Group is committed to a sale plan involving the disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met. Any retained portion of an investment in an associate or joint venture that has not been classified as held for sale is accounted for using the equity method until disposal of the portion that is classified as held for sale takes place.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

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

2.23 GOVERNMENT GRANTS

Grants from the Government are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are recognised in the statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

3. MANAGEMENT OF RISK AND CAPITAL

3.1 RISK MANAGEMENT FRAMEWORK

The Group has developed an Enterprise Risk Management framework to provide reasonable assurance that the Group's risks are being prudently and soundly managed. The framework is designed according to acceptable principles on Corporate Governance and Risk Management standards. The risk management framework outlines the key risks facing the business and how these risks are monitored.

Risk and governance oversight is provided by the OUTsurance Holdings Board, OUTsurance Holdings Audit, Risk and Compliance Committee, OUTsurance Holdings Internal Investment Committee, OUTsurance Holdings Reinsurance Committee and the OUTsurance Holdings Risk Committee, the latter three being internal management committees.

3.1.1 Changing regulatory and business landscape

The companies in our Group operate in an ever changing regulatory business landscape. There are a number of new and on-going regulatory projects which will continue to impact the Group in the medium term. The changes are also expected to have an impact on the Group's solvency requirements, financial reporting and the way it conducts its business.

The Group's Board of directors and management are actively monitoring and preparing for the possible implications of these various regulatory and legislative changes. The Group seeks positive and constructive engagement with its various regulators and policymakers, both directly and through appropriate participation in industry forums, to partner with them in ensuring optimal regulatory outcomes for our industry and all its stakeholders.

The main changes anticipated having significant impacts particularly on South African and in some instances international operations are briefly described below.

3.1.1.1 International Financial Reporting Standards ("IFRS") 4 Phase II

The recognition and measurement of insurance liabilities is currently the focus of IFRS 4 Phase II, the International Accounting Standards Board ("IASB") project on the accounting for insurance contracts. Although various decisions on principles regarding measurement have been tentatively agreed by the IASB, there is still debate and uncertainty around the methodologies used to value participating contracts and transition arrangements on adoption of the IFRS. The IASB published a revised exposure draft on insurance contracts in June 2013. The envisaged implementation date is for years commencing on or after 1 January 2018, however earlier adoption may be allowed.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.1 RISK MANAGEMENT FRAMEWORK (continued)

3.1.1 Changing regulatory and business landscape (continued)

3.1.1.1 International Financial Reporting Standards ("IFRS") 4 Phase II (continued)

The Group will continue to monitor any tentative decisions that are made prior to the final IFRS standard being published. It is anticipated that the final standard will have an impact on the Group's current reported financial position and future revenue recognition, but to date there is insufficient clarity around certain decisions to be able to understand and provide guidance on the specific implications of the new standard.

3.1.1.2 Solvency Assessment and Management ("SAM")

The Financial Services Board ("FSB") is in the process of developing a new risk-based solvency regime for South African long-term and short-term insurers, known as the SAM regime. This initiative will align the South African insurance industry with the standards of the International Association of Insurance Supervisors ("IAIS"). This process is being guided by principles around insurance regulation produced by the IAIS and developments in Europe. The basis of the SAM regime will be the principles of the Solvency II Directive, as adopted by the European Parliament, but adapted to South African specific circumstances where necessary. As an overarching principle, the recommendations arising from the SAM project should meet the requirements of a third country equivalence assessment under Solvency II.

A key change to the regulatory environment is the move to a Twin Peaks Model of Financial Regulation. Prudential regulation of insurers is due to shift to the South African Reserve Bank ("SARB") by 2015. Preparations for the smooth transition of the SAM project to SARB are underway and no impact on the SAM implementation plans is anticipated.

The FSB is currently intending to implement both the standard formula and internal model approaches under the SAM regime by January 2016 for both long-term and short-term insurers, with all insurers required to do a parallel run on the standard formula in second half of 2014 and 2015.

Given the gap between the current South African regulatory regime and the expected final requirements of SAM, an interim regulatory regime has been adopted for South African short-term insurers, effective 1 January 2012 up until the SAM implementation date of 1 January 2016.

The interim measures for SAM initially envisaged in the Insurance Laws Amendment Bill ("ILAB") will now be introduced through alternative means, including:

- Enhanced governance and risk management framework requirements will be introduced through a Board Notice; and
- A formal framework for insurance group supervision will be provided for through the Twin Peaks process.

A new Insurance Act is being developed concurrently with the SAM programme which will combine the current Short-term and Long-term Insurance Acts into one Act. The first public version of the SAM primary legislation is expected to be released for comment in the third quarter of 2014. At the same time, the FSB will release a comprehensive version of the subordinate legislation to the SAM Governance structure for consideration.

The introduction of the SAM regime will require a full review of the tax legislation applicable to both long-term and short-term insurers.

The Group is in the process of preparing for the timeous adoption of the new regulatory regime once effective.

3.1.1.3 Draft Financial Sector Regulation Bill

In December 2013 the National Treasury issued a media statement in respect of the implementation of the Twin Peaks Model of Financial Regulation and inviting public comment thereon by 7 February 2014. The twin peaks model will provide a comprehensive framework for regulating the financial sector. The implementation thereof is a multi-year project with a two phase process which is set out briefly below.

The first phase is to establish two regulatory authorities:

- A new Prudential Authority within the Reserve Bank who will be responsible for the oversight of the safety and soundness of banks, insurers and financial conglomerates.
- A new Market Conduct Authority to protect customers of financial services firms, and to improve the way financial service providers conduct their business. This Authority will also be responsible for ensuring the integrity and efficiency of financial markets, and promoting effective financial consumer education.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.1 RISK MANAGEMENT FRAMEWORK (continued)

3.1.1 Changing regulatory and business landscape (continued)

3.1.1.3 Draft Financial Sector Regulation Bill (continued)

The Bill further gives the SARB primary responsibility to oversee financial stability. To facilitate this, the Bill creates a statutory inter-agency Financial Stability Oversight Committee ("FSOC"), chaired by the Governor of SARB with appropriate financial stability powers.

The draft Bill also creates the concepts of "mono-regulated" and "dual-regulated" institutions. Mono-regulated are firms that only give rise to market conduct regulation whilst dual-regulated entities are those that undertake activities that give rise to both prudential and market conduct regulation.

The second phase will see the existing sectoral legislation be gradually amended or replaced with laws which more appropriately align with the Twin Peaks framework. For example a comprehensive market conduct framework will be legislated, which will give legal effect to the Treating Customers Fairly initiative and will ensure comprehensive, consistent and complete approach to governing the conduct of financial institutions across the financial sector.

Further objectives of the Bill include:
- Enhancing coordination and cooperation between regulators
- Balancing operational independence and accountability of regulators
- Establishing a crises management and resolution framework
- Creating a Financial Services Tribunal and strengthening enforcement
- Strengthening Ombud Schemes.

The Financial Services Laws General Amendment Act ("FSLGAA") which became effective on 28 February 2014 aims to ensure that during the transition to the "Twin Peaks" system, South Africa has a sounder and better regulated financial services industry which promotes financial stability by strengthening the financial sector regulatory framework and enhancing the supervisory powers of the regulators.

3.1.1.4 Treating Customers Fairly ("TCF")

Since the FSB issued the TCF Roadmap on 31 March 2011, considerable progress has been made in implementing the milestones set out in the Roadmap. The sequencing and timelines of some of these milestones have however shifted, in part due to the need to align TCF with the roll-out of the broader "Twin Peaks" regulatory reforms being led by the National Treasury. The Group participated in the FSB's self-assessment pilot exercise in July 2011 as well as the baseline study conducted in February 2013. We are satisfied that our business practices are aligned with the TCF principles and this is evident in various business measurements and the published complaints statistics of the Ombudsmen for short-term and long-term insurance.

On-going TCF projects include the development of standard key information documents to be sent to clients in order for the client to be able to compare benefits between different insurers when taking out insurance cover. There are on-going discussions around the proposed content, timing of the dissemination of the documents, the length of the documents, costs involved and how to avoid possible duplication of information.

3.1.1.5 Quarterly Conduct of Business Return

During October 2013 the FSB indicated that they intend to, as part of their enhanced supervisory approach, introduce a quarterly Conduct of Business Return ("CBR") which all registered short-term and long-term insurers will be required to submit.

The current statutory returns are aimed at prudential and financial soundness assessments. The objectives of the CBR are therefore to:
- Strengthen the conduct of business supervision framework by making it more comprehensive, consistent, pre-emptive and pro-active
- Encourage insurers to develop management information systems that will support TCF outcome monitoring
- Enabling the development of industry-wide conduct indicators and benchmarks.

The current project aims to finalise the requirements of these returns in consultation with the insurance industry.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.1 RISK MANAGEMENT FRAMEWORK (continued)

3.1.1 Changing regulatory and business landscape (continued)

3.1.1.6 Long-term tax legislation

The tax landscape for South African long-term insurance companies is in the midst of potential changes. National Treasury published a first draft Taxation Laws Amendment Bill, 2014, for comment. The draft legislation gives effect to matters presented by the Minister of Finance in the Budget Review 2014, as tabled in Parliament early in 2014, in respect of tax treatment of the risk business of long-term insurers. Section under comment for possible amendment is Section 29A of the Income Tax Act, No 58 of 1962.

The Group is in the process of assessing the implications of the draft Bill and will monitor the decisions taken going forward.

3.1.1.7 Protection of Personal Information ("POPI") Act

The POPI Act regulates the processing and use of personal information, protecting persons both natural and juristic from the abuse of personal information and providing rights and remedies to victims of unlawful processing. POPI was enacted on 27 November 2013 with certain provisions of the Act set out below coming into effect on 11 April 2014. An effective date for the remaining sections of the Act is yet to be announced upon which there will be a one year transitional period to comply with the Act.

3.1.1.8 Advertising guidelines

During December 2013 the FSB issued a draft information letter with suggested guidelines for compliance with sections 4(3) of the Long-term Insurance Act and Short-Term Insurance Act, specifically relating to advertisements, brochures or similar communications.

The purpose of the information letter is to provide guidance to insurers on the interpretation and application of section 4(3) of the Insurance Acts. It will also ensure that the advertisements, brochures or similar communications relating to insurance business are not misleading, contrary to the public interest or contain incorrect statements of fact.

The industry was invited to comment on the suggested guidelines by the end of February 2014 and provided detailed comments through the industry bodies.

The main themes set out in the guidelines are that advertisements and marketing material must:

- Be factually correct;
- Not be misleading;
- Be in the public interest – not ridicule or criticise other insurers, policies or marketing methods;
- Identify the insurer in adverts; and
- Take preventative remedial measures to ensure that adverts are acceptable before they are used.

Our approach is to give due consideration to the draft guidelines in designing our advertising and marketing material until such time that the final information letter is issued regarding the FSB's guidelines.

3.2. INSURANCE RISK MANAGEMENT

3.2.1 Short-term insurance

3.2.1.1 Terms and conditions of insurance contracts

The Group conducts short-term insurance business on different classes of short-term insurance risk. Furthermore, the Group underwrites risk products marketed and distributed by FirstRand and MMI Group divisions.

	Percentage of Total Gross Written Premium		
Types of insurance contracts written	Personal lines	Commercial	Cell captive
Personal accident	<1%	<1%	–
Liability	<1%	7.1%	–
Miscellaneous	<1%	–	45.6%
Motor	64.7%	63.3%	–
Property	34.7%	27.4%	–
Transportation	<1%	2.0%	–
Guarantee	–	–	54.4%

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 INSURANCE RISK MANAGEMENT (continued)

3.2.1 Short-term insurance (continued)

3.2.1.1 Terms and conditions of insurance contracts (continued)

The personal lines segment of the business sells insurance to the general public allowing them to cover their personal possessions and property. The commercial segment of the business targets medium and small businesses in South Africa. Insurance products are sold with either a monthly or an annual premium payable by the covered party or entity. Cell captive business refers to arrangements whereby the Group underwrites various risk products marketed and distributed by other FirstRand Limited Group divisions. The management of cell captive risks underwritten by the Group is performed by the cell administrators itself. The following gives a brief explanation of each risk:

Personal accident

Provide compensation arising out of death or disability directly caused by an accident occurring anywhere in the world, provided that death or disability occurs within 12 months of this accident.

Liability

Provide cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.

Miscellaneous

Provide cover relating to all other risks that are not covered more specifically under another insurance contract.

Motor

Provide indemnity cover relating to the possession, use or ownership of a motor vehicle. The cover includes comprehensive cover, third party, fire and theft and liability to other parties.

Property

Provide indemnity relating to damage to movable and immovable property caused by perils including fire explosion, earthquakes, acts of nature, burst geysers and pipes and malicious damage.

Transportation

Provide cover for risks relating to stock in transit.

Engineering

Provide cover for liability to other parties, loss or damage related to the ownership and usage of machinery and equipment as well as the construction of buildings and other structures.

3.2.1.2 Insurance risks

The primary activity of the Group relates to the assumption of possible loss arising from risks to which the Group is exposed through the sale of short-term insurance products. Insurance risks to which the Group is exposed relate to property, personal accident, liability, motor, transportation and other miscellaneous perils that may result from a contract of insurance. The Group is exposed to uncertainty regarding the timing, magnitude and frequency of such potential losses.

The theory of probability forms the core base of the risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, the Group can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio. Insurance perils are unpredictable in nature, timing and extent which expose the Group to a risk that the effect of future insured losses could exceed the expected value of such losses.

Along with its underwriting approach, the Group also manages its insurance risk through its reinsurance programme which is structured to protect the Group against material losses to either a single insured risk, or a group of insured risks in the case of a catastrophe where there would tend to be a concentration of insured risks.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 INSURANCE RISK MANAGEMENT (continued)

3.2.1 Short-term insurance (continued)

3.2.1.2 Insurance risks (continued)

The underwriting of insurance risk and the passing on of excessive insurance risk to reinsurers is further described below.

Underwriting strategy

The Group aims to diversify the pool of insured perils through writing a balanced portfolio of insurance risks over a large geographical area. Products are priced using statistical regression techniques which identify risk factors through correlations identified in past loss experiences. Risk factors would typically include factors such as age of the insured person, past loss experiences, past insurance history, type and value of asset covered, security measures taken to protect the asset, major use of the covered item, and so forth. Risks are priced and accepted on an individual basis and as such there is a minimal cross subsidy between risks. Insurance premiums charged for a certain pool of risks are adjusted frequently according to the normalised loss ratios experienced on that pool of risks.

Insurance risk is monitored within the Group on a daily basis to ensure that risks accepted by the Group for its own account are within the limits set by the Board of directors. Exception reporting is used to identify areas of concentration of risk so that management are able to consider the levels adopted in the reinsurance programme covering that pool of risk.

Risks are rated individually by programmes loaded onto the computer system based on information captured by staff for each risk. Conditions and exclusions are also automatically set at an individual risk level. Individual risks are only automatically accepted up to predetermined thresholds which vary by risk type. Risks with larger exposure than the thresholds are automatically referred and underwritten individually by the actuarial department. These limits are set at a substantially lower level than the reinsurance retention limits. No risks which exceed the upper limits of the reinsurance can be accepted without the necessary facultative cover being arranged. Non-claims bonuses which reward clients for not claiming also form part of the Group's underwriting strategy.

Multi-claimants are also monitored and managed by tightening conditions of cover or ultimately cancelling cover.

Reinsurance strategy

The Group reinsures a portion of the risk it assumes through its reinsurance programme in order to control the exposure of the Group to losses arising from insurance contracts and in order to protect the profitability of the Group and its capital. A suite of treaties is purchased in order to limit losses suffered from individual and aggregate insurance risks. Facultative reinsurance is purchased for certain individual risks that have been identified as being outside the limits set for these risks. The retention limits are modelled to optimise the balance between acceptable volatility and reinsurance cost. Acceptable volatility is as defined by the limits set by the Board of directors. The Group only enters into reinsurance agreements with reinsurers which have adequate credit ratings.

Concentrations of risk and mitigating policies

Risk concentrations are monitored by means of exception reporting. When large risks are underwritten individually, the impacts which they could have on risk concentrations are considered before they are accepted. Marketing efforts are also coordinated to attract business from a wide geographical spread. Risks which could lead to an accumulation of claims as the result of a single event are declined due to inadequate diversification and overall pool of risk covered. Attention is paid to attract large numbers of relatively small independent risks which would lead to very stable and predictable claims experience.

The South African operation is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 50.39% of the total sum insured is domiciled. The Australian operation is exposed to a concentration of insurance risk in New South Wales of Australia where 21.9% of the total sum insured is domiciled. In order to manage this concentration of insurance risk, the Group has entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the Group to pre-determined levels following the occurrence of a localised catastrophe in this area.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 INSURANCE RISK MANAGEMENT (continued)

3.2.1 Short-term insurance (continued)

3.2.1.2 Insurance risks (continued)

Exposure to catastrophes and policies mitigating this risk

Catastrophe modelling is performed to determine the impact of different types of catastrophe events (including natural disasters) in different geographical areas, at different levels of severity and at different times of the day. Catastrophe limits are set so as to render satisfactory results to these simulations. The catastrophe cover is also placed with reinsurers with a reputable credit rating and cognisance is taken of the geographical spread of the other risks underwritten by the reinsurers in order to reduce correlation of our exposure with the balance of their exposure. These reinsurance models are run at least annually to take account of changes in the portfolio and to take the latest potential loss information into account.

Profit sharing arrangements

A profit sharing arrangement has been entered into between OUTsurance Insurance Company Limited and FirstRand Bank Limited. In terms of this profit sharing arrangement, ninety percent of the operating profit generated on the homeowners' insurance business referred by FirstRand Bank Limited businesses is paid to FirstRand Bank Limited by way of a bi-annual preference dividend. Where operating losses arise, OUTsurance remains liable for such losses in full, but these losses may be offset against future profit distributions.

Cell captives

Cell captive arrangements have been entered into with businesses within the FirstRand Limited and MMI Holdings Limited Groups. Per these arrangements, certain risk products marketed and distributed by these companies are underwritten by the Company's subsidiary, OUTsurance Insurance Company Limited. Profits arising out of the cell are distributed by OUTsurance Insurance Company Limited to the FirstRand Limited and MMI Holdings Limited Group companies by way of preference share dividends.

The collection of premium and the payment of claims is a function that is performed by the cell or its administrator. Due to the fact that OUTsurance Insurance Company Limited is the principal to the transactions, the results of the cell are included in the results of OUTsurance Insurance Company Limited, and hence are included in these Group results. OUTsurance Insurance Company Limited is responsible for maintaining the required solvency for the cell captives.

The profitability of cell captive business is reviewed on a monthly basis to ensure that the Group is not exposed to uneconomical risks.

3.2.2 Long-term insurance

3.2.2.1 Terms and conditions of insurance contracts

The Group conducts long-term insurance business on various classes of long-term insurance risk. Products are only sold to the South African retail market. The types of insurance products sold are as follows:

- Life Insurance;
- Credit Protection; and
- Credit Life.

The following gives a brief explanation of each product:

Life Insurance

The Life Insurance product covers the following insurance risks:

- Death cover;
- Disability cover; and
- Critical illness cover.

In the event of a valid death, permanent disability (occupational disability) or critical illness claim, OUTsurance Life Insurance Company Limited ("OUTsurance Life") pays the sum assured.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 INSURANCE RISK MANAGEMENT (continued)

3.2.2 Long-term insurance (continued)

3.2.2.1 Terms and conditions of insurance contracts (continued)

Credit Protection

The Credit Protection product covers the following insurance risks:

- Death cover;
- Disability cover;
- Critical illness cover;
- Retrenchment cover; and
- Temporary disability cover.

In the event of a valid death, permanent disability (occupational disability) or critical illness claim, OUTsurance Life pays the sum assured. In the event of a valid temporary disability or retrenchment claim, OUTsurance Life undertakes to pay the policyholder a monthly instalment of a specified percentage of the sum assured as well as the premium for the specified period.

Credit Life

The Credit Life product covers the following insurance risks:

- Death cover;
- Disability cover;
- Critical illness cover;
- Retrenchment cover; and
- Temporary disability cover.

In the event of a valid death, permanent disability or critical illness claim, OUTsurance Life settles the policyholder's outstanding debt by way of a lump sum payment to the finance provider. In the event of a valid temporary disability or retrenchment claim, OUTsurance Life undertakes to pay the policyholder's monthly instalment to the finance provider as well as the risk premium for the specified period. This product has been replaced by the Credit Protection product and is currently in run-off.

3.2.2.2 Insurance risks

The primary activity of OUTsurance Life relates to the assumption of loss arising from risks to which it is exposed through the sale of long-term insurance products. It is exposed to uncertainty regarding primarily the timing, frequency and to a lesser extent, the magnitude of such potential losses.

The theory of probability forms the core base of the risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, OUTsurance Life can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio.

Along with its underwriting approach OUTsurance Life also manages its insurance risk through its quota share and excess of loss reinsurance programme which is structured to protect it against material losses on single insured risks.

The underwriting of insurance risk and the passing on of excessive insurance risk to reinsurers is further described below.

Refer to section 25.5 for a sensitivity analysis of policyholder liabilities.

Mortality and morbidity risk

Mortality risk is the risk of loss arising due to actual death rates on life insurance business being higher than expected. Morbidity risk is the risk of loss arising due to policyholder health related claims being higher than expected.

The following processes and procedures are in place to manage mortality and morbidity risk:

- Premium rates are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claims experience such as medical history and condition, age, gender, smoker status and HIV status.
- The expertise of reinsurers is used for pricing where adequate claims history is not available.
- Reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual policy and provide cover in catastrophic events.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 INSURANCE RISK MANAGEMENT (continued)

3.2.2 Long-term insurance (continued)

3.2.2.2 Insurance risks (continued)

Underwriting experience risk

There is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of the claims being higher than expected. Selection risk is the risk that worse than expected risks are attracted and charged inadequate premiums. There is also a risk that the number of claims can increase due to the emergence of a new disease or pandemic.

Underwriting experience risk is managed through:

- Product design and pricing
  Rating factors are applied to different premium rates to differentiate between different levels of risk. Amongst other, premiums are differentiated by age, gender, smoking status and medical history. Premium rates are approved and reviewed by the statutory actuary.
- Underwriting
  Underwriting ensures that only insurable risks are accepted and that premiums accurately reflect the unique circumstances of each risk. The Group has developed an advanced medical underwriting system which captures detailed information regarding the clients' medical history and condition which is used for premium adjustments and to indicate where further underwriting is required by experienced medical underwriters. To verify the accuracy of client data, all new clients are subject to various medical tests. Quality audits are performed on the underwriting process to ensure underwriting rules are strictly followed.
- Reinsurance
  OUTsurance Life's quota share and excess of loss reinsurance programme mitigates claims volatility and risk accumulation. Reinsurers also assist with pricing and product design decisions.
- Experience monitoring
  Experience investigations are conducted and corrective action is taken where adverse experience is noted.

Lapse risk

Policyholders have the right to cancel their policies at any given time during the policy duration. There is a risk of financial loss and reduced future profitability due to the lapse experience being higher than expected. Lapse risk is managed by ensuring:

- Appropriate product design and pricing;
- Providing high quality service; and
- Continuous experience monitoring.

Modelling and data risk

Modelling risk is the risk that discounted cash flow models used to calculate actuarial liabilities and valuations do not accurately project the policy cash flows into the future. Data risk is the risk that the data which is used by the above models is inaccurate relative to actual experience.

Modelling risk is mitigated by way of employing specialist actuarial software which is widely used by industry participants. The services of the statutory actuary are also employed to ensure models are accurately set up.

Data risk is managed by using internal systems and warehouse technology which is used by all companies within the Group. Data reports are readily available and frequently used and reviewed by management to track performance and verify experience variables.

Expense risk

Expense risk is the risk that actual expenses are higher than the budgeted expenses on which premium rates are calculated. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from budget is investigated, reported and remedial action taken where necessary.

Non-claims bonus risk

Non-claims bonus risk is the risk that the expected future contractual bonus payments are higher than assumed in the calculation of the policyholder liability. A decrease in the lapse rate will result in an increase in the non-claims bonus risk. This risk is managed by applying an appropriate margin of above the best estimate of lapse and claims experience to allow for uncertainty.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3 FINANCIAL RISK MANAGEMENT (continued)

The Group's activities expose it to a variety of financial risks: market risk (including equity price risk, interest rate risk and currency risk), credit risk and liquidity risk.

3.3.1 Financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

- Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments as measured on reporting date.
- Level 2 – fair value is determined through inputs, other than quoted prices included in level 1, that are observable for the assets and liabilities, either directly (prices) or indirectly (derived from prices).
- Level 3 – fair value is determined through valuation techniques which use significant unobservable inputs.

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

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group at 30 June 2014				
Financial assets				
Equity securities				
Listed preference shares	549 074	–	–	549 074
Exchange traded funds	175 946	–	–	175 946
Debt securities				
Unlisted preference shares	–	540 129	–	540 129
Collective investment scheme	–	542 443	–	542 443
Government, municipal and public utility securities	–	276 646	–	276 646
Money market securities <1 year	–	1 147 458	–	1 147 458
Money market securities >1 year	–	485 817	–	485 817
	725 020	2 992 493	–	3 717 513
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	–	–	105 488	105 488
	–	–	105 488	105 488
Group at 30 June 2013				
Financial assets				
Equity securities				
Listed preference shares	545 168	–	–	545 168
Exchange traded funds	130 394	–	–	130 394
Debt securities				
Unlisted preference shares	–	448 149	–	448 149
Collective investment scheme	–	540 342	–	540 342
Government, municipal and public utility securities	–	155 518	–	155 518
Money market securities <1 year	–	1 168 192	–	1 168 192
Money market securities >1 year	–	767 400	–	767 400
	675 562	3 079 601	–	3 755 163
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	–	–	110 425	110 425
	–	–	110 425	110 425

There were no transfers between levels during the year.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3 FINANCIAL RISK MANAGEMENT (continued)

3.3.1 Financial instruments measured at fair value (continued)

The fair values of the above instruments were determined as follows:

Level 1

The fair value of financial instruments traded in an active market is based on quoted market prices at balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The listed preference share and ordinary share investments comprise instruments which are listed on a securities exchange. The fair values of these investments are calculated based on the quoted closing prices of the individual investments on reporting date. The ordinary share investment is an investment in an exchange traded fund which tracks the performance of the top forty companies listed on the JSE. The exchange traded fund is listed on the Johannesburg Securities Exchange.

Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The unlisted preference shares are redeemable with a notice period ranging from thirty days to three years. Dividend yields range from 50.8% to 70% of the prime overdraft rate. The fair value of the preference shares with a maturity date of longer than one year, is calculated on a discounted cash flow basis with the discount rate adjusted for changes in credit risk of the ultimate counterparty. Due to the redeemable nature, the preference shares are deemed to be debt securities.

The fair values of collective investment scheme investments are determined by the closing unit price as quoted by the collective investment scheme. The collective investment scheme is not listed.

The fair value of money market instruments is determined based on observable market inputs.

Level 3

The financial liabilities at fair value through profit and loss represent profits arising out of the cell captives and profit sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends on a six-monthly basis to the FirstRand Limited Group. The only input in the calculation of the preference dividend is the historic profit of the cell captives and profit sharing arrangements and there are no other inputs that determine the value of these instruments. Should the profit of the cell captive or the profit sharing arrangement increase or decrease, the preference dividend will increase or decrease in direct proportion.

The table below analyses the movement of the level 3 financial instruments for the period under review.

	2014 R'000	2013 R'000
Opening balance	110 425	115 369
Preference dividend paid	(195 747)	(205 702)
Preference dividend charged to the statement of comprehensive income	190 810	200 758
Closing balance	105 488	110 425

The profit and loss of these profit sharing arrangements is sensitive to:

- claims ratio of the pool of business;
- expense ratio of the pool of business; and
- investment income on this pool of business.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3. FINANCIAL RISK MANAGEMENT (continued)

3.3.2 Market Risk

Market risk is the risk that the value of a financial instrument may fluctuate as a result of changes in the market price. Investments valued at fair value are therefore subject to changes in value due to market fluctuations, which may impact on the net income during those financial years in which such fluctuations occur. Market risk therefore comprises equity price risk, interest rate risk and currency risk.

Equity price risk

Equity price risk is the risk that the price of an equity instrument will fluctuate due to market forces rather than as a direct result of some other market risk such as currency or interest rate risk.

The Group is exposed to equity price risk because of investments held by the Group and classified on the statement of financial position as either available-for-sale or fair value through profit or loss. The Group's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. The Group's holdings are diversified across companies and concentration in any one company is limited by parameters established by management as well as statutory requirements. The Group's internal investment committee actively monitors equity assets owned by the Group as well as the concentration of these holdings.

	2014 R'000	2013 R'000
Ordinary shares		
Exchange traded funds	175 946	130 394
Perpetual preference shares		
Listed preference shares	549 074	545 168
Redeemable preference shares		
Collective investment schemes	542 443	540 342
Unlisted preference shares	540 129	448 149
	1 807 592	1 664 053

The largest concentration of assets, subject to equity price risk, in one particular company comprises 8.81% (2013: 13.18%) of the total assets of the Group. 29.4% (2013: 16.96%) of the listed asset portfolio of the Group is concentrated in one counterparty. These concentrations are within acceptable limits for the financial year under review.

A hypothetical 10% decline or increase in the portfolio would decrease/increase comprehensive income before taxation by R180.8 million (2013: R166.4 million) for the Group.

Interest rate risk

Interest rate risk is the risk that the value or the future cash flow of a financial instrument will fluctuate as a result of a change in market interest rates.

The Group's financial assets are exposed to interest rate risk as a significant portion of the Group's assets are invested in interest rate sensitive debt and money market securities. The risk attached to these securities is managed according to pre-specified risk levels based on a mandate with the fund manager. Risk exposure to movements in yields is specified as a maximum value per interest rate point move per million Rand invested. These levels are approved annually by the Board of directors and the investment committee.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3. FINANCIAL RISK MANAGEMENT (continued)

3.3.2 Market Risk (continued)

Interest rate risk (continued)

The Group's exposure to interest rate risk is R6 979 million (2013: R5 558 million), which consists of fixed rate instruments of R265 million (2013: R162 million) and variable rate instruments of R6 714 million (2013: R5 396 million). An increase or decrease of 1% in the market interest rate would result in the following changes in the comprehensive income before tax of the Group:

	2014 1% increase R'000	2014 1% decrease R'000	2013 1% increase R'000	2013 1% decrease R'000
Fixed rate instruments				
Cash and cash equivalents	155	(155)	77	(77)
Government, municipal and public utility securities	854	(854)	657	(657)
Money market securities <1 year	1 636	(1 636)	184	(184)
Money market securities >1 year	–	–	706	(706)
Variable rate instruments				
Cash and cash equivalents	34 215	(34 215)	19 259	(19 259)
Listed preference shares	5 491	(5 491)	5 452	(5 452)
Unlisted preference shares	5 401	(5 401)	4 481	(4 481)
Collective investment scheme	5 424	(5 424)	5 403	(5 403)
Government, municipal and public utility securities	1 912	(1 912)	899	(899)
Money market securities <1 year	9 839	(9 839)	11 498	(11 498)
Money market securities >1 year	4 858	(4 858)	6 968	(6 968)
	69 785	(69 785)	55 584	(55 584)

The Group's asset portfolio used to match regulatory policyholder liabilities is exposed to interest rate risk to the extent that the liabilities are matched with fixed rate instruments. At 30 June 2014, the carrying value and fair value of this portfolio was R84 million (2013: R56 million). An increase of 1% in the market interest rate would result in the following changes in the capital value of this portfolio:

	2014 1% increase R'000	2014 1% decrease R'000	2013 1% increase R'000	2013 1% decrease R'000
Capital adequacy requirement	(8 396)	8 396	(5 628)	5 628
	(8 396)	8 396	(5 628)	5 628

Currency risk

Currency risk arises as a result of movements between the functional currencies foreign subsidiaries and the Group's reporting currency.

The Group's exposure to currency risk is mainly in respect of foreign investments made in line with the long-term strategy approved by the Board for seeking international diversification of investments to expand its income stream. The Group has investments in foreign subsidiaries whose net assets are exposed to currency translation risk, primarily the Australian Dollar and the New Zealand Dollar. The Group does not take cover on foreign currency transactions and balances.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3 FINANCIAL RISK MANAGEMENT (continued)

3.3.2 Market Risk (continued)

Currency risk (continued)

The table below illustrates the Group's exposure to both the Australian Dollar and the New Zealand Dollar and the amounts represent the assets, liabilities and equities of foreign subsidiaries:

	Australian $ exposure		New Zealand $ exposure	
	2014 $'000	**2014 R'000**	**2014 $'000**	**2014 R'000**
Assets	466 302	4 671 600	62 910	585 063
Liabilities	(360 144)	(3 608 066)	(2 287)	(21 269)
Equity	(106 158)	(1 063 534)	(60 623)	(563 794)

Exchange rates:				
Closing rate at 30 June 2014		10,02		9,30
Average rate: 1 July 2013 to 30 June 2014		9,52		8,65

	Australian $ exposure	
	2013 $'000	2013 R'000
Assets	338 873	2 839 161
Liabilities	(230 612)	(2 010 170)
Equity	(108 260)	(828 991)

Exchange rates:		
Closing rate at 30 June 2013		9,03
Average rate: 1 July 2012 to 30 June 2013		9,09

The effect on the Group comprehensive income after tax and the net asset value of the Group after an appreciation or depreciation in the foreign currency rate is provided in the following table:

	2014 AUD 10% increase R'000	**2014 AUD 10% decrease R'000**	**2014 NZD 10% increase R'000**	**2014 NZD 10% decrease R'000**
Comprehensive income after tax	2 451	(2 451)	(238)	238
Net asset value	10 616	(10 616)	6 062	(6 062)

	2013 AUD 10% increase R'000	2013 AUD 10% decrease R'000
Comprehensive income after tax	16	(16)
Net asset value	10 826	(10 826)

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3 FINANCIAL RISK MANAGEMENT (continued)

3.3.3 Credit risk

Credit risk is the risk that a financial asset may not be realisable due to the inability or unwillingness of the issuer of such instrument to discharge its contractual obligations. The key areas where the Group is exposed to credit risk are:

- Financial instruments and cash and cash equivalents;
- Reinsurer's share of insurance liabilities; and
- Amounts due from policyholders and debtors.

Potential concentrations of credit risk consist mainly of cash and cash equivalents, investments and accounts receivable. The Group limits its counterparty exposures from its money market and preference share investment operations by only dealing with well-established financial institutions of high quality credit standing. The credit exposure to any one counterparty is managed by the Board of directors by adhering to the counterparty exposure limits set by Section 28 of the Short-Term Insurance Act and Section 31 of the Long-term Insurance Act.

The table below indicates the quality of the credit risks that the Group's assets are exposed to:

	AAA R'000	AA R'000	A R'000	BBB R'000	BB R'000	Not rated R'000	Total R'000
Group at 30 June 2014							
Cash and cash equivalents	–	3 196 409	22 531	218 083	–	–	3 437 023
Government, municipal and public utility securities	–	–	–	276 646	–	–	276 646
Money market securities <1 year		–	238 566	899 866	9 026	–	1 147 458
Money market securities >1 year	–	1 618	159 585	266 844	57 770	–	485 817
Listed preference shares	–	–	86 645	328 450	–	133 979	549 074
Unlisted preference shares	–	–	29 502	510 627	–	–	540 129
Collective investment scheme	–	–	71 319	471 124	–	–	542 443
Reinsurers' share of insurance contract provisions	–	(596)	60 081	41 919	–	336	101 740
Tax receivable	–	–	–	–	–	2 321	2 321
Loans and receivables	–	44 022	–	551	–	1 392 040	1 436 613
Total	–	3 241 453	668 229	3 014 110	66 796	1 528 676	8 519 264
Group at 30 June 2013							
Cash and cash equivalents	–	1 757 598	–	175 989	–	–	1 933 587
Government, municipal and public utility securities	–	301	61 717	90 466	3 034	–	155 518
Money market securities <1 year	5 056	–	22 694	997 214	132 101	11 127	1 168 192
Money market securities >1 year	49 423	54 401	82 421	462 449	118 706	–	767 400
Listed preference shares	–	57 070	4 731	357 428	5 981	119 958	545 168
Unlisted preference shares	–	–	–	448 149	–	–	448 149
Collective investment scheme	–	127 899	–	350 790	61 653	–	540 342
Reinsurers' share of insurance contract provisions	–	50 575	725	–	–	–	51 300
Tax receivable	–	–	–	–	–	1 184	1 184
Loans and receivables	–	23 982	56 667	1 612	20	898 224	980 505
Total	54 479	2 071 826	228 955	2 884 097	321 495	1 030 493	6 591 345

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3 FINANCIAL RISK MANAGEMENT (continued)

3.3.3 Credit risk (continued)

The credit risk ratings used above, are international long-term Fitch ratings. Where international ratings are not available, national ratings are applied. Where long-term ratings are not available, the financial instruments are categorised according to short-term ratings. The ratings are defined as follows:

Long-term ratings

AAA Highest credit quality. The ratings denote the lowest expectation of credit risk. 'AAA' ratings are assigned only in case of exceptionally strong capacity for payment of financial commitments.

AA Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB Good credit quality. 'BBB' rating indicates a low expectation of credit risk. They indicate adequate capacity for timely payment of financial commitments. Changes in circumstances or in economic conditions are more likely to impair this capacity than is the case for higher ratings.

BB Speculative quality. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

Short-term ratings

F1 Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments.

F2 Good intrinsic capacity for timely payment of financial commitments.

Reinsurance credit exposures

Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that the gross claim is paid. However, the Group remains liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently, the Group is exposed to credit risk. The Group reviews its reinsurance agreements on an annual basis and ensures the appropriate credit quality of any reinsurer prior to renewing or entering an agreement. The Group's reinsurers have credit ratings of between BBB and A, measured on an international scale.

Impairment of financial assets

None of the Group's financial assets exposed to credit risk are past due or impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3 FINANCIAL RISK MANAGEMENT (continued)

3.3.4 Liquidity risk

Liquidity risk is the risk that the Group, although solvent, is not able to settle its obligations as they fall due because of insufficient cash in the Group. This might arise in circumstances where the Group's assets are not marketable or can only be realised at an excessive discount. The Group manages liquidity risk in line with a defined investment mandate. The Group's liquidity risk arises primarily from the requirement to meet policyholder liability obligations. Policyholder liabilities are matched with liquid cash and near-cash instruments. The undiscounted liquidity profiles of the Group's assets and liabilities, grouped by expected maturity, are outlined below:

	0 – 6 months R'000	7 – 12 months R'000	13 – 60 months R'000	> 60 months R'000	Non Monetary R'000	Total R'000
Group at 30 June 2014						
Assets						
Property and equipment	–	–	–	–	514 195	514 195
Employee benefits	–	–	–	–	106 712	106 712
Investment in associates	–	–	–	25 589	–	25 589
Reinsurers' share of insurance contract provisions	45 251	4 844	51 079	566	–	101 740
Deferred acquisition costs	91 293	244 821	–	–	–	336 114
Financial assets						
Fair value through profit and loss	1 200 693	600 106	567 620	83 945	–	2 452 364
Available-for-sale	145 000	6 749	1 113 400	–	–	1 265 149
Loans and receivables	867 129	321 195	83 370	164 919	–	1 436 613
Deferred income tax	–	–	–	–	220 266	220 266
Tax receivable	2 321	–	–	–	–	2 321
Cash and cash equivalents	3 437 023	–	–	–	–	3 437 023
Total assets	5 788 710	1 177 715	1 815 469	275 019	841 173	9 898 086
Liabilities						
Insurance contract liabilities	3 200 545	876 262	372 781	6 794	–	4 456 382
Employee benefits	47 228	22 139	6 668	34 957	–	110 992
Share based payment liability	73 537	–	56 735	–	–	130 272
Financial liabilities at fair value through profit and loss	105 488	–	–	–	–	105 488
Tax liabilities	23 714	–	–	–	–	23 714
Financial liabilities at amortised cost						
Insurance and other payables	617 787	–	–	–	–	617 787
Total liabilities	4 068 299	898 401	436 184	41 751	–	5 444 635

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3 FINANCIAL RISK MANAGEMENT (continued)

3.3.4 Liquidity risk (continued)

	0 – 6 months R'000	7 – 12 months R'000	13 – 60 months R'000	> 60 months R'000	Non-Monetary R'000	Total R'000
Group at 30 June 2013						
Assets						
Property and equipment	–	–	–	–	459 598	459 598
Employee benefits	–	–	–	–	39 685	39 685
Investment in associates	–	–	–	23 031	–	23 031
Reinsurers' share of insurance contract provisions	33 942	3 900	13 458	–	–	51 300
Deferred acquisition costs	64 757	150 483	–	–	–	215 240
Financial assets						
Fair value through profit and loss	884 960	875 878	817 138	53 476	–	2 631 452
Available-for-sale	145 000	155 000	823 711		–	1 123 711
Loans and receivables	527 589	180 184	77 750	194 982		980 505
Deferred income tax	–	–	–	–	291 071	291 071
Tax receivable	1 184	–	–	–	–	1 184
Cash and cash equivalents	1 933 587	–	–	–	–	1 933 587
Total assets	3 591 019	1 365 445	1 732 057	271 489	790 354	7 750 364
Liabilities						
Insurance contract liabilities	2 675 882	271 925	309 334	–	–	3 257 141
Employee benefits	25 819	20 485	4 035	34 384	–	84 723
Share based payment liability	1 020	–	44 504	–	–	45 524
Financial liabilities at fair value through profit and loss	110 425	–	–	–	–	110 425
Tax liabilities	35 548	–	–	–	–	35 548
Financial liabilities at amortised cost						
Insurance and other payables	432 884	–	–	–	–	432 884
Total liabilities	3 281 578	292 410	357 873	34 384	–	3 966 245

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.4 CAPITAL MANAGEMENT

Capital adequacy risk is the risk that there are insufficient reserves to provide for variations in actual future experience that is worse than what has been assumed in the setting of short-term insurance technical provisions and in the financial soundness valuation of its long-term insurance business. The Group must maintain a capital balance that will be at least sufficient to meet obligations in the event of substantial deviations from the main risk assumptions affecting the Group's business. This is used to determine required capital levels that will ensure sustained solvency within an acceptable confidence level.

The Group's objectives when managing capital are:

- to comply with the insurance capital requirements required by the regulators of the insurance markets where the Group operates;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and retain capital to fund the strategic initiatives of the Group entities; and
- to provide an adequate return for shareholders by pricing insurance commensurately with the level of risk.

In each country in which the Group operates, the local insurance regulator specifies the minimum amount and the type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the year.

Management regards share capital, share premium, retained earnings, and unrealised fair value movement reserves as capital for regulatory solvency purposes.

Refer to 3.1.1 for details regarding the changing regulatory landscape expected to have an impact on the Group's solvency requirements.

The table below summarises the statutory solvency requirements for each of the regulated Group companies and the actual solvency achieved.

	Jurisdiction	Statutory Solvency Requirement	**Actual Solvency 2014**	Actual Solvency 2013	Target CAR
Short-term insurance					
OUTsurance Insurance Company Limited	South Africa	Minimum CAR* of 1	**1.7**	1.6	1.2
OUTsurance Insurance Company of Namibia Limited (Associate)	Namibia	Minimum CAR of 1	**1.6**	1.7	1.2
Youi Pty Limited	Australia	Minimum CAR of 1.5	**2.2**	1.8	1.5
Long-term insurance					
OUTsurance Life Insurance Company Limited	South Africa	Minimum CAR of 1	**2.5**	3.1	1.75

**Capital adequacy ratio, which is defined as the ratio of regulatory admissible net assets to the solvency capital requirement.*

The statutory capital requirements are calculated as follows:

Southern African operations – Short-term insurance operations

The Financial Services Board ("FSB") requires short-term insurers to hold a capital adequacy requirement ("CAR") calculated in accordance with Board Notice 169 of 2011.

The CAR is calculated as the greater of

- Minimum Capital Requirement ("MCR") – lower boundary for the required solvency capital, below which policyholders and beneficiaries would be exposed to an unacceptable level of risk if the insurer were allowed to continue its operations; and
- Solvency Capital Requirement ("SCR") – sum of the Basic Solvency Capital Requirement ("BSCR") and the Operational Risk Capital Factor ("OP"). The BSCR is the aggregation of the Insurance Risk Capital Factor ("IC"), the Market Risk Capital Factor ("MC") and the Credit Risk Capital Factor ("CC") making allowance for diversification between these risk factors.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.4 CAPITAL MANAGEMENT (continued)

Australian operations – Short-term insurance operations

The Australian Prudential Regulation Authority ("APRA") imposes capital requirements on Australian subsidiaries which are licensed general insurers calculated in accordance with Prudential Standards GPS 110 Capital Adequacy. The prudential capital requirement ("PCR") is equal to the sum of the prescribed capital amount ("PCA") and any supervisory adjustment determined by APRA.

The PCA is calculated in accordance with the Standard Method as the sum of:

- Insurance Risk Charge;
- Insurance Concentration Risk Charge;
- Asset Risk Charge;
- Asset Concentration Risk Charge;
- Operational Risk Charge; and
- Aggregation benefit.

Southern African operations – Long-term insurance operations

The Financial Services Board ("FSB") requires long-term insurers to hold a capital adequacy requirement ("CAR") calculated in accordance with the Long-Term Insurance Act (1998) including Board Notice 72 of 2005 and SAP 104 – Calculation of the Value of Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers issued by the Actuarial Society of South Africa.

The CAR is calculated as the greater of:

- MCAR – the minimum capital requirement for maintaining a South African long-term insurance licence. This is set at R10 million or 13 weeks operating expenses or 0.3% of gross policyholder liabilities;
- TCAR – this requirement examines a highly selective scenario in which all policies with surrender values greater than the policyholder liability terminate immediately. A surrender value is not a feature of the existing product line which removes TCAR as an appropriate valuation technique; and
- OCAR – is a risk based measure based on a number of market and insurance risk stress tests, which together with compulsory margins are intended to provide approximately a 95% confidence level that the insurer will be able to meets its obligations to policyholders.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on product offering. Consequently the Group has the following three operating segments:

- Personal insurance: This segment provides short-term insurance products to individuals. Personal insurance business is conducted in OUTsurance Insurance Company Limited and Youi Pty Limited (Australia);
- Commercial insurance: This segment provides short-term insurance products to small and medium sized businesses. Commercial insurance business is conducted in OUTsurance Insurance Company Limited; and
- Life insurance: This segment provides long-term insurance products to individuals. Life insurance business is conducted in OUTsurance Life Insurance Company Limited.

The information in the segment report is presented on the same basis as reported to management. Reporting adjustments are those accounting reclassifications and entries required to produce IFRS compliant results. Specific details of these adjustments are included as footnotes.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. SEGMENT INFORMATION (continued)

4.1 MARKET SEGMENTATION

	Short-term insurance			Long-term insurance		
	OUTsurance					
	Personal R'000	Commercial R'000	Youi Personal R'000	OUTsurance Life R'000	Unallocated and consolidation adjustments R'000	Group total R'000
Segment income statement information						
Year ended 30 June 2014						
Gross written premium	5 302 211	746 257	4 065 679	237 419	–	10 351 566
Outward reinsurance premiums	(88 227)	(12 894)	(215 330)	(19 660)	–	(336 111)
Change in provision for unearned premium	(15 150)	(2 218)	(756 856)	–	–	(774 224)
Earned premium, net of reinsurance	5 198 834	731 145	3 093 493	217 759	–	9 241 231
Other income	–	–	435	–	6 870	7 305
Claims on insurance contracts net of reinsurance	(2 512 885)	(317 407)	(1 615 335)	(25 070)	–	(4 470 697)
Cash bonuses on insurance contracts	(264 853)	(35 833)	–	–	–	(300 686)
Marketing, acquisition and administration expenses	(910 778)	(222 859)	(1 219 504)	(185 394)	24 636	(2 513 899)
Transfer to policyholder liabilities under insurance contracts	–	–	–	(21 729)	–	(21 729)
Fair value adjustment to financial liabilities	(190 810)	–	–	–	–	(190 810)
Underwriting result	1 319 508	155 046	259 089	(14 434)	31 506	1 750 715
Net investment income					327 889	327 889
Share of profit of associate					10 398	10 398
Profit before tax					369 793	2 089 002

4. SEGMENT INFORMATION (continued)

4.1 MARKET SEGMENTATION (continued)

	Short-term insurance			Long-term insurance		
	OUTsurance					
	Personal R'000	Commercial R'000	Youi Personal R'000	OUTsurance Life R'000	Unallocated and consolidation adjustments R'000	Group total R'000
Segment income statement information						
Year ended 30 June 2013						
Gross written premium	4 986 097	674 143	2 465 630	162 607	–	8 288 477
Outward reinsurance premiums	(53 802)	(8 518)	(157 176)	(14 902)	–	(234 398)
Change in provision for unearned premium	11 936	(1 479)	(511 234)	–	–	(500 777)
Earned premium, net of reinsurance	4 944 231	664 146	1 797 220	147 705	–	7 553 302
Other income	–	–	–	–	1 003	1 003
Claims on insurance contracts net of reinsurance	(2 313 325)	(255 278)	(999 637)	(22 395)	–	(3 590 635)
Cash bonuses on insurance contracts	(243 043)	(28 214)	–	–	–	(271 257)
Marketing, acquisition and administration expenses	(842 107)	(241 924)	(857 231)	(113 197)	30 811	(2 023 648)
Transfer to policyholder liabilities under insurance contracts	–	–	–	(12 162)	–	(12 162)
Fair value adjustment to financial liabilities	(200 758)	–	–	–	–	(200 758)
Underwriting result	1 344 998	138 730	(59 648)	(49)	31 814	1 455 845
Net investment income					306 314	306 314
Gain on sale of subsidiary					51 220	51 220
Share of profit of associate					10 015	10 015
Profit before tax					399 363	1 823 394

4. SEGMENT INFORMATION (continued)

4.2 GEOGRAPHICAL SEGMENTATION

The Company is domiciled in South Africa. The Group's revenue, profit, assets and liabilities arising from transactions with international customers are as follows:

	South Africa R'000	Australia R'000	Namibia R'000	New Zealand R'000	Group total R'000
Segment information from geographical areas					
Year ended 30 June 2014					
Total income	6 405 030	3 171 378	10 398	17	9 586 823
Total expenses	(4 662 982)	(2 812 465)	–	(22 374)	(7 497 821)
Total assets	4 615 834	4 671 600	25 589	585 063	9 898 086
Non-current assets*	2 443 146	142 154	–	17 816	2 603 116
Total Liabilities	1 815 300	3 608 066	–	21 269	5 444 635
Segment information from geographical areas					
Year ended 30 June 2013					
Total income	6 114 619	1 797 220	10 015	–	7 921 854
Total expenses	(4 241 593)	(1 856 867)	–	–	(6 098 460)
Total assets	4 739 570	2 987 763	23 031	–	7 750 364
Non-current assets*	2 248 228	74 261	–	–	2 322 489
Total Liabilities	1 952 715	2 010 170	–	–	3 966 245

**Excludes financial instruments, deferred tax assets, post retirement benefit assets and rights arising under insurance contracts.*

Revenue is allocated based on the country in which the insurance contract is issued.

5. GROSS INSURANCE PREMIUM WRITTEN

	2014 R'000	2013 R'000
Short-term insurance	10 114 147	8 125 870
Premium written	9 995 825	8 026 154
Policyholder fees written	118 322	99 716
Long-term insurance	237 419	162 607
Premium received	228 121	155 960
Policyholder fees received	9 298	6 647
	10 351 566	8 288 477

6. OTHER INCOME

During the current financial year, the Group qualified for a job-creation incentive associated with call-centre activities of Youi (Australia) off-shored to South Africa. The incentive is accounted for based on the actual incentive qualified for during the year under review.

	2014 R'000	2013 R'000
Government grant received	7 305	1 003
	7 305	1 003

7. INVESTMENT INCOME

	2014 R'000	2013 R'000
Cash and cash equivalents		
Interest received	234 263	211 666
Dividends received from financial assets designated at fair value through profit and loss	18 588	20 941
Available-for-sale financial assets		
Interest – unlisted debt instruments	31 182	38 084
Dividends – listed equities	43 435	35 826
	327 468	306 517

8. FAIR VALUE ADJUSTMENTS ON FINANCIAL ASSETS

	Available-for-sale R'000	Fair value designated through profit and loss R'000	Total R'000
2014			
Net realised losses on financial assets	–	(1 514)	(1 514)
Net unrealised fair value gains	40 638	3 123	43 761
	40 638	1 609	42 247
2013			
Net realised losses on financial assets	–	(8 912)	(8 912)
Net unrealised fair value gains	19 211	9 431	28 642
	19 211	519	19 730

Other than unlisted preference shares, fair value gains and losses on available-for-sale assets and designated fair value financial assets are determined with reference to quoted market prices at reporting date. Refer to note 3.3.1 for the valuation methodology of the unlisted preference shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9. CLAIMS ON INSURANCE CONTRACTS NET OF REINSURANCE

	2014			2013		
	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000
Short-term insurance	(4 710 182)	264 555	(4 445 627)	(3 747 040)	178 800	(3 568 240)
Claims paid net of salvages and recoveries	(4 593 070)	250 313	(4 342 757)	(3 515 598)	189 229	(3 326 369)
Change in claims reserves	(117 112)	14 242	(102 870)	(231 442)	(10 429)	(241 871)
Long-term insurance						
Claims paid	(35 280)	8 321	(26 959)	(26 725)	9 018	(17 707)
Life claims	(27 217)	6 892	(20 325)	(19 660)	6 332	(13 328)
Disability claims	(2 222)	412	(1 810)	(4 673)	2 160	(2 513)
Retrenchment claims	(1 524)	182	(1 342)	(1 008)	189	(819)
Critical illness claims	(4 317)	835	(3 482)	(1 384)	337	(1 047)
Change in provision for outstanding claims	(2 566)	4 455	1 889	(3 897)	(791)	(4 688)
Claims incurred	(37 846)	12 776	(25 070)	(30 622)	8 227	(22 395)
Total claims incurred	(4 748 028)	277 331	(4 470 697)	(3 777 662)	187 027	(3 590 635)

10. ACQUISITION EXPENSES

Acquisition expenses relate to payments for intermediary sourced business and certain ring-fenced insurance business and profit share arrangements.

	2014 R'000	2013 R'000
Acquisition expenses incurred	(25 792)	(31 451)
Change in deferred acquisition costs	(2 952)	(1 994)
	(28 744)	(33 445)

11. MARKETING AND ADMINISTRATION EXPENSES

The following expenses have been included in the statement of comprehensive income under marketing and administration expenses:

	2014 R'000	Restated 2013 R'000
Depreciation		
Buildings	25 180	19 599
Computer equipment	65 783	64 560
Furniture and fittings	8 281	14 637
Motor vehicles	349	315
Total depreciation	99 593	99 111
Employee benefits		
Salaries excluding retirement funding	1 083 079	1 115 500
Medical aid contributions	58 679	54 968
Retirement funding	114 555	100 565
Service cost relating to employee benefits	48 085	45 070
Share based payments	112 243	29 261
Total employee benefits	1 416 641	1 345 364
Other disclosable items		
Audit fees	7 576	5 844
Statutory audit	5 151	4 551
Other expenses	2 425	1 293
Operating lease expenses	82 839	32 105
Loss on sale of property, plant and equipment	3 526	653
Consulting and legal fees for professional services	16 352	8 575
Investment fees paid	4 761	4 454
Foreign exchange loss	1 327	371
Marketing and management expenses	852 540	493 726
Total other disclosable expenses	968 921	545 728
Total marketing and administration expenses per the statement of comprehensive income	2 485 155	1 990 203

12. FINANCE CHARGES

	2014 R'000	2013 R'000
Interest paid – operational financing	1 188	722
	1 188	722

13. TAXATION

	2014 R'000	2013 R'000
Normal taxation		
Current tax	(542 489)	(455 899)
Current year	(647 655)	(455 899)
Utilisation of assessed loss	105 156	–
Prior year over provision	10	–
Deferred tax	(80 057)	(81 953)
Total normal taxation	(622 546)	(537 852)
Withholding taxation incurred	–	2 751
Total taxation charge	(622 546)	(535 101)
Tax rate reconciliation		
In R'000		
Normal tax on companies	584 921	510 551
Non-temporary differences	31 733	27 301
Fair value adjustment	52 570	53 572
Other non deductible differences	(1 127)	(606)
Other	–	1 545
Capital gains tax	35	9 547
Profit on sale of subsidiary	–	(14 704)
Foreign tax rate differential	3 160	98
Exempt dividends	(26 098)	(26 558)
Non allowable expenses	3 193	4 407
Prior year (over) provision	(10)	–
Withholding taxation incurred	–	(2 751)
Deferred tax asset not recognised	5 902	–
Amount calculated at effective rate	622 546	535 101

The dividend tax law allows that the recipient's liability for dividend tax be reduced with the amount of any STC credits available, for a period of three years up to 1 March 2015. The STC credit is made up from two possible sources namely, any unused STC credits of the holding company brought forward from the final dividend cycle under the STC system as well as any new pro rata portion of any STC credit received by the holding company under the new dividend tax regime.

14. EARNINGS PER SHARE

In terms of IAS 33, the Group has elected to disclose earnings per share.

14.1 BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares held by the Group as treasury shares.

	2014	2013
Earnings attributable to ordinary shareholders (R'000)	**1 445 288**	1 249 980
Weighted average number of shares in issue ('000)	**3 460 026**	3 438 406
Basic earnings per share (cents)	**41,77**	36,35

14.2 DILUTED EARNINGS PER SHARE

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The options that have been issued to key personnel that have not yet vested or have not yet been exercised by the holders of those options have a potential dilutive effect on the earnings per share for the Group. Earnings dilution results from the Group's share incentive schemes as disclosed in note 29.

	2014	2013
Earnings attributable to ordinary shareholders (R'000)	**1 445 288**	1 249 980
Diluted earnings attributable to Youi Pty Limited (R'000)	**(30 582)**	(403)
Total earnings attributable to ordinary shareholders (R'000)	**1 414 706**	1 249 577
Diluted weighted average number of shares in issue ('000)	**3 526 973**	3 517 970
Weighted average number of shares in issue ('000)	**3 460 026**	3 438 406
Dilution impact of share incentive scheme ('000)	**66 947**	79 563
Diluted earnings per share (cents)	**40,11**	35,52

15. HEADLINE EARNINGS PER SHARE

Headline earnings per share is calculated by dividing the adjusted earnings attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Headline earnings reconciliation:	**2014 R'000**	2013 R'000
Earnings attributable to ordinary shareholders	**1 445 288**	1 249 980
Adjusted for:		
Gain on sale of subsidiary	**–**	(51 220)
Loss on sale of propery and equipment	**3 526**	653
Tax effect of adjustments	**(996)**	9 618
Headline earnings attributable to ordinary shareholders	**1 447 818**	1 209 031
Weighted average number of shares in issue ('000)	**3 460 026**	3 438 406
Headline earnings per share – basic (cents)	**41,84**	35,16
Headline earnings attributable to ordinary shareholders	**1 447 818**	1 209 031
Diluted headline earnings attributable to Youi Pty Limited	**(30 582)**	(403)
Diluted headline earnings attributable to ordinary shareholders	**1 417 236**	1 208 628
Diluted weighted average number of shares in issue ('000)	**3 526 973**	3 517 970
Headline earnings per share – diluted (cents)	**40,18**	34,36

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16. DIVIDEND PER SHARE

	2014	2013
Total dividends paid during the year (R'000)	918 334	1 170 085
Total dividends declared during the year (R'000)	967 495	932 313
Number of ordinary shares in issue ('000)	3 518 163	3 518 163
Dividends declared per share (cents)	27,50	26,50
Dividends paid per share (cents)	26,10	33,26

17. PROPERTY AND EQUIPMENT

	Land and Buildings R'000	Computer equipment and software R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Property under development R'000	Total R'000
Year ended 30 June 2014						
Opening net book amount	356 967	83 831	17 878	922	–	459 598
Additions	16 450	123 517	11 596	423		151 986
Disposals	–	(3 878)	(211)	–	–	(4 089)
Foreign exchange adjustments	2 468	2 676	1 113	36	–	6 293
Depreciation charge	(25 180)	(65 783)	(8 281)	(349)	–	(99 593)
Closing net book amount	350 705	140 363	22 095	1 032	–	514 195
At 30 June 2014						
Cost	401 203	507 609	77 837	1 979	–	988 628
Accumulated depreciation	(50 498)	(367 246)	(55 742)	(947)	–	(474 433)
Net book amount	350 705	140 363	22 095	1 032	–	514 195
Year ended 30 June 2013						
Opening net book amount	80 779	75 476	19 335	857	236 321	412 768
Additions	57 443	71 840	12 998	380		142 661
Disposals	–	(512)	(951)	–	–	(1 463)
Foreign exchange adjustments	2 023	1 587	1 133	–	–	4 743
Transfer of completed building	236 321	–	–	–	(236 321)	
Depreciation charge	(19 599)	(64 560)	(14 637)	(315)	–	(99 111)
Closing net book amount	356 967	83 831	17 878	922	–	459 598
At 30 June 2013						
Cost	381 295	441 779	65 322	1 515	–	889 911
Accumulated depreciation	(24 328)	(357 948)	(47 444)	(593)	–	(430 313)
Net book amount	356 967	83 831	17 878	922	–	459 598

Land and buildings assets are utilised by the Group in the normal course of operations to provide services. The construction of an additional building on Erf 1956, Zwartkop Extension 7, Gauteng, was completed on 1 July 2012. This property is owner-occupied and depreciation commenced from 1 July 2012.

Information regarding land and buildings is kept at the Group's registered offices. This information will be open for inspection in terms of section 20 of the Companies Act.

Refer to note 35 for the current and non-current analysis of property and equipment.

18. SUBSIDIARIES

The Group had the following subsidiaries at 30 June:

Subsidiary	Nature of business	Country of Incorporation	Issued ordinary capital (R'000)		Effective Holding (%)		Subsidiary carrying amount (R'000)	
			2014	2013	**2014**	2013	**2014**	2013
OUTsurance Insurance Company Ltd	Short-term insurer	South Africa	**25 000**	25 000	**100%**	100%	**2 550 178**	2 375 643
OUTsurance Life Insurance Company Limited	Long-term insurer	South Africa	**325 002**	205 002	**100%**	100%	**319 348**	197 680
Youi (Pty) Ltd (South Africa)	Administration company	South Africa	**	**	**100%**	100%	**23 913**	14 507
OUTsurance International Holdings (Pty) Ltd	Holding company	South Africa	**1 169 086**	1 169 086	**100%**	100%	**1 190 110**	1 179 317
OUTsurance Shared Services (Pty) Limited	Administration company	South Africa	**100**	100	**100%**	100%	**3 751**	–
Youi New Zealand Pty Limited	Administration company	New Zealand	**575 086**	–	**93.1%**	100%	**563 794**	–
Youi Holdings Pty Ltd	Holding company	Australia	**1 320 108**	1 188 792	**93.1%**	100%*	**2 108 509**	1 580 455
Youi Pty Ltd (Australia)	Short-term insurer	Australia	**1 188 792**	1 188 792	**93.1%**	100%	**1 329 016**	828 786
Micawber 296 (Pty) Ltd	Property company	South Africa	**38 105**	16 105	**100%**	100%	**143 530**	103 304

** Refer to note 14 for the Group's potential future dilution of the percentage holding in Youi Holdings Pty Limited.*
*** Denotes amounts less than R1 000*

All subsidiaries are included in the consolidation. The proportion of voting rights in subsidiaries does not differ from the proportion of ordinary shares held.

There were no significant acquisitions during the 2014 financial year.

The total non-controlling interest for the financial year is R137.6 million (2013: nil) which is attributable to the minority shareholders of Youi Holdings Pty Ltd.

During the 2014 financial year the group opened two new companies; Youi New Zealand Pty Ltd and OUTsurance Shared Services, as an extension of Youi Pty Ltd's call centre in Australia.

18. SUBSIDIARIES (continued)

Dilution of interest in a subsidiary without loss of control

During the 2014 financial year, certain tranches of the Youi Holdings equity-settled share scheme were exercised by scheme participants. This resulted in an increase in non-controlling interests of R137.6 million and an increase in equity attributable to the Group of R137.6 million. The effect of changes in the ownership interest of Youi Holdings Pty Ltd on the equity attributable to the Group during the year is as follows:

	2014 R'000
Profit attributable to non-controlling interest	15 344
Capital contributed by non-controlling parties	122 264
Total attributable to non-controlling interest	137 608

Significant disposal of subsidiaries during the 2013 financial year – Momentum Short-term Insurance Limited

On 1 July 2012, the Group disposed of its 50% shareholding in Momentum Short-term Insurance Limited (Momentum STI) to MMI Holdings Limited.

	2013 R'000
The gain on disposal is calculated as follows:	
Consideration received in cash and cash equivalents	126 515
Less: Net identifiable asset value disposed of	(152 001)
Add: Share based payment reserve reversed	1 411
Add: Non-controlling share of net asset value at disposal date	75 295
Gain on disposal of subsidiary	51 220

19. INVESTMENT IN ASSOCIATES

	2014 R'000	2013 R'000
OUTsurance Insurance Company of Namibia Limited		
Investment in associate	25 589	23 031
	25 589	23 031
Reconciliation of investment in associate		
Opening balance	23 031	17 916
Share of associate after tax profit attributable to the group	10 398	10 015
Dividends received from associates	(7 840)	(4 900)
Closing balance	25 589	23 031

The Group effectively owns a 49% share in the ordinary shares of OUTsurance Insurance Company of Namibia Limited, a company incorporated and domiciled in Namibia. This associate is regarded as material in the opinion of the Board.

There are no contingent liabilities relating to the Group's investment in the associate.

19. INVESTMENT IN ASSOCIATES (continued)

The table below provides a summary of the financial information of OUTsurance Insurance Company of Namibia Limited:

	2014 R'000	2013 R'000
Statement of financial position		
Current assets	46 570	39 637
Non-current assets	80 885	72 910
Current liabilities	(11 785)	(14 027)
Technical provisions	(62 953)	(50 490)
Equity	52 717	48 030
Statement of comprehensive income		
Revenue	157 186	121 825
After tax comprehensive income attributable to the Group	10 398	10 015
Cash flow statement		
Cash inflow from operating activities	31 531	26 198
Cash outflow from investing activities	(7 608)	(17 849)
Cash outflow from financing activities	(17 839)	(12 185)
Increase/(decrease) in cash and cash equivalents	6 084	(3 836)
Opening balance of cash and cash equivalents	37 100	40 936
Closing balance of cash and cash equivalents	43 184	37 100

Refer to note 35 for the current and non-current analysis of investments in associates.

20. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES

The Group financial assets are summarised below:

	2014 R'000	2013 R'000
Fair value designated through profit and loss		
Debt securities		
Collective investment scheme	542 443	540 342
Government, municipal and public utility securities	276 646	155 518
Money market securities <1 year	1 147 458	1 168 192
Money market securities >1 year	485 817	767 400
Available-for-sale		
Equity securities		
Listed preference shares	549 074	545 168
Exchange traded funds	175 946	130 394
Debt securities		
Unlisted preference shares	540 129	448 149
Total financial assets	3 717 513	3 755 163

Refer to note 21 for further details regarding loans and receivables.

20. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES (continued)

The table below provides a breakdown of the movement in the equity and debt securities:

	Fair value designated through profit and loss R'000	Available-for-sale R'000	Total R'000
Group 2014			
Movement analysis			
Balance at 1 July 2013	2 631 452	1 123 711	3 755 163
Additions (purchases and issuings)	3 782 548	100 800	3 883 348
Disposals (sales and redemptions)	(3 964 759)	–	(3 964 759)
Fair value adjustments	3 123	40 638	43 761
Balance at 30 June 2014	2 452 364	1 265 149	3 717 513
Group 2013			
Movement analysis			
Balance at 1 July 2012	2 689 343	1 498 066	4 187 409
Additions (purchases and issuings)	3 823 152	114 771	3 937 923
Disposals (sales and redemptions)	(3 890 474)	(508 337)	(4 398 811)
Fair value adjustments	9 431	19 211	28 642
Balance at 30 June 2013	2 631 452	1 123 711	3 755 163

A register of investments is available for inspection at the registered office of the Group.

Refer to note 3.3.1 for information relating to the fair value of investment securities. Refer to note 35 for the current and non-current analysis of investment securities.

21. FINANCIAL ASSETS – LOANS AND RECEIVABLES

	2014 R'000	2013 R'000
Receivables arising from insurance and reinsurance contracts		
Due from policyholders	1 277 079	756 970
Due from agents, brokers and intermediaries	7 691	7 459
Due from reinsurers	46 780	80 771
Other receivables		
Accrued dividend income	–	10 202
Other receivables and prepayments	105 063	125 103
Total receivables	1 436 613	980 505

Insurance receivables are recognised and carried at the contractual amount less any allowance for uncollectible amounts. Non-insurance receivables are carried at amortised cost using the effective interest rate method. Where the effects of discounting are deemed material, the receivables are reflected at the discounted amounts.

At 30 June 2014, none of the receivables listed above are considered to be past due or impaired.

Included in loans and receivables are amounts due by related parties. Refer to note 36 for further details thereof.

The carrying amount of loans and receivables approximates the fair value. Refer to note 35 for the current and non-current analysis of loans and receivables.

22. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relates to the same fiscal authority.

	2014 R'000	Restated 2013 R'000	Restated 2012 R'000
Deferred tax assets			
Provision for non claims bonuses	–	–	85 985
Other provisions	198 718	122 999	10 368
Fair value adjustment	7	–	
Service costs on employee benefits	7 258	5 067	6 356
Operating lease charges	2 583	100	204
Unrealised foreign exchange loss	80	–	–
Difference between accounting and tax values of assets	992	–	–
Costs of capital nature amortised over 5 years	90	–	–
Payment received in advance	–	–	4 360
Special transfer credit	4 353	2 015	
Assessed loss	137 681	225 955	287 013
Total deferred tax assets	351 762	356 136	394 286
Deferred tax liabilities			
Operating lease charges	–	(21)	–
Available-for-sale financial assets*	(16 152)	–	–
Deferred expenditure immediately deductable	(11 621)	–	–
Deferred acquisition costs	(100 835)	(63 686)	(44 611)
Prepayments	(2 888)	(1 358)	(1 054)
Total deferred tax liability	(131 496)	(65 065)	(45 665)
Net deferred tax assets	220 266	291 071	348 621
Reconciliation of movement in deferred tax asset			
Opening balance of deferred tax assets	356 136	394 286	143 493
Transfer of intellectual property	(190)	–	–
Foreign exchange difference	33 996	23 172	–
Transfer to share based payment reserve	–	4 875	–
Deferred tax charge for the year	(38 180)	(66 197)	252 569
Disclosed as disposal group held for sale	–	–	(1 776)
Closing balance of deferred tax assets	351 762	356 136	394 286
Reconciliation of movement in deferred tax liability			
Opening balance of deferred tax liability	(65 065)	(45 665)	(689)
Foreign exchange difference	(8 402)	(3 644)	–
Available-for-sale financial assets*	(16 152)	–	–
Deferred tax charge for the year	(41 877)	(15 756)	(44 997)
Disclosed as disposal group held for sale	–	–	21
Closing balance of deferred tax liability	(131 496)	(65 065)	(45 665)

**These amounts have been charged directly to other comprehensive income.*

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

The Group has recognised a deferred tax asset on the assessed losses in Youi of R386.5 million (2013: R703.7 million) and OUTsurance Life Insurance Company Limited of R15.5 million (2013: R7.2 million) as it is expected that it will be recovered against future profits.

Refer to note 35 for the current and non-current analysis of deferred taxation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23. CASH AND CASH EQUIVALENTS

	2014 R'000	2013 R'000
Cash at bank and in hand	510 400	1 887 280
Money market investments	2 926 623	46 307
	3 437 023	1 933 587

Included in money market investments are deposits with a term of maturity of less than three months.

The carrying value of cash and cash equivalents approximates the fair value.

24. SHARE CAPITAL

Upon consolidation, shares owned by the OUTsurance Holdings Limited Share Trust are accounted for as treasury shares and are eliminated against share capital and share premium. The unissued shares of the Company are under the control of the directors until the forthcoming annual general meeting.

	2014 R	2013 R
Authorised share capital		
3 999 999 990 (2013: 3 999 999 990) ordinary shares at R0.01 each	39 999 990	39 999 990
1000 "A" variable rate non-cumulative non-redeemable preference shares of R0.01 each	10	10
Issued ordinary share capital		
Total shares in issue: 3 518 163 100 (2013: 3 518 163 100) ordinary shares at R0.01 each	35 181 631	35 181 631
Treasury shares held by the OUTsurance Holdings Share Trust 54 013 763 (2013: 77 815 578)	(540 138)	(778 156)
Closing balance	34 641 493	34 403 475
Issued preference share capital		
Opening balance: 178 (2013: 712) "A" variable rate non-cumulative non-redeemable preference shares at R0.01 each	2	7
Shares repurchased during the year: 178 (2013: 534) "A" variable rate non-cumulative non-redeemable preference shares of R0.01 each	(2)	(5)
Total shares in issue: 0 (2013: 178) "A" variable rate non-cumulative non-redeemable preference shares of R0.01 each	–	2
Share premium		
Ordinary shares		
Issued share premium	265 110	265 110
Treasury shares held by the OUTsurance Holdings Share Trust	(101 814)	(156 314)
	163 296	108 796
"A" Preference shares		
Opening balance	200 500	802 000
Repurchase of shares	(200 500)	(601 500)
Closing balance	–	200 500

25. INSURANCE CONTRACT LIABILITIES

	2014			2013			2012		
	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000
Short-term insurance contracts									
Claims reserves	1 297 952	(59 925)	1 238 027	1 129 112	(45 028)	1 084 084	877 237	(50 786)	826 451
Unearned premium provision	2 729 058	–	2 729 058	1 764 235	–	1 764 235	1 206 284	–	1 206 284
Insurance contract non claims bonuses	381 362	–	381 362	373 056	–	373 056	384 031	–	384 031
Long-term insurance contracts									
Policyholder liabilities	48 010	(41 815)	6 195	(9 262)	(6 272)	(15 534)	(27 696)	–	(27 696)
	4 456 382	(101 740)	4 354 642	3 257 141	(51 300)	3 205 841	2 439 856	(50 786)	2 389 070

25.1 ANALYSIS OF MOVEMENT IN SHORT-TERM INSURANCE CONTRACT LIABILITIES

	2014			2013		
	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000
Analysis of movement in claims reserves						
Opening balance						
Outstanding claims provision	786 818	(41 669)	745 149	592 105	(50 786)	541 319
Claims incurred but not reported	342 294	(3 359)	338 935	285 132	–	285 132
Total	1 129 112	(45 028)	1 084 084	877 237	(50 786)	826 451
Current year						
Claims incurred	4 657 437	(260 418)	4 397 019	3 688 277	(182 972)	3 505 305
Claims paid	(4 499 688)	155 478	(4 344 210)	(3 067 909)	159 827	(2 908 082)
Prior year						
Claims incurred	79 858	(3 682)	76 176	8 587	4 172	12 759
Claims paid	(93 382)	94 835	1 453	(447 689)	29 402	(418 287)
Movement in incurred but not reported	(18 432)	69	(18 363)	52 957	(2 781)	50 176
Change in risk margin	(27 240)	(524)	(27 764)	–	–	–
Change in claims handling costs	18 559	–	18 559	–	–	–
Foreign exchange difference	51 728	(655)	51 073	17 652	(1 890)	15 762
Closing balance						
Outstanding claims provision	965 741	(56 212)	909 529	786 818	(41 669)	745 149
Claims incurred but not reported	332 211	(3 713)	328 498	342 294	(3 359)	338 935
Total	1 297 952	(59 925)	1 238 027	1 129 112	(45 028)	1 084 084

25. INSURANCE CONTRACT LIABILITIES (continued)

25.1 ANALYSIS OF MOVEMENT IN SHORT-TERM INSURANCE CONTRACT LIABILITIES (continued)

	2014			2013		
	Gross R'000	Re-insurance R'000	Net R'000	Gross R'000	Re-insurance R'000	Net R'000
Analysis of movement in unearned premium provision						
Opening balance	1 764 235	–	1 764 235	1 206 284	–	1 206 284
UPP raised	4 512 083	215 330	4 727 413	2 942 007	–	2 942 007
UPP earned	(3 737 859)	(215 330)	(3 953 189)	(2 441 230)	–	(2 441 230)
Foreign exchange difference	190 599	–	190 599	57 174	–	57 174
Closing balance	2 729 058	–	2 729 058	1 764 235	–	1 764 235
Analysis of movement in insurance contract non-claims bonuses						
Opening balance	373 056	–	373 056	384 031	–	384 031
Charge to the statement of comprehensive income	300 686	–	300 686	271 257	–	271 257
Non-claims bonuses paid during the year	(292 380)	–	(292 380)	(282 232)	–	(282 232)
Closing balance	381 362	–	381 362	373 056	–	373 056

	2014 R'000	2013 R'000	2012 R'000
Analysis of movement in deferred acquisition costs			
Opening balance	215 240	153 649	23 909
DAC raised	657 163	493 650	215 011
DAC charged to the statement of comprehensive income	(566 031)	(444 208)	(91 529)
Disclosed as disposal group held for sale	–	–	(262)
Foreign exchange difference	29 742	12 149	6 520
Closing balance	336 114	215 240	153 649

25. INSURANCE CONTRACT LIABILITIES (continued)

25.2 CLAIMS DEVELOPMENT TABLES

The tables below show the development pattern of the Group's short-term insurance claims liabilities. The presentation of the claims development tables for the Group is based on the actual date of the event that caused the claim (accident year basis).

25.2.1 Payment development

	Financial year in which claims were paid				
Net claims	**2014 R'000**	2013 R'000	2012 R'000	2011 R'000	Prior 2010 R'000
Accident year					
2014	4 344 210	–	–	–	–
2013	(45 757)	2 908 082	–	–	–
2012	27 575	383 344	2 439 599	–	–
2011	9 961	18 060	327 493	2 259 311	–
2010 and prior	6 768	16 883	33 790	333 678	10 244 708
Cumulative payments to date	4 342 757	3 326 369	2 800 882	2 592 989	10 244 708

25.2.2 Incurred development

	Financial year in which changes occurred in claims liability				
Net claims	**2014 R'000**	2013 R'000	2012 R'000	2011 R'000	Prior 2010 R'000
Accident year					
2014	4 385 246	–	–	–	–
2013	96 886	3 505 305	–	–	–
2012	(1 479)	21 640	2 847 028	–	–
2011	(5 717)	2 972	(34 310)	2 680 458	–
2010 and prior	(13 514)	(11 853)	(17 246)	33 378	10 620 720
Current estimate of cumulative claims incurred	4 461 422	3 518 064	2 795 472	2 713 836	10 620 720

25.2.3 Reporting development

	Financial year in which claims were reported				
Net claims	**2014 R'000**	2013 R'000	2012 R'000	2011 R'000	Prior 2010 R'000
Accident year					
2014	4 543 283	–	–	–	–
2013	(24 394)	3 580 865	–	–	–
2012	84	15 552	2 843 617	–	–
2011	3 178	4 188	(5 496)	2 694 932	–
2010 and prior	281	637	2 857	9 836	10 599 161
Current estimate of cumulative claims incurred	4 522 432	3 601 242	2 840 978	2 704 768	10 599 161

25. INSURANCE CONTRACT LIABILITIES (continued)

25.3 ANALYSIS OF MOVEMENT IN LONG-TERM INSURANCE CONTRACT LIABILITIES

The policyholder liability represents the present value of the expected cash outflow to existing policyholders at measurement date. The policyholder liability is calculated by present valuing the expected future cash flows derived from the best estimates of the variables which influence these cash flows.

Analysis of change in policyholder liabilities

	Gross policyholder liability R'000	Reinsurers' share of policyholder liability R'000	Net policyholder liability R'000	Deferral of acquisition costs R'000	Net policyholder liability incl deferral of acquisition costs R'000
2014					
Opening balance	49 210	(6 272)	42 938	(58 472)	(15 534)
Transfer to policyholder liabilities under insurance contracts	84 598	(35 543)	49 055	(27 326)	21 729
Unwind of discount rate	25 365	(1 728)	23 637	–	23 637
Experience variance	11 427	(398)	11 029	–	11 029
Modelling methodology changes	(11 217)	(595)	(11 812)	–	(11 812)
Change in non-economic assumptions	22 882	(18 508)	4 374	–	4 374
Change in economic assumptions	(51)	484	433	–	433
New business	36 133	(14 798)	21 335	–	21 335
Incurred but not reported claims	59	–	59	–	59
Deferral of acquisition costs	–	–	–	(27 326)	(27 326)
Closing balance	133 808	(41 815)	91 993	(85 798)	6 195
2013					
Opening balance	13 554	–	13 554	(41 250)	(27 696)
Transfer to policyholder liabilities under insurance contracts	35 656	(6 272)	29 384	(17 222)	12 162
Unwind of discount rate	6 373	(1 504)	4 869	–	4 869
Experience variance	1 984	(467)	1 517	–	1 517
Modelling methodology changes	201	(2 549)	(2 348)	–	(2 348)
Change in non-economic assumptions	28 008	(1 293)	26 715	–	26 715
Change in economic assumptions	(14 022)	1 514	(12 508)	–	(12 508)
New business	12 013	(1 973)	10 040	–	10 040
Incurred but not reported claims	1 099	–	1 099	–	1 099
Deferral of acquisition costs	–	–	–	(17 222)	(17 222)
Closing balance	49 210	(6 272)	42 938	(58 472)	(15 534)
2012					
Opening balance	1 605	–	1 605	(22 443)	(20 838)
Transfer to policyholder liabilities under insurance contracts	11 949	–	11 949	(18 807)	(6 858)
Unwind of discount rate	1 875	–	1 875	–	1 875
Experience variance	(387)	–	(387)	–	(387)
Modelling methodology changes	1 343	–	1 343	–	1 343
Change in non-economic assumptions	123	–	123	–	123
Change in economic assumptions	1 321	–	1 321	–	1 321
New business	5 560	–	5 560	–	5 560
Incurred but not reported claims	2 114	–	2 114	–	2 114
Deferral of acquisition costs	–	–	–	(18 807)	(18 807)
Closing balance	13 554	–	13 554	(41 250)	(27 696)

25. INSURANCE CONTRACT LIABILITIES (continued)

25.4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES RELATING TO INSURANCE CONTRACTS

25.4.1 Short-term insurance

Provision for outstanding claims ("OCR")

Each reported claim is assessed separately on a case by case basis, by either a computer algorithm based on past experience or a claims assessor with the relevant experience, taking into account information available from the insured. The estimates are updated as and when new information becomes available.

Provision for claims incurred but not reported ("IBNR")

The IBNR provision is calculated as a percentage of net written premium. The required IBNR percentage is calculated with reference to the run-off period of incurred claims and includes an additional risk margin to bring the IBNR reserves to a 75% sufficiency level. The overall IBNR percentage represents the weighted average of the required IBNR per business class, weighted by the net written premium generated by each business class.

Unearned premium provision ("UPP")

The underlying risk of the insurance contracts underwritten is predominately evenly spread over the contract term. The unearned premium is released over the term of the insurance contract in line with the risk profile release.

Liability for non-claims bonuses on insurance contracts

The provision for non-claims cash bonuses is determined with reference to the contractual obligation per the contract of insurance adjusted for expected future claims and client cancellations based on historical experience. A risk margin is added to the best estimate of the future liability to allow for the uncertainty relating to future claims and cancellation experience.

25.4.2 Long-term insurance

Policyholder liabilities assumptions and estimates

Policyholder liabilities

The following compulsory margins were applied in the valuation of the policyholder liability at 30 June 2014:

Assumption	Margin
Investment return	0.25% increase/decrease*
Mortality	7.5% increase
Morbidity	10% increase
Disability	10% increase
Retrenchment	10% increase
Expenses	10% increase
Expense inflation	10% increase of estimated escalation rate
Lapses	25% increase/decrease* on best estimate

**Depending on which change increases the liability.*

In addition to the above compulsory margins, discretionary margins may be added to protect against future possible adverse experience. A discretionary margin is added to allow for the zerorisation of negative reserves after taking into account the release of negative reserves to offset deferral of acquisition costs.

For the purposes of determining the value of the policyholder liability for regulatory purposes, the deferral of acquisition costs is ignored in the Statutory Valuation Method ("SVM") calculation.

Demographic assumptions

The best estimate assumptions in respect of dread disease & disability, mortality and retrenchment rates were set equal to those used in the most recent pricing basis as developed by the reinsurer and approved by the statutory actuary. Provision has been made for the expected increase in the occurrence of AIDS-related claims.

25. INSURANCE CONTRACT LIABILITIES (continued)

25.4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES RELATING TO INSURANCE CONTRACTS (continued)

25.4.2 Long-term insurance (continued)

Economic assumptions

Investment return

In the current year, the Group calculated its investment return assumption using a full yield curve as opposed to using a point estimate on the underlying yield curve. The comparative point estimate of the current yield curve at the appropriate duration at the valuation date is 8.98%.

In the prior financial year, the assumed future investment return was set with reference to bond yields of appropriate duration at the valuation date. This resulted in an assumed investment return, gross of tax, of 8.1%.

Inflation

In the current year, the Group calculated its inflation assumption using a full inflation curve as opposed to using a point estimate on the underlying inflation curve, derived from nominal and real curves. The comparative point estimate of the current inflation curve at the appropriate duration at the valuation date is 6.98%.

In the prior financial year, the assumed level of future expense inflation is 6.1% per annum and was derived by comparing the real yield on inflation linked bonds with the nominal yield on conventional gilts both of similar terms.

Taxation

Future taxation and taxation relief are allowed for at the rates and on the bases applicable to S29A of the Income Tax Act at the reporting date. The company's current tax position is taken into account and the taxation rates, consistent with that position and the likely future changes in that position, are allowed for.

Incurred but not reported claims

In addition to the discounted cash flow liability an IBNR reserve is held. The IBNR was set using a claims run-off model based on recent experience and best estimates.

Refer to note 35 for the current and non-current analysis of insurance contract liabilities.

25.5 SENSITIVITY OF POLICYHOLDER LIABILITY

The following sensitivities are provided on insurance risk assumptions:

Assumption	Margin
Lapses	10% increase/decrease
Investment return	1% increase/decrease
Mortality/Morbidity/Disability/Retrenchment	5% increase/decrease
Expenses	10% increase/decrease

Insurance risk sensitivities are applied as a proportional percentage change to the assumptions made in the measurement of policyholder liabilities and the impact is reflected as the change in policyholder liabilities.

Each sensitivity is applied in isolation with all other assumptions left unchanged.

The sensitivities shown in the table below are based on the assumption that negative reserves are not eliminated in order to derive sensitivity stresses which are more closely aligned with economic reality.

25. INSURANCE CONTRACT LIABILITIES (continued)

25.5 SENSITIVITY OF POLICYHOLDER LIABILITY (continued)

No elimination of negative rand reserves	Change in variable	Increase/ (decrease) in policyholder liabilities R'000	Increase/ (decrease) in policyholder liabilities %
At 30 June 2014			
Lapses	+10%	(23 804)	(12%)
	-10%	31 803	16%
Investment return	+1%	(10 275)	(5%)
	-1%	17 747	9%
Mortality/Morbidity/Disability/Retrenchment	+10%	71 530	37%
	-10%	(72 779)	(38%)
Mortality/Morbidity/Disability/Retrenchment	+5%	35 917	19%
	-5%	(36 229)	(19%)
Expenses	+10%	27 247	14%
	-10%	(27 247)	(14%)

26. INSURANCE AND OTHER PAYABLES

	2014 R'000	2013 R'000
Insurance related payables		
Outstanding long term insurance claims	18 143	15 577
Due to intermediaries	4 473	8 941
Due to reinsurers	30 579	16 635
Other payables	4 000	5 942
Non insurance related payables		
Trade creditors	59 611	29 737
Other payables	456 888	326 779
VAT liability	44 093	29 273
Total payables	617 787	432 884

The carrying amount of payables approximates the fair value. Refer to note 35 for the current and non-current analysis of payables.

27. EMPLOYEE BENEFITS

Uncertainty exists relating to the timing and extent of cash flows from the leave pay provision. The outstanding balance represents the current value of leave due to employees currently in the employ of companies within the Group.

The intellectual property bonuses are recognised as current service costs over a range of retention periods from six months to three years. The balance of the intellectual property bonuses are recognised as an employee benefit asset.

During the previous year, the Group partially converted its share incentive scheme from an equity-settled to a cash-settled scheme. As a result, a liability relating to the estimated future cash payments to participants was created out of the share-based payments equity reserve on 1 July 2012.

	2014 R'000	2013 R'000
Leave pay liability	83 963	62 093
Non discretionary bonuses liability	27 029	22 630
Total liability	110 992	84 723
Intellectual property bonuses asset	106 712	39 685
Total asset	106 712	39 685
Net employee benefits	4 280	45 038
Reconciliation of leave pay liability		
Opening balance	62 093	57 242
Charge for the year	28 630	7 727
Liability settled	(10 022)	(4 372)
Foreign translation difference	3 262	1 496
Closing balance	83 963	62 093
Reconciliation of non discretionary bonus liability		
Opening balance	22 630	19 791
Charge for the year	12 730	58 222
Liability utilised	(8 640)	(55 465)
Foreign translation difference	309	82
Closing balance	27 029	22 630
Reconciliation of intellectual property bonuses asset		
Opening balance	39 685	47 052
Additions	115 215	48 826
Settlements	(383)	(11 048)
Service cost for the year	(48 085)	(45 070)
Foreign translation difference	280	(75)
Closing balance	106 712	39 685

Refer to note 35 for the current and non-current analysis of employee benefits.

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss relate to the preference shares issued by OUTsurance Insurance Company Limited to FirstRand Limited for the various cell captive and profit sharing arrangements. Profits arising from these arrangements are distributed by way of bi-annual preference dividends payable in February and August each year. The preference dividend attributable to the profit share for the year is recognised in the statement of comprehensive income as a fair value adjustment to the liability. The portion of the unpaid preference dividend at 30 June is recognised as a financial liability at fair value through profit and loss.

	2014 R'000	2013 R'000
Shareholders for preference dividends on cell captives	12 453	13 324
Shareholders for preference dividends on profit shares	93 035	97 023
Shareholders for "A" preference dividends	–	78
	105 488	110 425

Refer to note 35 for the current and non-current analysis of shareholders for preference dividends.

29. SHARE BASED PAYMENTS

	2014 R'000	2013 R'000
Cash settled share based payment liability	130 272	45 524
Total liability	130 272	45 524
Reconciliation of cash settled share based payment liability		
Opening balance	45 524	–
Transfer from share based payment reserve	–	17 412
Charge for the year	111 752	28 112
Liability settled	(27 004)	–
Closing balance	130 272	45 524

The statement of comprehensive income charge for share based payments is as follows:

	2014 R'000	2013 R'000
OUTsurance Holdings equity-settled scheme	491	1 149
OUTsurance Holdings cash-settled scheme	111 752	28 112
Charge to the statement of comprehensive income	112 243	29 261

The various Group share schemes are as follows:

- OUTsurance Holdings cash-settled share scheme
- OUTsurance Holdings equity-settled share scheme
- Youi Holdings equity-settled share scheme

The purpose of these schemes is to attract, incentivise and retain managers within the Group by providing them with a facility to acquire shares. In terms of the current trust deed, 12% of the issued share capital of the company is available to the Trust for the granting of options to employees. The Trust currently holds 1.6% (2013: 2.2%) of the shares in OUTsurance Holdings Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29. SHARE BASED PAYMENTS (continued)

DESCRIPTION AND VALUATION METHODOLOGY OF THE SCHEMES

OUTsurance Holdings cash-settled share scheme

During the previous financial year, the Group partially converted its share scheme from an equity-settled to a cash-settled scheme. As a result, a liability relating to the estimated future cash payments to participants was created out of the share-based payments equity reserve on 1 July 2012.

Under the cash-settled scheme, participants receive notional shares which have a value equal to the market value of an OUTsurance Holdings Limited ordinary share. Participants will receive the after-tax gain in the market value over the vesting period as a cash payment. Participants of this scheme have the option to purchase one ordinary share for each vested notional share from the OUTsurance Holdings Share Trust at the ruling market price on the date of purchase.

Valuation methodology

The cash-settled scheme issues are valued using a Black Scholes model with all notional shares (share appreciation rights) vesting in one tranche at the end of year three. The scheme is cash-settled and will thus be repriced at each reporting date.

Market data consists of the following:

- Since OUTsurance Holdings is not listed, "expected volatility" is derived with reference to comparable listed companies for an historic period matching the duration of the option.
- The "risk-free interest rate" input is derived from zero-coupon government bonds with a remaining term equal to the term of the option being valued.

Dividend data consists of the following:

- The dividend growth assumption is based on the historic annual dividend paid on OUTsurance Holdings Limited ordinary shares.

Employee statistic assumptions:

- The number of rights granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the grant and used to estimate the expected number of rights which will vest on the vesting date.

OUTsurance Holdings equity-settled share scheme

Historically the Group granted equity share options which are settled by the issue of OUTsurance Holdings Ltd shares.

These options have a five-year option duration vesting in three equal tranches at the end of years three, four and five.

The equity-settled scheme was replaced by the cash-settled scheme after 1 July 2012.

Youi Holdings equity-settled share scheme

The Youi Holdings employee share option plan was established in 2008. In terms of the plan rules, 20% of the issued share capital of the Company is available under the plan for the granting of options to employees. Options issued before 1 July 2011 were fully expensed in prior years in terms of IFRS 2. These options vest immediately and expire on 30 June 2018. Share options are settled by the delivery of Youi Holdings Pty Limited shares.

Valuation methodology

The fair value of share options is determined at grant date and expensed over the vesting period. The share options granted are classified as European call options and the fair value is determined by the use of the Black Scholes share option pricing model.

A share based payment expense is only recognised if the options issued have a positive intrinsic value, therefore, if the market value of the underlying shares is expected to rise above the strike price over the vesting period of the options.

The "option duration" is the number of years before the options expire, adjusted for a historical rate of early exercise. Options are granted for no consideration and vest immediately, with all options expiring on 30 June 2018.

29. SHARE BASED PAYMENTS (continued)

Market data consists of the following:

- Since Youi is not listed, "expected volatility" is derived with reference to comparable listed companies for an historic period matching the duration of the option.
- The "risk-free interest rate" input is derived from zero-coupon government bonds with a remaining term equal to the term of the option being valued.

Dividend data consists of the following:

- "Dividend growth" is based on the best estimate of expected future dividends. Given the start-up phase of the business, no dividend history is available.

Employee statistic assumptions:

- The average "annual employee turnover" estimates the number of participants in the option schemes that will leave before the options have vested.

SHARE OPTIONS

	2014		
	OUTsurance Holdings equity-settled scheme	OUTsurance Holdings cash-settled scheme	Youi Holdings equity-settled scheme
Number of options in force and exercised at the beginning of the year	21 228 764	58 334 483	407 968 750
Range of strike prices of opening balance	1,54 to 1,74	1,94 to 2,80	$0,10
Number of options granted during the year	–	25 700 000	9 000 000
Strike price of options granted during the year (cents)	–	3,33	$0,10
Number of options delivered during the year	(14 665 394)	(19 925 000)	(129 994 500)
Range of strike prices on date of delivery	1,54 to 1,84	3,33	$0,10
Number of options cancelled/forfeited during the year	(366 667)	(3 359 485)	–
Range of strike prices of forfeited options	1,74	1,94 to 3,33	–
Number of options in force at the end of the year	6 196 703	60 749 998	286 974 250
Range of strike prices of closing balance	1,74	2,22 to 3,33	$0,10
Market value per ordinary share[1]	3,70	3,70	$0,12
Number of scheme participants	46	100	29
Weighted average remaining vesting period (years)	–	1,03	0,06

[1] The market value of ordinary shares resets six-monthly on the 1st of July and 1st of January each year.

29. SHARE BASED PAYMENTS (continued)

SHARE OPTIONS (continued)

	2013		
	OUTsurance Holdings equity-settled scheme	OUTsurance Holdings cash-settled scheme	Youi Holdings equity-settled scheme
Number of options in force and exercised at the beginning of the year	87 391 050	–	392 656 250
Conversion of equity-settled options to cash-settled notional shares	(45 034 483)	45 034 483	–
Granted at prices ranging between	–	1,94 and 2,22	$0,10
Number of options granted during the year	–	16 500 000	17 500 000
Strike price of options granted during the year	–	1,94 and 2,80	$0,10
Number of options delivered during the year	(19 727 800)	–	–
Range of strike prices on date of delivery	1,34 to 1,84	–	–
Number of options cancelled/forfeited during the year	(1 400 003)	(3 200 000)	(2 187 500)
Granted at prices ranging between	1,64 to 2,32	–	$0,10
Number of options in force at the end of the year	21 228 764	58 334 483	407 968 750
Granted at prices ranging between	1,54 to 1,84	1,94 to 2,80	–
Market value per ordinary share[1]	3,10	3,10	$0,06
Number of scheme participants	68	53	25
Weighted average remaining vesting period	1	0,70	–

[1] The market value of ordinary shares resets six-monthly on the 1st of July and 1st of January each year.

OUTSURANCE HOLDINGS SHARE TRUST

OUTsurance Holdings Limited shares are issued to the Trust on the share option grant date. The Trust's investment in OUTsurance Holdings Limited for the year ending 30 June 2014 was as follows:

	2014 R'000	2013 R'000
Number of treasury shares and market value		
Number of shares in portfolio at the beginning of the year	77 816	91 115
Number of shares purchased during the year	5 374	6 429
Number of shares released during the year	(29 176)	(19 728)
Number of shares held in portfolio at the end of the year	54 014	77 816
Market value per share held in portfolio at year end (Rand)	3,70	3,10
Market value of portfolio at year end	199 852	241 228
Cost price of treasury shares		
Cost price of shares held in portfolio at the beginning of the year	157 093	169 378
Cost price of shares purchased during the year	18 015	18 519
Cost price of shares released during the year	(72 754)	(30 804)
Cost price of shares held in portfolio at the end of the year	102 354	157 093
Loans to the share trust		
Value of loans made to the trust at the beginning of the year (R'000)	157 093	169 378
Value of loans made to the trust at the end of the year (R'000)	102 354	157 093

29. SHARE BASED PAYMENTS (continued)

Share scheme expenditure

The following assumptions were applied in determining the cash-settled share based payment liability at:

	OUTsurance Holdings cash-settled scheme	
	2014	2013
Share price	R5,57	R3,30
Exercise price	2.22 to 3.33	R3,30
Remaining duration	0 to 2 years	3 years
Expected volatility	22.00%	30%
Risk free interest rate	6.81%	6.17%
Dividend yield	5.00%	6.5%
Annual employee turnover	0%	0%

The inputs to the share option pricing model to determine the fair value of equity settled grants made in the current year were as follows:

	Youi Holdings equity-settled scheme	
	2014	2013
Share price	$0,37	$0,075
Exercise price	$0,37	$0,10
Option duration	3	6
Expected volatility	22%	50%
Risk free interest rate	4.50%	3.50%
Dividend yield	0%	0%
Annual employee turnover	0%	0%
Fair value at grant date	$0,08	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30. RECONCILIATION OF CASH GENERATED BY/(UTILISED IN) OPERATIONS

	2014 R'000	Restated 2013 R'000	Restated 2012 R'000
Comprehensive income for the year before tax	2 255 194	1 913 471	2 089 690
Adjusted for:			
Depreciation	99 593	99 111	71 893
Share of profit in associate	(10 398)	(10 015)	(7 958)
Dividends received from associates	7 840	4 900	2 450
Share based payments – equity settled schemes	491	1 149	8 329
Net gains and losses for fair value adjustments on Financial Assets	(42 247)	(19 730)	4 248
Gain on sale of subsidiary	–	(51 220)	–
Loss on disposal of fixed assets	3 526	653	491
Fair value adjustment on financial liabilities	190 810	200 758	219 651
Provision for non-claims bonuses on insurance contracts for the year	300 686	271 257	280 159
Non-claims bonuses on insurance contracts paid	(292 380)	(282 232)	(253 213)
Finance charges	1 188	722	1 128
Change in UPP net of unearned commission	774 224	500 777	317 789
Change on deferred acquisition costs	(91 132)	(61 591)	(130 000)
Change in claims reserves	102 870	241 871	28 897
Change in policyholder liability under long-term insurance contracts	21 729	12 162	(6 858)
Employee benefit service cost	48 085	45 070	29 683
Cash generated by operations before working capital changes	3 370 079	2 867 113	2 656 379
Changes in working capital	(160 188)	(308 190)	(163 047)
(Increase) in receivables	(456 108)	(440 908)	(326 461)
Increase in payables	184 903	96 916	147 334
Increase in share based payment liability	84 748	45 524	–
Transfer of share based payment reserve	–	(17 412)	–
Increase in employee benefits	26 269	7 690	7 709
Movement of items related to assets held for sale	–	–	8 371
Cash generated by operations	3 209 891	2 558 923	2 493 332

31. FINANCE CHARGES

	2014 R'000	2013 R'000
Interest paid – operational financing	1 188	722
	1 188	722

32. TAXATION PAID

	2014 R'000	Restated 2013 R'000	Restated 2012 R'000
Taxation payable – opening balance	**(34 364)**	(6 674)	(23 385)
Charge in statement of comprehensive income	**(622 546)**	(535 100)	(427 451)
Adjustment for deferred tax charge	**80 247**	81 952	(219 122)
Taxation payable – closing balance	**21 393**	34 364	6 674
Disposal asset held for sale	**–**	–	(622)
Taxation paid	**(555 270)**	(425 458)	(663 906)

33. PREFERENCE DIVIDENDS PAID

	2014 R'000	2013 R'000
Preference dividends unpaid at the beginning of the year	**(110 425)**	(115 369)
Preference dividend charged to the statement of comprehensive income in respect of cell captive arrangements and profit shares	**(190 810)**	(200 758)
Preference dividend in respect of "A" variable rate non-cumulative preference shares	**(5 824)**	(38 313)
Preference dividend unpaid at the end of the year	**105 488**	110 425
Preference dividend paid	**(201 571)**	(244 015)

34. COMMITMENTS

	2014 R'000	2013 R'000
Up to 1 year	**2 207**	2 076
Between 1 and 5 years	**4 496**	1 959
Total operating lease commitments[1]	**6 703**	4 035
Up to 1 year	**36 118**	23 902
Between 1 and 5 years	**79 724**	93 795
Total operating lease commitments for Youi Pty Ltd[2]	**115 842**	117 697

[1] The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

[2] Youi Pty Ltd leases its office building under a non-cancellable operating lease expiring within a maximum of five years. The leases are renewable for further periods of up to four years.

35. CURRENT/NON-CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION

For the purposes of this table 'current' is defined as asset, liability and equity amounts which mature within the next 12 months. Balances classified as non-current mature in longer than 12 months.

	Carrying amount R'000	Current R'000	Non-current R'000
30 June 2014			
ASSETS			
Property and equipment	514 195	–	514 195
Employee benefits	106 712	56 634	50 078
Investment in associates	25 589	–	25 589
Reinsurers' share of insurance contract provisions	101 740	50 095	51 645
Deferred acquisition costs	336 114	336 114	–
Financial assets			
Fair value through profit and loss	2 452 364	1 800 799	651 565
Available-for-sale	1 265 149	151 749	1 113 400
Loans and receivables	1 436 613	1 188 324	248 289
Deferred income tax	220 266	197 299	22 967
Tax receivable	2 321	2 321	–
Cash and cash equivalents	3 437 023	3 437 023	–
TOTAL ASSETS	9 898 086	7 220 358	2 677 728
LIABILITIES AND EQUITY			
Total shareholders' equity	4 315 843	–	4 315 843
Non-controlling interest	137 608	–	137 608
Insurance contract liabilities	4 456 382	4 076 807	379 575
Employee benefits	110 992	69 367	41 625
Share based payment liability	130 272	73 537	56 735
Financial liabilities at fair value through profit and loss	105 488	105 488	–
Tax liabilities	23 714	23 714	–
Financial liabilities held at amortised cost			
Insurance and other payables	617 787	617 787	–
TOTAL EQUITY AND LIABILITIES	9 898 086	4 966 700	4 931 386

35. CURRENT/NON-CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION (continued)

	Group		
	Carrying amount R'000	Current R'000	Non-current R'000
30 June 2013			
ASSETS			
Property and equipment	459 598	127 982	331 616
Employee benefits	39 685	38 900	785
Investment in associates	23 031	–	23 031
Reinsurers' share of insurance contract provisions	51 300	37 842	13 458
Deferred acquisition costs	215 240	215 240	–
Financial assets			
Fair value through profit and loss	2 631 452	1 760 838	870 614
Available-for-sale	1 123 711	300 000	823 711
Loans and receivables	980 505	707 773	272 732
Deferred income tax	291 071	–	291 071
Tax receivable	1 184	1 184	–
Cash and cash equivalents	1 933 587	1 933 587	–
TOTAL ASSETS	7 750 364	5 123 346	2 627 018
LIABILITIES AND EQUITY			
Total shareholders' equity	3 784 119	–	3 784 119
Insurance contract liabilities	3 257 141	2 947 807	309 334
Employee benefits	84 723	46 304	38 419
Share based payment liability	45 524	1 020	44 504
Financial liabilities at fair value through profit and loss	110 425	110 425	–
Tax liabilities	35 548	35 548	–
Financial liabilities held at amortised cost			
Insurance and other payables	432 884	432 884	–
TOTAL EQUITY AND LIABILITIES	7 750 364	3 573 988	4 176 376

36. RELATED PARTY TRANSACTIONS

The Group defines related parties as:

- The parent company, Rand Merchant Insurance Holdings Limited (RMI Holdings);
- Associate companies of the parent company which include Discovery Holdings Limited, MMI Holdings Limited and RMB Structured Insurance Holdings Limited;
- Key management personnel such as the OUTsurance Holdings Limited Board of directors and the OUTsurance Holdings executive committee as well as the Youi Holdings Pty Limited executive committee.

PRINCIPAL SHAREHOLDERS

The Group is ultimately controlled by RMI Holdings. At the reporting date, RMI Holdings owned 83.4% (2013: 83.4%) of OUTsurance Holdings Limited, with the OUTsurance Holdings Share Trust owning 1.6% (2013: 2.2%), OUTsurance Investment Trust owning 6.4% (2013: 6.5%) and management 8.6% (2013: 7.9%) of the issued share capital.

SUBSIDIARIES

Details of investment in subsidiaries are disclosed in note 18.

Transactions between OUTsurance Holdings Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

36. RELATED PARTY TRANSACTIONS (continued)

ASSOCIATES

Details of investment in associates are disclosed in note 19.

For the year under review, the OUTsurance Holdings Group entered into transactions with related parties resulting in the following expenses/(income):

	2014 R'000	2013 R'000
Transactions with related parties		
Momentum Asset Management		
– Asset management fee paid	3 144	3 564
FNB Life (a division of MMI Holdings Limited)		
– Claims paid	6 323	8 003
– Administration fee paid	4 972	6 760
– Premium received	(24 926)	(29 352)
– Dividends paid	9 795	11 273
Discovery Health		
– Medical aid premiums paid	53 246	49 536
MMI Holdings Limited		
– Medical aid premiums paid	5 598	6 447
– Pension fund contribution	65 090	62 813
– Group Life premiums paid	9 191	12 692
– Disability fees paid	3 421	1 613
– Administration fees received	(49 991)	(52 971)
Firness International (Pty) Limited		
– Ordinary dividends paid	419 820	538 637
RMI Holdings Limited		
– "A" Preference dividend paid	5 824	38 235
– Ordinary dividends paid	412 078	458 693
Investment income (received)/paid:		
Discovery Holdings Limited	(4 250)	(4 230)
Year end balances with related parties		
RMI Holdings Limited		
– "A" Preference shares	–	200 500
– Preference dividend payable	–	78
MMI Holdings Limited		
– Loans and receivables	414	3 522
Discovery Holdings Limited		
– Preference share investment	59 616	57 070
Key management personnel		
Remuneration		
Salaries and bonuses	85 633	76 745
Non-executive directors fees	4 356	3 274
Other short-term employee benefits	1 666	1 273
Share-based payments	46 760	27 979
Total compensation of key management personnel	138 415	109 271
Insurance related transactions		
Premiums received	1 115	847
Claims paid	(1 311)	(270)

36. RELATED PARTY TRANSACTIONS (continued)

The preference share investment in Discovery Holdings Limited consists of non-cumulative, non-redeemable preference shares listed on the JSE. The dividend rate is 95% of the ruling prime interest rate.

Insurance transactions are conducted at arm's length.

REMUNERATION

Prescribed officers' and directors' emoluments for the year ended 30 June 2014 is as follows:

	Services as directors R'000	Cash package R'000	Performance related bonus[1] R'000	Other benefits R'000	Total R'000
2014					
Non-executive directors					
P Cooper	124[7]	4 513[6]	–	1 067[6]	5 704
LL Dippenaar	305[8]	–	–	–	305
AW Hedding	124	–	–	–	124
J Kleynhans[2]	24[7]	–	–	–	24
F Knoetze[3]	24[7]	–	–	–	24
J Madavo	72	–	–	–	72
G Marx	138	–	–	–	138
NL Nightingale	186	–	–	–	186
K Pillay[3]	24	–	–	–	24
PR Pretorius	96	–	–	–	96
G Roberts-Baxter[4]	48[7]	–	–	–	48
Executive directors and prescribed officers					
Executive directors					
WT Roos	–	3 267	–	–	3 267
H Aron[5]	–	7 349	7 286	–	14 635
MC Visser	–	2 880	–	–	2 880
Prescribed officers					
E Gouws	–	2 558	–	–	2 558
JH Hofmeyr	–	1 814	–	–	1 814
Total	1 165	22 381	7 286	1 067	31 899

[1] Performance related bonuses are paid over a two-year cycle.
[2] Resigned 19/02/2014.
[3] Appointed 19/02/2014.
[4] Resigned 05/11/2013.
[5] The performance bonus cycle for Mr Aron commenced on 30 June 2014. Mr Aron's prior bonus cycle commenced on 1 July 2012.
[6] Paid by Rand Merchant Insurance Holdings for services as an executive director of Rand Merchant Insurance Holdings.
[7] Directors fees are paid to representative companies.
[8] Includes fees for serving on the Rand Merchant Insurance Holdings Board (2014: R112 417) (2013: R104 000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36. RELATED PARTY TRANSACTIONS (continued)

REMUNERATION (continued)

	Services as directors R'000	Cash package R'000	Performance related bonus[1] R'000	Other benefits R'000	Total R'000
2013					
Non-executive directors					
VW Bartlett	117[7]	–	–	–	117
P Cooper	117[7]	4 611[6]	–	843[6]	5 571
LL Dippenaar	286[8]	–	–	–	286
J Kleynhans	45[7]	–	–	–	45
PR Pretorius	91	–	–	–	91
NL Nightingale	175	–	–	–	175
J Madavo	91	–	–	–	91
G Marx	130	–	–	–	130
G Roberts-Baxter	91[7]	–	–	–	91
AW Hedding	13	–	–	–	13
Executive directors and prescribed officers					
Executive directors					
WT Roos	–	3 267	3 267	–	6 534
H Aron	–	7 018	7 018	–	14 036
MC Visser	–	2 720	2 500	–	5 220
Prescribed officers					
E Gouws	–	2 720	2 500	–	5 220
JH Hofmeyr	–	1 620	1 500	–	3 120
Total	1 156	21 956	16 785	843	40 740

[1] *Performance related bonuses are paid over a two-year cycle.*
[2] *Resigned 19/02/2014.*
[3] *Appointed 19/02/2014.*
[4] *Resigned 05/11/2013.*
[5] *The performance bonus cycle for Mr Aron commenced on 30 June 2014. Mr Aron's prior bonus cycle commenced on 1 July 2012.*
[6] *Paid by Rand Merchant Insurance Holdings for services as an executive director of Rand Merchant Insurance Holdings.*
[7] *Directors fees are paid to representative companies.*
[8] *Includes fees for serving on the Rand Merchant Insurance Holdings Board (2014: R112 417) (2013: R104 000).*

36. RELATED PARTY TRANSACTIONS (continued)

DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION IN GROUP SHARE INCENTIVE SCHEMES

OUTsurance Holdings share incentive scheme

	Strike price Rands	Vesting date From	To	Settlement type	Opening balance 1 July 2013 '000	Forfeited this year '000	Taken up this year '000	Granted in current year '000	**Closing balance 30 June 2014 '000**	Benefit derived R'000
WT Roos	1,94	2010/07/01	2013/07/01	Cash	2 188	–	2 188	–	–	3 041
	2,22	2011/07/01	2014/07/01	Cash	1 750	–	–	–	1 750	–
	2,80	2012/07/01	2015/07/01	Cash	1 500	–	–	–	1 500	–
	3,33	2013/07/01	2016/07/01	Cash	–	–	–	750	750	–
H Aron	1,94	2010/07/01	2013/07/01	Cash	2 188	–	2 188	–	–	3 041
	2,22	2011/07/01	2014/07/01	Cash	1 750	–	–	–	1 750	–
	2,80	2012/07/01	2015/07/01	Cash	1 500	–	–	–	1 500	–
	3,33	2013/07/01	2016/07/01	Cash	–	–	–	750	750	–
MC Visser	1,54	2008/07/01	2013/07/01	Equity	667	–	667	–	–	1 193
	1,74	2009/07/01	2014/07/01	Equity	1 167	–	583	–	584	927
	1,94	2010/07/01	2013/07/01	Cash	1 750	–	1 750	–	–	2 433
	2,22	2011/07/01	2014/07/01	Cash	1 500	–	–	–	1 500	–
	2,80	2012/07/01	2015/07/01	Cash	1 250				1 250	–
	3,33	2013/07/01	2016/07/01	Cash	–	–	–	750	750	–
JH Hofmeyr	1,54	2008/07/01	2013/07/01	Equity	133	–	133	–	–	239
	1,74	2009/07/01	2014/07/01	Equity	600	–	300	–	300	477
	1,94	2010/07/01	2013/07/01	Cash	1 000	–	1 000	–	–	1 390
	2,22	2011/07/01	2014/07/01	Cash	800	–	–	–	800	–
	2,80	2012/07/01	2015/07/01	Cash	900	–	–	–	900	–
	3,33	2013/07/01	2016/07/01	Cash	–	–	–	700	700	–
E Gouws	1,54	2008/07/01	2013/07/01	Equity	2 000	–	2 000	–	–	3 580
	1,74	2009/07/01	2014/07/01	Equity	1 750	–	1 167	–	583	1 855
	1,94	2010/07/01	2013/07/01	Cash	1 750	–	1 750	–	–	2 433
	2,22	2011/07/01	2014/07/01	Cash	1 500	–	–	–	1 500	–
	2,80	2012/07/01	2015/07/01	Cash	1 250			–	1 250	–
	3,33	2013/07/01	2016/07/01	Cash	–	–	–	750	750	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36. RELATED PARTY TRANSACTIONS (continued)

DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION IN GROUP SHARE INCENTIVE SCHEMES (continued)

Youi Holdings share incentive scheme

	Strike price Aus $	Vesting date From	Vesting date To	Opening balance 1 July 2013 '000	Forfeited this year '000	Taken up this year '000	Granted in current year '000	**Closing balance 30 June 2014 '000**	Benefit derived R'000
WT Roos	0,100	2010/08/31	2018/06/30	109 375	–	109 375	–	–	–
H Aron	0,100	2010/08/31	2018/06/30	109 375	–	–	–	109 375	–
MC Visser	0,100	2010/08/31	2018/06/30	21 875	–	20 620	–	1 255	–

RMI Holdings share appreciation rights scheme

	Strike price Rands	Exercise date	Opening balance 1 July 2013 '000	Forfeited this year '000	Taken up this year '000	Granted in current year '000	**Closing balance 30 June 2014 '000**	Benefit derived R'000
P Cooper	13,09	2014/09/14	439	–	–	–	439	–
	20,28	2015/09/14	275	–	–	–	275	–
	20,28	2016/09/14	275	–	–	–	275	–
	20,28	2017/09/16	275	–	–	–	275	–
	26,45	2016/09/14	–	–	–	73	73	–
	26,45	2017/09/14	–	–	–	73	73	–
	26,45	2018/09/14	–	–	–	72	72	–

RMI Holdings deferred bonus plan

	Strike price Rands	Exercise date	Opening balance 1 July 2013 '000	Forfeited this year '000	Taken up this year '000	Granted in current year '000	**Closing balance 30 June 2014 '000**	Benefit derived R'000
P Cooper	None	2013/09/14	47	–	47	–	–	1 260
	None	2014/09/14	37	–	–	–	37	–

37. CHANGE IN ACCOUNTING POLICY

During the year, the Group changed its policy in respect of acquisition costs to allow for the deferral thereof on short-term policies with a term greater than a month and long-term policies. The rationale behind the change in accounting policy is explained in note 2.

This change in accounting policy has been accounted for retrospectively and the comparatives have been restated. The effect of the change is as follows:

OUTSURANCE HOLDINGS GROUP

	Original R'000	Restated R'000	Difference R'000
At 30 June 2013			
Statement of financial position			
Assets			
Deferred acquisition costs	2 952	215 240	212 288
Deferred income tax	371 130	291 071	(80 059)
	374 082	506 311	132 229
Equities and liabilities			
Policyholder liabilities under insurance contracts	3 312 254	3 253 782	(58 472)
Foreign currency translation reserve	187 333	199 536	12 203
Retained earnings	3 016 499	3 194 997	178 498
	6 516 086	6 648 315	132 229
Statement of comprehensive income			
Marketing and administration expenses	(2 041 639)	(1 990 203)	51 436
Transfer to policyholder liability	(29 384)	(12 162)	17 222
Deferred income tax	(61 699)	(81 953)	(20 254)
	(2 132 722)	(2 084 318)	48 404
At 30 June 2012			
Statement of financial position			
Assets			
Deferred acquisition costs	4 946	153 649	148 703
Deferred income tax	404 782	348 621	(56 161)
	409 728	502 270	92 542
Equities and Liabilities			
Policyholder liabilities under insurance contracts	2 481 106	2 439 856	(41 250)
Foreign currency translation reserve	124 972	128 670	3 698
Retained earnings	2 941 471	3 071 565	130 094
	5 547 549	5 640 091	92 542
Statement of comprehensive income			
Marketing and administration expenses	(1 636 993)	(1 505 481)	131 512
Transfer to policyholder liability	(11 949)	6 858	18 807
Deferred income tax	263 733	213 856	(49 877)
	(1 385 209)	(1 284 767)	100 442

37. CHANGE IN ACCOUNTING POLICY (continued)

The impact of the change in accounting policy is broken down per subsidiary as follows:

YOUI HOLDINGS PTY LIMITED

	Original R'000	Restated R'000	Difference R'000
At 30 June 2013			
Statement of financial position			
Assets			
Deferred acquisition costs	–	212 288	212 288
Deferred income tax	–	(63 686)	(63 686)
	–	148 602	148 602
Equities and Liabilities			
Foreign currency translation reserve	–	12 203	12 203
Retained earnings	–	136 399	136 399
	–	148 602	148 602
Statement of comprehensive income			
Marketing and administration expenses	–	51 436	51 436
Deferred income tax	–	(15 431)	(15 431)
	–	36 005	36 005
At 30 June 2012			
Statement of financial position			
Assets			
Deferred acquisition costs	–	148 703	148 703
Deferred income tax	–	(44 611)	(44 611)
	–	104 092	104 092
Equities and Liabilities			
Foreign currency translation reserve	–	3 698	3 698
Retained earnings	–	100 394	100 394
	–	104 092	104 092
Statement of comprehensive income			
Marketing and administration expenses	–	131 512	131 512
Deferred income tax	–	(44 611)	(44 611)
	–	86 901	86 901

37. CHANGE IN ACCOUNTING POLICY (continued)

OUTSURANCE LIFE INSURANCE COMPANY LIMITED

	Original R'000	Restated R'000	Difference R'000
At 30 June 2013			
Statement of financial position			
Assets			
Deferred income tax	20 123	3 750	(16 373)
	20 123	3 750	(16 373)
Equities and Liabilities			
Policyholder liabilities under insurance contracts	49 210	(9 262)	(58 472)
Retained earnings	(49 421)	(7 322)	42 099
	(211)	(16 584)	(16 373)
Statement of comprehensive income			
Transfer to policyholder liability	(29 384)	(12 162)	17 222
Deferred income tax	1 616	(3 207)	(4 823)
	(27 768)	(15 369)	12 399
At 30 June 2012			
Statement of financial position			
Assets			
Deferred income tax	18 313	6 763	(11 550)
	18 313	6 763	(11 550)
Equities and Liabilities			
Policyholder liabilities under insurance contracts	13 554	(27 696)	(41 250)
Retained earnings	(40 528)	(10 828)	29 700
	(26 974)	(38 524)	(11 550)
Statement of comprehensive income			
Transfer to policyholder liability	(11 949)	6 858	18 807
Deferred income tax	7 225	1 959	(5 266)
	(4 724)	8 817	13 541

38. RESTATEMENT OF PRIOR YEAR NUMBERS

Sunday 30 June 2013	Amount as previously reported R'000	Amount as restated R'000	Difference R'000	Explanation
Reconciliation of cash generated by operations				
Increase/(decrease) in outstanding claims	191 695	–	191 695	Transfer of increase/(decrease) in outstanding claims to change in claims reserves
Change in IBNR	50 176	–	50 176	Transfer of change in IBNR to change in claims reserves
Change in claims reserves	–	241 871	(241 871)	Transfer of increase/(decrease) in outstanding claims and IBNR to change in claims reserves
Total	241 871	241 871	–	

38. RESTATEMENT OF PRIOR YEAR NUMBERS (continued)

Sunday 30 June 2013	Amount as previously reported R'000	Amount as restated R'000	Difference R'000	Explanation
Claims on insurance contracts net of reinsurance				
Gross				
Gross claims paid	(4 120 948)	–	(4 120 948)	Transfer gross claims paid and salvages to claims paid net of salvages and recoveries
Salvages and recoveries	605 350	–	605 350	Transfer gross claims paid and salvages to claims paid net of salvages and recoveries
Claims paid net of salvages and recoveries	–	(3 515 598)	3 515 598	Transfer gross claims paid and salvages to claims paid net of salvages and recoveries
Change in provision for outstanding claims	(181 266)	–	(181 266)	Transfer of outstanding claims and IBNR to change in claims reserves
Change in IBNR	(50 176)	–	(50 176)	Transfer of outstanding claims and IBNR to change in claims reserves
Change in claims reserves	–	(231 442)	231 442	Transfer of outstanding claims and IBNR to change in claims reserves
Total	(3 747 040)	(3 747 040)	–	
Claims on insurance contracts net of reinsurance				
Reinsurance				
Claims paid	189 229	–	189 229	Transfer gross claims paid and salvages to claims paid net of salvages and recoveries
Change in provision for outstanding claims	(10 429)	–	(10 429)	Transfer of outstanding claims and IBNR to change in claims reserves
Claims paid net of salavges and recoveries	–	189 229	(189 229)	Transfer gross claims paid and salvages to claims paid net of salvages and recoveries
Change in claims reserves	–	(10 429)	10 429	Transfer of outstanding claims and IBNR to change in claims reserves
Total	178 800	178 800	–	
Insurance contract liabilities				
Gross insurance contracts				
Claims incurred but not reported	338 935	342 294	(3 359)	Reallocated the portion of reinsurance share of incurred but not reported to reflect seperately. Previously included as part of the gross incurred but not reported.
Recoverable from reinsurers				
Claims incurred but not reported	–	(3 359)	3 359	Reallocated the portion of reinsurance share of incurred but not reported to reflect seperately. Previously included as part of the gross incurred but not reported.
Total	338 935	338 935		

39. EVENTS AFTER THE REPORTING PERIOD

No matters which are material to the financial affairs of the Group occurred between the reporting date and date of the approval of the financial statements.


You don't drive far since you took a job in the suburbs
You used to spend hours in the traffic on the way to your job in the city. Then you were offered a great opportunity at the local gallery. You took it. And you've never looked back.
There's no-one you'er than you, that's why there's Youi. We save you money by insuring you for how you use your car.
So if you leave your car at home and cycle to work we could save you lots on your car insurance.
youi
you.insured
car home contents

COMPANY ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

The reports and statements set out below comprise the annual report presented to the members:

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 R'000	2013 R'000
Investment income	4	1 086 638	1 958 575
Marketing and administration expenses	5	(36)	(61)
Result of operating activities		1 086 602	1 958 514
Gain on disposal of subsidiary	6	–	52 513
Profit before taxation		1 086 602	2 011 027
Taxation	7	(190)	(10 413)
Net profit for the year		1 086 412	2 000 614
Total comprehensive income attributable to:			
Ordinary shareholders		1 080 588	1 962 301
Non-cumulative non-redeemable preference shareholders		5 824	38 313
Total comprehensive income for the year		1 086 412	2 000 614

STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	Notes	2014 R'000	2013 R'000
ASSETS			
Investment in subsidiaries	8	1 695 751	1 538 651
Investment in associate	9	4 900	4 900
Financial assets			
Fair value through profit and loss	10	–	60 000
Loans and receivables	11	102 363	157 315
Tax receivable		3	–
Cash and cash equivalents	12	4 847	99 315
TOTAL ASSETS		1 807 864	1 860 181
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	13	35 182	35 182
Share premium	13	265 110	465 610
Retained earnings		1 507 572	1 359 297
TOTAL EQUITY		1 807 864	1 860 089
LIABILITIES			
Tax liabilities		–	14
Financial liabilities at fair value through profit and loss	14	–	78
TOTAL LIABILITIES		–	92
TOTAL EQUITY AND LIABILITIES		1 807 864	1 860 181

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

	Share capital R'000	Share premium R'000	Share based payments reserve R'000	Retained earnings R'000	Total ordinary shareholders' interest R'000	Total preference shareholders' interest R'000	Total R'000
Balance as at 30 June 2012	35 182	265 110	56 336	560 288	916 916	802 000	1 718 916
Total comprehensive income for the year	–	–	–	2 000 614	2 000 614	–	2 000 614
Share based payment	–	–	714	435	1 149	–	1 149
Transfer from investment in subsidiaries	–	–	(49 281)	–	(49 281)	–	(49 281)
Share option expenses transferred to retained earnings	–	–	(6 358)	6 358	–	–	–
Disposal of subsidiary	–	–	(1 411)	–	(1 411)	–	(1 411)
Repurchase of preference shares	–	–	–	–	–	(601 500)	(601 500)
Preference dividend paid	–	–	–	(38 313)	(38 313)	–	(38 313)
Ordinary dividend paid	–	–	–	(1 170 085)	(1 170 085)	–	(1 170 085)
Balance as at 30 June 2013	35 182	265 110	–	1 359 297	1 659 589	200 500	1 860 089
Total comprehensive income for the year	–	–	–	1 086 412	1 086 412	–	1 086 412
Repurchase of preference shares	–	–	–	–	–	(200 500)	(200 500)
Preference dividend paid	–	–	–	(5 824)	(5 824)	–	(5 824)
Ordinary dividend paid	–	–	–	(932 313)	(932 313)	–	(932 313)
Balance as at 30 June 2014	35 182	265 110	–	1 507 572	1 807 864	–	1 807 864

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 R'000	2013 R'000
OPERATING ACTIVITIES			
Cash generated by operations	15	1 086 815	1 958 128
Taxation paid	16	(207)	(10 387)
Ordinary dividends paid		(932 313)	(1 170 085)
Preference dividends paid	17	(5 902)	(38 235)
Cash inflow from operating activities		148 393	739 421
INVESTING ACTIVITIES			
Investment in subsidiaries			
Acquisitions		(157 100)	(125 000)
Disposal		–	126 515
Proceeds on disposal of financial assets		60 000	–
Purchase of financial assets		–	(60 000)
Cash outflow from investing activities		(97 100)	(58 485)
FINANCING ACTIVITIES			
Repurchase of preference shares		(200 500)	(601 500)
Purchase of treasury shares by scheme participants		72 754	30 804
Purchase of treasury shares by share trust		(18 015)	(18 519)
Cash outflow from financing activities		(145 761)	(589 215)
(Decrease)/Increase in cash and cash equivalents		(94 468)	91 721
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents		99 315	7 594
(Decrease)/Increase in cash and cash equivalents		(94 468)	91 721
Closing balance of cash and cash equivalents	12	4 847	99 315

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

OUTsurance Holdings Ltd is an unlisted public company incorporated and domiciled in South Africa and a subsidiary of Rand Merchant Insurance Holdings Ltd.

The financial statements were authorised for issue by the directors on 27 August 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual financial statements of OUTsurance Holdings Ltd are prepared according to the same accounting policies used in preparing the consolidated financial statements of the OUTsurance Holdings Ltd Group.

3. MANAGEMENT OF RISK AND CAPITAL

3.1 RISK MANAGEMENT FRAMEWORK

The Company has developed an Enterprise Risk Management framework to provide reasonable assurance that the Company's risks are being prudently and soundly managed. The framework is designed according to acceptable principles on Corporate Governance and Risk Management standards. The risk management framework outlines the key risks facing the business and how these risks are monitored.

Risk and governance oversight is provided by the OUTsurance Holdings Ltd Board, OUTsurance Holdings Ltd Audit, Risk and Compliance Committee, OUTsurance Holdings Ltd Internal Investment Committee and the OUTsurance Holdings Ltd Risk Committee, the latter two of which are internal management committees.

3.2 FINANCIAL RISK MANAGEMENT

3.2.1 Financial instruments measured at fair value

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

- Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments as measured on reporting date.
- Level 2 – fair value is determined through inputs, other than quoted prices included in level 1 that are observable for the assets and liabilities, either directly (prices) or indirectly (derived from prices).
- Level 3 – fair value is determined through valuation techniques which use significant unobservable inputs.

At 30 June 2014 the Company did not hold any financial assets.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2013:

	Level 2 R'000	Level 3 R'000	Total R'000
Financial assets			
Fair value through profit and loss	60 000	–	60 000
	60 000	–	60 000
Financial liabilities			
Financial liabilities at fair value through profit and loss	–	78	78
	–	78	78

There were no transfers between levels during the year.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 FINANCIAL RISK MANAGEMENT (continued)

3.2.1 Financial instruments measured at fair value (continued)

The fair values of the above instruments were determined as follows:

Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The fair values of collective investment scheme investments are determined by the closing unit price as quoted by the collective investment scheme. The collective investment scheme is not listed.

Level 3

The financial liabilities at fair value through profit and loss represent profit arising out of profit sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends on a six monthly basis to RMI Holdings Limited.

The table below analyses the movement of the level 3 financial instruments for the period under review.

	2014 R'000	2013 R'000
Opening balance	(78)	–
Preference dividend paid	78	38 235
Preference dividend charged to the statement of comprehensive income	–	(38 313)
	–	(78)

3.2.2 Market risk

Market risk is the risk that the value of a financial instrument may fluctuate as a result of changes in the market price. Investments valued at fair value are therefore subject to changes in value due to market fluctuations, which may impact on the net income during those financial years in which such fluctuations occur. Market risk therefore comprises equity price risk, interest rate risk and currency risk.

Equity price risk

This is the risk that the price of an equity instrument will fluctuate due to market forces rather than as a direct result of some other market risk such as currency or interest rate risk. Equity price risk is the risk inherent in equity investments that cannot be removed by diversification.

	2014 R'000	2013 R'000
Collective investment schemes	–	60 000
	–	60 000

Interest rate risk

Interest rate risk is the risk that the value or future cash flow of a financial instrument will fluctuate as a result of a change in market interest rates. The Company's financial assets are exposed to interest rate risk. Risk exposure to movements in yields is specified as a maximum value per interest rate point move per million rand invested. These levels are approved annually by the Board of directors and the Investment Committee.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 FINANCIAL RISK MANAGEMENT (continued)

3.2.2 Market risk (continued)

Interest rate risk (continued)

An increase or decrease of 1% in the market interest rate would result in the following changes in the profit before tax of the Company:

	2014 1% increase R'000	2014 1% decrease R'000	2013 1% increase R'000	2013 1% decrease R'000
Cash and cash equivalents	48	(48)	993	(993)
	48	(48)	993	(993)

Currency risk

Currency risk is the risk that the value of a financial instrument denominated in a currency other than the functional currency of the company may fluctuate due to changes in the foreign currency exchange rate between the functional currency and the currency in which such instrument is denominated.

The Company did not have any exposure to currency risk during the current period or prior reporting period.

3.2.3 Credit risk

Credit risk is the risk that a financial asset may not be realisable due to the inability or unwillingness of the issuer of such instrument to discharge its contractual obligations. Potential concentrations of credit risk consist only of cash and cash equivalents. The Company limits its counterparty exposures from its money market instruments by only dealing with well-established financial institutions of high quality credit standing.

The table below indicates the quality of the credit risks that the Company's assets are exposed to:

	AA R'000	BBB R'000	BB R'000	Not rated R'000	Total R'000
At 30 June 2014					
Cash and cash equivalents	–	4 847	–	–	4 847
Loans and receivables	–	10	–	102 353	102 363
Total	–	4 857	–	102 353	107 210
At 30 June 2013					
Cash and cash equivalents	99 315	–	–	–	99 315
Collective investment scheme	14 202	38 952	6 846	–	60 000
Loans and receivables	41	112	20	157 142	157 315
Total	113 558	39 064	6 866	157 142	316 630

The loans and receivables consist of the loan to the OUTsurance Holdings Share Trust which is not rated as well as other trade and other receivables with entities that are not rated. Transactions with these counterparties are continuously monitored by management.

The credit risk rating used above, are international long-term Fitch ratings. Where international ratings are not available, national ratings are applied. Where long-term ratings are not available, the financial instruments are categorised according to short-term ratings. The ratings are defined as follows:

Long-term ratings

AA Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

BBB Good credit quality. 'BBB' rating indicates a low expectation of credit risk. They indicate adequate capacity for timely payment of financial commitments. Changes in circumstances or in economic conditions are more likely to impair this capacity than is the case for higher ratings.

BB Speculative quality. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 FINANCIAL RISK MANAGEMENT (continued)

3.2.3 Credit risk (continued)

Impairment of Financial Assets

None of the Company's financial assets exposed to credit risk are past due or impaired.

3.2.4 Liquidity risk

Liquidity risk is the risk that the Company, although solvent, is not able to settle its obligations as they fall due because of insufficient cash. This might arise in circumstances where the Company's assets are not marketable or can only be realised at an excessive discount. The Company manages liquidity risk in line with a defined investment mandate. The undiscounted liquidity profile of the Company's assets and liabilities, grouped by expected maturity, is outlined below:

	0 – 6 months R'000	> 60 months R'000	Total R'000
At 30 June 2014			
Assets			
Investment in subsidiary	–	1 695 751	1 695 751
Investment in associates	–	4 900	4 900
Financial assets			
Loans and receivables	102 363	–	102 363
Tax receivable	3	–	3
Cash and cash equivalents	4 847	–	4 847
Total assets	107 213	1 700 651	1 807 864
At 30 June 2013			
Assets			
Investment in subsidiary	–	1 538 651	1 538 651
Investment in associates	–	4 900	4 900
Financial assets			
Fair value through profit and loss	60 000	–	60 000
Loans and receivables	157 315	–	157 315
Cash and cash equivalents	99 315	–	99 315
Total assets	316 630	1 543 551	1 860 181
Liabilities			
Tax liabilities	14	–	14
Financial liabilities held at fair value through profit and loss	78	–	78
Total liabilities	92	–	92

4. INVESTMENT INCOME

	2014 R'000	2013 R'000
Cash and cash equivalents		
Interest received	718	3 094
Dividends received from financial assets designated at fair value through profit and loss	851	581
Dividends from – subsidiaries	1 085 069	1 954 900
	1 086 638	1 958 575

5. MARKETING AND ADMINISTRATION EXPENSES

The following expenses have been included in the statement of comprehensive income under marketing and administration expenses:

	2014 R'000	2013 R'000
Other disclosable items		
Consulting and legal fees for professional services	32	57
Marketing and management expenses	4	4
Total marketing and administration expenses per the statement of comprehensive income	36	61

6. DISPOSAL OF SUBSIDIARY

The gain on disposal of Momentum Short Term Insurance Company is calculated as follows:

	2013 R'000
Consideration received in cash and cash equivalents	126 515
Less: Total ordinary shares held	74 002
Gain on disposal of subsidiary	52 513

7. TAXATION

	2014 R'000	2013 R'000
South African normal taxation		
Current tax	(190)	(10 413)
Current year	(200)	(10 413)
Prior year over provision	10	–
Total taxation charge	(190)	(10 413)
Tax rate reconciliation		
Normal SA tax on companies	304 249	563 088
Non-temporary differences	(304 049)	(552 675)
Capital gains tax	–	9 547
Profit on sale of subsidiary	–	(14 704)
Exempt dividends	(304 058)	(547 534)
Non-allowable expenses	9	16
Prior year (over) provision	(10)	–
Amount calculated at effective rate	190	10 413

The new dividend tax law allows that the recipient's liability for dividend tax be reduced with the amount of any STC credits available, for a period of three years up to 1 March 2015. The STC credit is made up from two possible sources namely, any unused STC credits of the company brought forward from the final dividend cycle under the STC system as well as any new pro rata portion of any STC credit received by the company under the new dividend tax regime.

8. INVESTMENT IN SUBSIDIARIES

	2014 R'000	2013 R'000
OUTsurance Insurance Company Ltd		
Ordinary shares at cost	141 900	141 900
Capitalised share based payments	6 340	6 340
	148 240	148 240
OUTsurance International Holdings (Pty) Ltd		
Ordinary shares at cost	1 169 086	1 169 086
	1 169 086	1 169 086
OUTsurance Life Insurance Company Ltd		
Ordinary shares at cost	205 002	205 002
Issue of ordinary shares	120 000	–
Capitalised share based payments	218	218
	325 220	205 220
Micawber 296 (Pty) Ltd		
Ordinary shares at cost	16 105	16 105
Issue of ordinary shares	22 000	–
	38 105	16 105
YOUI (Pty) Ltd		
Ordinary shares at cost		
Issue of ordinary shares	15 000	–
	15 000	
OUTsurance Shared Services (Pty) Ltd		
Issue of ordinary shares	100	–
	100	–
Total investment in subsidiary companies	1 695 751	1 538 651

8. INVESTMENT IN SUBSIDIARIES (continued)

	2014 R'000	2013 R'000
Reconciliation of investment in subsidiary – OUTsurance Insurance Company Ltd		
Opening balance	148 240	196 067
Capitalised share based payments	–	1 106
Share option expenses transferred	–	(48 933)
Closing balance	148 240	148 240
Reconciliation of investment in subsidiary – Momentum Short-Term Insurance Company Ltd		
Opening balance	–	75 413
Sale of shares in subsidiary	–	(75 413)
Closing balance	–	–
Reconciliation of investment in subsidiary – OUTsurance International Holdings (Pty) Ltd		
Opening balance	1 169 086	1 169 086
Closing balance	1 169 086	1 169 086
Reconciliation of investment in subsidiary – OUTsurance Life Insurance Company Ltd		
Opening balance	205 220	80 525
Ordinary shares at cost	120 000	125 000
Capitalised share based payments	–	44
Share option expenses transferred	–	(349)
Closing balance	325 220	205 220
Reconciliation of investment in subsidiary – Micawber 296 (Pty) Ltd		
Opening balance	16 105	16 105
Ordinary shares at cost	22 000	–
Closing balance	38 105	16 105
Reconciliation of investment in subsidiary – Youi (Pty) Ltd		
Opening balance		
Ordinary shares at cost	15 000	–
Closing balance	15 000	–
Reconciliation of investment in subsidiary – OUTsurance Shared Services (Pty) Ltd		
Opening balance	–	–
Ordinary shares at cost	100	–
Closing balance	100	–

8. INVESTMENT IN SUBSIDIARIES (continued)

Summarised financial information on subsidiaries with non-controlling interests

	2014 R'000	2013 R'000
Statement of financial position		
Current assets	5 065 508	2 763 235
Non-current assets	142 154	75 924
Current liabilities	(461 287)	(321 167)
Technical provisions	(3 075 482)	(1 689 001)
Equity	1 670 893	828 991
Statement of comprehensive income		
Gross written premium	4 065 679	2 465 630
After tax comprehensive income/(loss) attributable to the Group	215 634	(33 032)
Cash flow statement		
Cash inflow from operating activities	823 567	505 659
Cash (outflow) from investing activities	(56 602)	(28 292)
Cash inflow from financing activities	581 062	–
Effect of exchange rates on cash and cash equivalents	8 743	–
Increase in cash and cash equivalents	1 356 770	477 367
Opening balance of cash and cash equivalents	1 839 639	1 362 272
Closing balance of cash and cash equivalents	3 196 409	1 839 639

Subsidiary companies only distribute dividends if management is of the opinion that the target solvency and liquidity margin in the subsidiary will be maintained after the payment of such dividends.

The details of subsidiary companies are as follows:

Subsidiary	Nature of business	Country of Incorporation	Effective Holding 2014	Effective Holding 2013
OUTsurance Insurance Company Ltd	Short-term insurer	South Africa	100%	100%
OUTsurance International Holdings (Pty) Ltd	Holding company	South Africa	100%	100%
OUTsurance Life Insurance Company Ltd	Long-term insurer	South Africa	100%	100%
Micawber 296 (Pty) Ltd	Property company	South Africa	100%	100%
Youi (Pty) Ltd	Administration company	South Africa	100%	100%
Youi Holdings Pty Ltd	Holding company	Australia	93%	100%
Youi Pty Ltd	Short-term insurer	Australia	93%	100%
Outsurance Shared Services (Pty) Ltd#	Service Company	South Africa	100%	N/A
Youi New Zealand Pty Ltd	Service Company	New Zealand	93%	100%
Momentum STI Ltd*	Short-term insurer	South Africa	0%	50%

#*Incorporated during the 2014 financial year.*
**Sold during the 2013 financial year.*

The OUTsurance Holdings Share Trust is controlled by OUTsurance Holdings Ltd.

Refer to note 18 for the current and non-current analysis of investments in subsidiaries.

9. INVESTMENT IN ASSOCIATES

	2014 N$'000	2013 N$'000
Statement of financial position		
Current assets	46 570	39 637
Non-current assets	80 885	72 910
Current liabilities	(11 785)	(14 027)
Technical provisions	(62 953)	(50 490)
Equity	52 717	48 030
Statement of comprehensive income		
Revenue	157 186	121 825
After tax comprehensive income attributable to the Group	10 398	10 015
Cash flow statement		
Cash inflow/(outflow) from operating activities	31 531	26 198
Cash inflow/(outflow) from investing activities	(7 608)	(17 849)
Cash inflow/(outflow) from financing activities	(17 839)	(12 185)
Increase/(decrease) in cash and cash equivalents	6 084	(3 836)
Opening balance of cash and cash equivalents	37 100	40 936
Closing balance of cash and cash equivalents	43 184	37 100
Investment in associate (49%)	4 900	4 900

Refer to note 18 for the current and non-current analysis of investments in associates.

10. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES

The Company's financial assets are summarised below:

	2014 R'000	2013 R'000
Fair value designated through profit and loss		
Debt securities		
Collective investment scheme	–	60 000
Total financial assets	–	60 000

10. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES (continued)

	Fair value designated through profit and loss R'000	Total R'000
At 30 June 2014		
Movement analysis		
Balance at 1 July 2013	**60 000**	60 000
Disposals (sales and redemptions)	**(60 000)**	(60 000)
Balance at 30 June 2014	**–**	–
At 30 June 2013		
Movement analysis		
Balance at 1 July 2012	–	–
Additions (purchases and issuings)	60 000	60 000
Balance at 30 June 2013	60 000	60 000

11. FINANCIAL ASSETS – LOANS AND RECEIVABLES

	2014 R'000	2013 R'000
Other receivables		
Accrued dividend income	**–**	173
Loan to share trust	**102 354**	157 093
Other receivables and prepayments	**9**	49
Total receivables	**102 363**	157 315

Other receivables are carried at amortised cost using the effective interest rate method. Where the effects of discounting are deemed material, the receivables are reflected at the discounted amounts.

At 30 June 2014, none of the receivables listed above is considered to be past due or impaired.

Included in loans and receivables are amounts due by related parties. Refer to note 19 for further details thereof.

The carrying amount of loans and receivables approximates the fair value. Refer to note 18 for the current and non-current analysis of loans and receivables.

Included in the financial assets – loans and receivables is the loan advanced by the Company to the OUTsurance Holding Share Trust to enable transactions relating to the remuneration scheme.

	2014 R'000	2013 R'000
Opening balance	**157 093**	169 378
Repayment of loan	**(72 754)**	(30 804)
Cash advanced to trust	**18 015**	18 519
Closing balance	**102 354**	157 093

12. CASH AND CASH EQUIVALENTS

	2014 R'000	2013 R'000
Cash at bank and in hand	4 847	99 315
	4 847	99 315

The carrying value of cash and cash equivalents approximates the fair value.

13. SHARE CAPITAL

	2014 R	2013 R
Authorised share capital		
3 999 999 990 (2013: 3 999 999 990) ordinary shares at R0.01 each	39 999 990	39 999 990
1000 "A" variable rate non-cumulative non-redeemable preference shares of R0.01 each	10	10
Issued ordinary share capital		
Total shares in issue: 3 518 163 100 (2013: 3 518 163 100) ordinary shares at R0.01 each	35 181 631	35 181 631
Closing balance	35 181 631	35 181 631
Issued preference share capital		
Opening balance: 178 (2013: 712) "A" variable rate non-cumulative non-redeemable preference shares at R0.01 each	2	7
Shares repurchased during the year: 178 (2013: 534) "A" variable rate non-cumulative non-redeemable preference shares of R0.01 each	(2)	(5)
Total shares in issue: 0 (2013: 178) "A" variable rate non-cumulative non-redeemable preference shares of R0.01 each	–	2

	2014 R'000	2013 R'000
Ordinary shares premium		
Issued share premium	265 110	265 110
	265 110	265 110
"A" Preference shares premium		
Opening balance	200 500	802 000
Share premium on redemption of shares	(200 500)	(601 500)
Closing balance	–	200 500

The unissued shares of the Company are under the control of the directors until the forthcoming annual general meeting.

14. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss relate to the preference shares issued by OUTsurance Holdings Limited to Rand Merchant Insurance Holdings Ltd. The portion of the unpaid preference dividend is recognised as a financial liability at fair value through profit and loss.

	2014 R'000	2013 R'000
Shareholders for "A" preference dividends	–	78
	–	78

Refer to note 18 for the current and non-current analysis of shareholders for preference dividends.

15. RECONCILIATION OF CASH GENERATED BY OPERATIONS

	2014 R'000	2013 R'000
Comprehensive income for the year before tax	1 086 602	2 011 027
Adjusted for:		
Disposal of subsidiary	–	(52 513)
Cash generated by operations before working capital changes	1 086 602	1 958 514
Changes in working capital	213	(386)
Decrease/(Increase) in receivables	213	(86)
Decrease in payables	–	(300)
Cash generated by operations	1 086 815	1 958 128

16. TAXATION PAID

	2014 R'000	2013 R'000
Taxation (payable)/receivable – opening balance	(14)	12
Charge in statement of comprehensive income	(190)	(10 413)
Taxation (receivable)/payable – closing balance	(3)	14
Taxation paid	(207)	(10 387)

17. PREFERENCE DIVIDEND PAID

	2014 R'000	2013 R'000
Preference dividends unpaid at the beginning of the year	(78)	–
Preference dividend in respect of "A" variable rate non-cumulative preference shares	(5 824)	(38 313)
Preference dividend unpaid at the end of the year	–	78
Preference dividend paid	(5 902)	(38 235)

18. CURRENT/NON-CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION

For the purposes of this table 'current' is defined as asset, liability and equity amounts which mature with the next 12 months. Balances classified as non-current mature in longer than 12 months.

	Carrying amount R'000	Current R'000	Non current R'000
30 June 2014			
ASSETS			
Investment in subsidiaries	1 695 751	–	1 695 751
Investment in associates	4 900	–	4 900
Financial assets			
Loans and receivables	102 363	102 363	–
Tax receivable	3	3	–
Cash and cash equivalents	4 847	4 847	–
TOTAL ASSETS	1 807 864	107 213	1 700 651
LIABILITIES AND EQUITY			
Total shareholders' equity	1 807 864	–	1 807 864
TOTAL EQUITY AND LIABILITIES	1 807 864	–	1 807 864
30 June 2013			
ASSETS			
Investment in subsidiaries	1 538 651	–	1 538 651
Investment in associates	4 900	–	4 900
Financial assets			
Fair value through profit and loss	60 000	60 000	–
Loans and receivables	157 315	157 315	–
Cash and cash equivalents	99 315	99 315	–
TOTAL ASSETS	1 860 181	316 630	1 543 551
LIABILITIES AND EQUITY			
Total shareholders' equity	1 860 089	–	1 860 089
Financial liabilities at fair value through profit and loss	78	78	–
Tax liabilities	14	14	–
TOTAL EQUITY AND LIABILITIES	1 860 181	92	1 860 089

19. RELATED PARTY TRANSACTIONS

The Company defines related parties as:

- Parent company
- Associates of parent company, namely Discovery Holdings Ltd, MMI Holdings Ltd and RMB Structured Insurance Holdings Ltd
- Subsidiary companies
- Associates
- Key management personnel such as the Company's Board of directors and executive committee as well as the Youi (Pty) Ltd executive committee.

Principal shareholders

The Company is ultimately controlled by Rand Merchant Insurance Holdings Ltd. At the reporting date, Rand Merchant Insurance Holdings Group owned 83.4% (2013: 83.4%) of OUTsurance Holdings Ltd, with the OUTsurance Holdings Share Trust owning 1.6% (2013: 2.2%), OUTsurance Investment Trust owning 6.4% (2013: 6.5%) and management 8.6% (2013: 7.9%) of the issued share capital.

Subsidiaries

Details of investment in subsidiaries are disclosed in note 8.

Associates

Details of investment in associates are disclosed in note 9.

Key management personnel

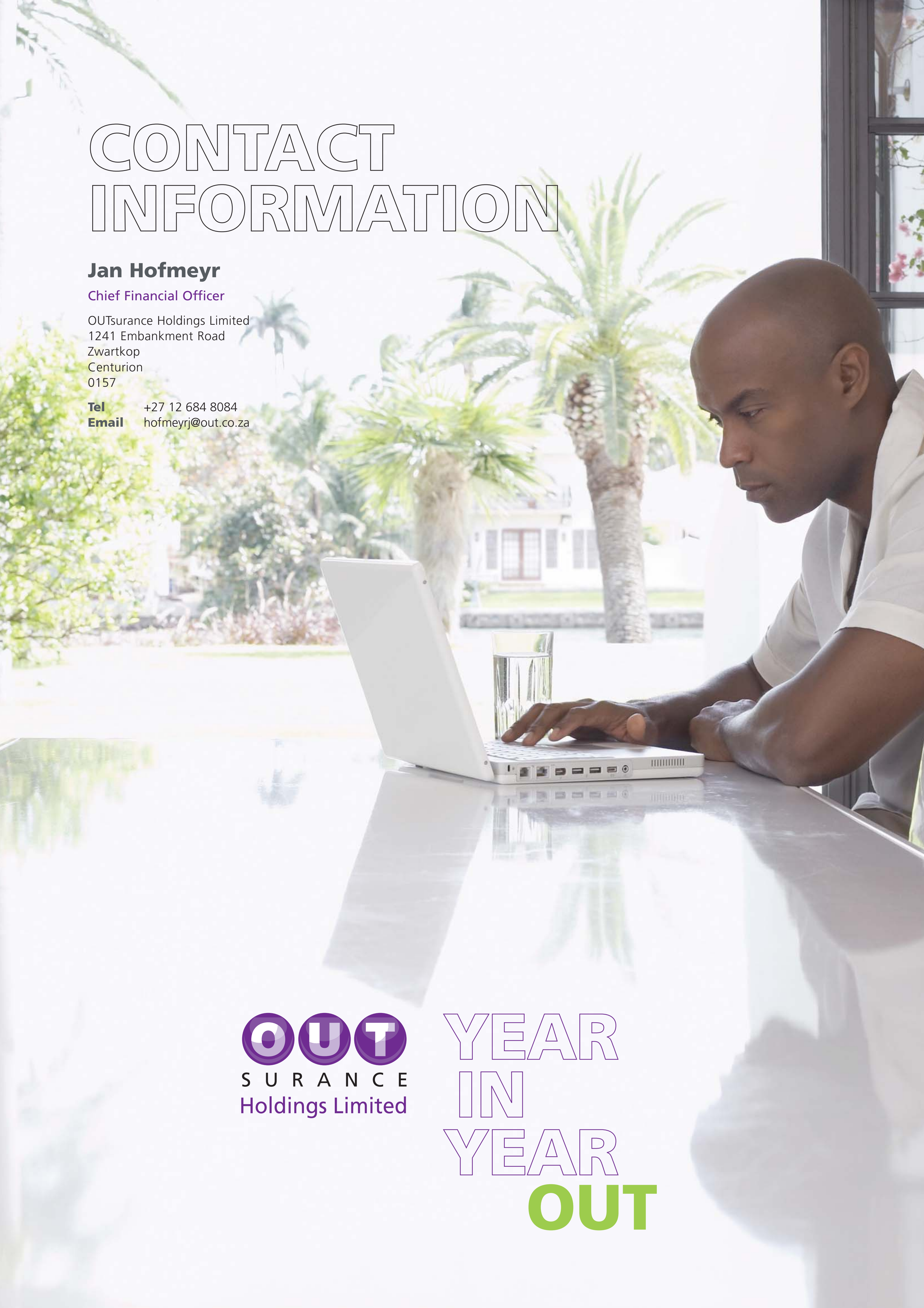
Details of key management remuneration are disclosed in the OUTsurance Holdings Ltd Group annual financial statements.

For the year under review, the Company entered into the following transactions with related parties:

	2014 R'000	2013 R'000
Transactions with related parties		
Rand Merchant Insurance Holdings Ltd		
– "A" Preference dividends paid	(5 824)	(38 235)
– Ordinary dividends paid	(412 078)	(458 693)
Year end balances with related parties		
Rand Merchant Insurance Holdings Ltd		
– "A" Preference dividends payable	–	78

20. EVENTS AFTER THE REPORTING PERIOD

No matters which are material to the financial affairs of the Company occurred between the reporting date and date of the approval of the financial statements.



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OUTSURANCE Holdings Limited

YEAR IN YEAR OUT