CRAZY ABOUT

people

OBSESSED WITH

service

ANNUAL REPORT 2016

OUTSURANCE Holdings Limited

our **values**

The OUTsurance culture can be described as work hard, play hard. We recognise individuality and aim to generate a culture of personal integrity. Our values provide a framework for our thoughts, attitudes, actions and appropriate business conduct. We conduct value surveys every six months to see how well we do.

Awesome Service

Awesome Service is unique and exceptional. It defines the way we treat our clients and ensures that they become our best marketing tools by recommending us to their family, friends and colleagues.

Honesty

We are honest, trustworthy and reliable.

Leadership

We lead by example and are ambassadors of our values, in and outside the work place.

Passion

Passion is the energy and commitment, the 'fire in the belly', which guides our attitudes and actions.

People Development

Our people are our strength and we invest time, effort and energy to ensure continual learning, development and achievement.

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.

Respect

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

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 Investment Holdings.

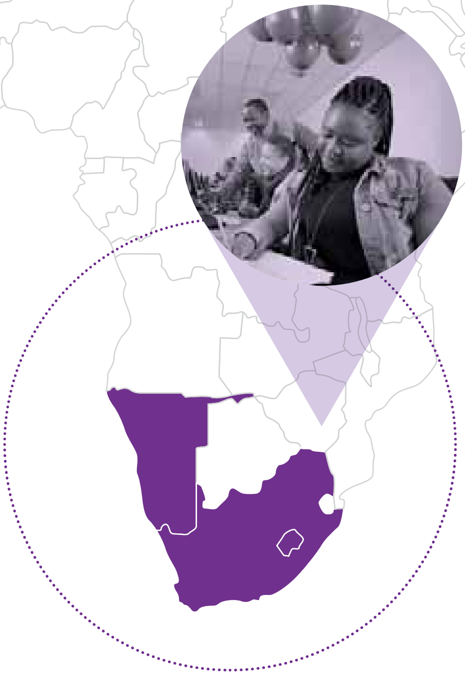
Southern Africa

Employees
2 575

Contribution to Group gross premiums written
51%

Contribution to Group headline earnings
83%

Customer satisfaction index
86%



INSURANCE

Car | Home | Business | Life

OUTSURANCE

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.

100% owned

OUTSURANCE Life

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

100% owned

OUTSURANCE Namibia

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.

49% owned

Australasia

Employees
1 710

Contribution to Group gross premiums written
49%

Contribution to Group headline earnings
17%

Customer satisfaction index
90%

youi

AUSTRALIA

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

93% owned

youi

NEW ZEALAND

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

93% owned

we get you

our performance
in 2016

38.4%
HEADLINE ROE

R14 754 million
GROSS WRITTEN PREMIUM
up by 18.3%

R4 037 million
ANNUALISED NEW PREMIUM WRITTEN
up by 3.1%

36 cents
ORDINARY DIVIDEND PER SHARE
up by 18%

54.7 cents
DILUTED HEADLINE EARNINGS PER SHARE
up by 39.5%

R1 985 million
HEADLINE EARNINGS
up by 43%

Of all its major competitors, OUTsurance again achieved the **lowest Ombudsman overturned ratio for Short-Term Insurance**

R32.9 million
spent on community initiatives including pointsmen

154 dedicated
OUTsurance pointsmen and pointswomen

customer satisfaction index
OUTSURANCE 86%
YOUI 90%

OUTbonus payments in 2016
R397 million

Employment equity ratio in South Africa
59.7% ACI

our **economic impact**

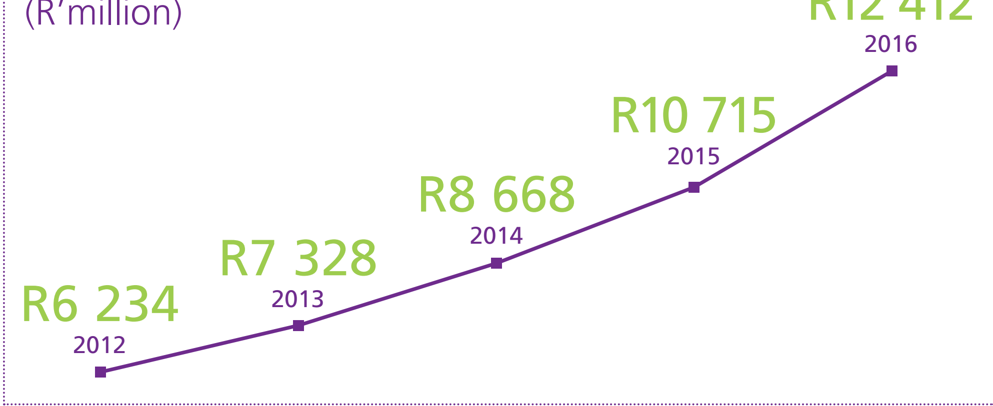
Employees
R2 019 million
16% of total
2015: **R1 735 million**

Government
R886 million
7% of total
2015: **R613 million**

Policyholders
R7 463 million
60% of total
2015: **R6 911 million**

Providers of capital
R2 044 million
17% of total
2015: **R1 456 million**

Economic value added history
(R'million)



our **strategic objectives**
for growth

1

Our shareholders

Ensuring sustainable profits through disciplined underwriting. We manage our capital resources with the necessary prudence and flexibility to enable growth.

Our objectives

- Incremental growth of our mature operations.
- Sustain profitable market share growth in Australasia.
- Manage Youi New Zealand towards break-even in three years.
- Expand our sales and distribution footprint for commercial insurance products.
- Diversification of revenues to include ancillary financial services products.

How we have performed:

SEE PG 10

2

Our people

Our performance driven culture rewards and recognises our staff for delivering awesome service to our customers.

Our objectives

- To be a great company to work for.

How we have performed:

SEE PG 20

"Crazy about people, obsessed with service" *- I do feel the great culture, it is alive. This is what makes OUT the number one choice."*

Kathy Govender

3

Our clients

Our business philosophy is to provide value for money insurance solutions backed by awesome service.

Our objectives

- Drive incremental improvement in our operational processes, pricing and systems to improve our customer experience.
- Roll-out a telematics product to enhance our client proposition.
- Developing our digital channels to optimise client engagement and create innovative product solutions.
- Ensure the highest level of compliance with existing and new regulations.

How we have performed:

SEE PG 24

4

Our communities

We give back to the community through our Staff Helping SA OUT initiative and Pointsmen project.

Our large service provider network is key to delivering on our business objectives.

Our objectives

- Continue to invest in the pointsmen project to drive positive results for our community.
- Increase our resource allocation for our charitable foundation – Staff Helping SA OUT.
- Grow BBBEE procurement spend.

How we have performed:

SEE PG 29

executive **review**

THE YEAR IN REVIEW

The OUTsurance Holdings Group achieved a strong financial performance for the year ending 30 June 2016. The Group's headline earnings grew by 43% to R1.985 billion. This performance can be attributed to significant improvement in the contribution which the Youi Group made to the overall result. The Southern African operation produced a pleasing improvement in profitability.

Operating conditions in the South African economy weakened over the course of the 2016 financial year. A significant decrease in new vehicle sales, a weaker and more volatile currency and general recessionary conditions deteriorated the outlook for the local insurance sector. Premium growth at OUTsurance benefitted from inflation brought about by a weaker currency and higher local inflation. Against this backdrop the South African operation delivered continued revenue and earnings growth. Our life insurance operation continues to mature and has delivered strong earnings and embedded value growth in 2016.

Youi Australia generated earnings of R497 million for the year compared to R51 million in 2015. The prior year result was negatively impacted by numerous weather catastrophes in Australia. The year under review was subject to more normal weather patterns although weather related losses were above the long-term average for the industry. Throughout the year our management team prioritised the drive for efficiency in Youi with the objective of reducing the cost-to-income ratio. We are particularly pleased with the sharp reduction in this key metric which has improved our margin and provided us with greater flexibility to absorb earnings volatility brought about by weather patterns. Youi continues to outperform the average industry claims ratio which is testimony to our rating and claims management philosophy. Youi now represents the largest segment of our Group with over 1.1 million policies.

Youi New Zealand commenced business in 2014 in a highly competitive market place. The growth of the book slowed during the 2016 year as the management team focussed on consolidating and refining our operational processes. We are excited about the prospects of Youi New Zealand and the positive impact we can have on the industry and its consumers.

OUR STRATEGIC FOCUS

At OUTsurance our core strategy is to drive incremental improvement across our operating disciplines. Our competitive environment requires us to drive daily improvement in our service centres, claims processes, systems and actuarial capabilities. We distinguish our offering with the best-in-class service and value for money pricing. During the year we achieved improvements across all key client service metrics.

Outside of this core focus, our key strategic objectives for 2017 and beyond are as follows:

Grow our Australasian operation

Our business in Australia offers significant potential and has laid down strong roots. Youi's new business volumes have however come under pressure in a very competitive market. Our market share of in force premiums have plateaued over the last year indicating that growth will be demanding in future. We aim to stimulate growth through the addition of innovative product features to be introduced during 2017.

The negative press articles related to Youi New Zealand's compliance breaches have negatively impacted on new business volumes. The focus is now to grow Youi New Zealand to achieve break-even in the next three years.

Grow our share of the commercial insurance market

The South African commercial insurance market is large and has a track record of good profitability. We currently share an estimated 3% of this market and have developed strong pricing, systems and claims management infrastructure since the launch of Business OUTsurance in 2005. Our key challenge in this segment is to widen our distribution strategy to access the intermediated market as well as to establish a tied-agent capability. We have dedicated significant resources to this strategy which will commence incremental roll-out during the next financial year.

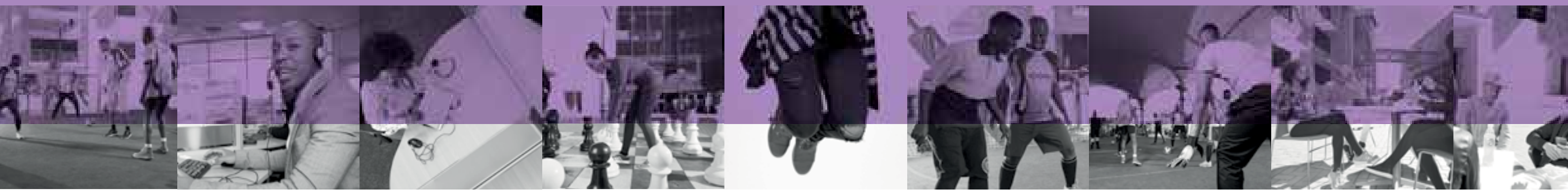
Deploy a compelling telematics product offering

We continue to build our internal telematics capabilities. Our view is that telematics will become a key feature of motor insurance pricing in the future. Our internal studies show that telematics data is predictive and can have a bearing on vehicle insurance pricing. In 2017, we will continue to refine our systems with the objective of rolling out a value-adding product in the near future.

Digitising the way we do business

The world is experiencing rapid changes brought about by the digital revolution. The insurance industry is not immune to changing demands of customers in the digital era. A particular focus area is the expansion of our service offering on digital channels, especially mobile. Digital mediums create opportunities to enhance our product offering and differentiation. The evolution of our digital capability is a focal point across our operations.

The cost and strategy of new business generation has shifted in recent years. New business generation is moving away from traditional advertising mediums to more expensive digital channels. We are focussing on optimising our digital marketing initiatives to take advantage of this trend.



Diversification

We acknowledge the long-term threat to motor insurance premiums posed by autonomous vehicles. Although we see the proliferation of self-driving cars only occurring well into the future it is necessary that we consider the diversification of our revenue streams. Our commercial insurance growth strategy supports this diversification objective. We are in the process of developing an investment product for our South African business to complement our existing product range. Outside of these projects, we will evaluate strategies to expand our financial services product range.

Regulatory environment

The financial services industry has been subject to major regulatory changes since the global financial crisis. We are well positioned to adopt and comply with new developments, in particular the Solvency Assessment and Management regime becoming effective in 2017. Our executive team participates actively in industry and regulatory forums responsible for designing and implementing regulatory frameworks.

We continue to invest in our risk management and compliance capabilities to minimise the occurrence and severity of risk events.

COMPLIANCE BREACHES AND NEGATIVE PUBLICITY

Youi has been subject to recent negative press both in New Zealand and Australia. In New Zealand, this negative coverage follows an investigation by the New Zealand Commerce Commission (NZCC) into unauthorised sales practices identified at Youi. Our management team cooperated transparently with the regulatory authorities during this investigation which revealed that a small minority of Youi staff members breached internal policies and procedures by activating policies without the consent of clients. These unacceptable sales represent an extremely small number of quotes and sales performed over the period in question. Although such incidents are isolated, such behaviour is completely unacceptable and contrary to the values and culture of our Group. Strong disciplinary action was instituted against the individuals who chose not to adhere to operational procedures which resulted in a number of dismissals. Our management team has taken appropriate remedial action to prevent and identify any unacceptable sales activity across all Group operations. The preventative measures have proven to be highly effective.

Youi New Zealand has pleaded guilty to the charges instituted by the NZCC in order to expedite proceedings. The sanction against Youi will be finally instituted by a court hearing in October 2016. This sanction is expected to be in the form of a monetary fine. Youi New Zealand has provided for the best estimate of the fine in its June 2016 results.

Youi Australia has experienced similar sales breaches as the two businesses share common call centre infrastructure. In the case of Youi Australia, the number of unacceptable sales registered were isolated and once again represented an extremely small proportion of total quotes and sales. The necessary preventative and disciplinary actions have been instituted as in the case of the New Zealand operation. These matters have been discussed with the regulatory authorities and management continues its constructive dialogue with its regulators.

The negative press articles which featured in the Australian and New Zealand media allege that Youi has miss-sold policies to thousands of clients. In the context of unacceptable sales representing a minute proportion of total sales and quotes, the factual inaccuracy of these articles is unfortunate.

Youi has taken full responsibility and unreservedly apologised to the affected clients whilst ensuring that no client is financially disadvantaged.

Over many years, our Group has built a strong consumer reputation by instilling a culture which promotes the highest standard of fair customer treatment. We wish to stress our zero tolerance approach to any compliance breaches or behaviour which is inconsistent with our culture and risks damage to our reputation. Our management team and 1 700 Youi staff members will work tirelessly to regain lost trust and to ensure the best customer outcomes are achieved at all times.

LOOKING AHEAD

We expect growth in our South African operation to be subdued during 2017 as a result of the recessionary local economic conditions. In the long-term the growth of our core personal lines operation will be subject to the growth prospects of the South African economy. Our aim is to accelerate growth by successfully growing our commercial insurance footprint.

From a higher base, Youi is expected to continue to deliver reasonable premium growth over the next financial year. The improving scale of this business is expected to drive further cost efficiency and incremental margin expansion. Our management team will focus on growing Youi New Zealand to a profitable insurance business which can deliver on its potential as a growth driver for the Group.

WILLEM ROOS
Joint Chief Executive Officer

LAURIE DIPPENAAR
Chairman

30 August 2016

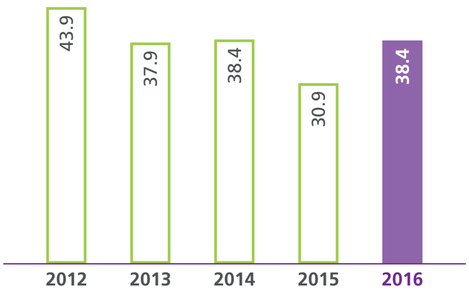
financial **review**

GROUP KEY PERFORMANCE INDICATORS

ROE

The Group achieved a 38.4% ROE for the year under review. The increase in the ROE is attributed to the growth in profitability. ROE is our primary measure of shareholder value creation.

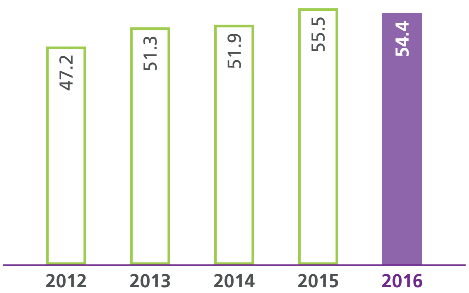
Normalised ROE (%)



CLAIMS RATIO

The claims ratio is the primary operational measure of the Group's short-term insurance operations. The Group targets a claims ratio of between 55% and 60%. The Group achieved a 54.4% claims ratio for the year under review. The improvement is linked to a lower claims ratio achieved by Youi coupled with an incremental improvement by OUTsurance. The Group's disciplined underwriting philosophy is key in achieving stable claims ratios.

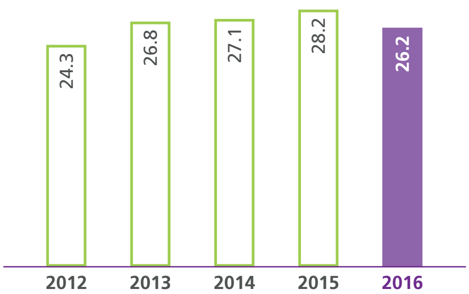
Claims ratio (%)



COST-TO-INCOME RATIO

The cost-to-income ratio measures the Group's cost efficiency. The largest contributors to the Group's cost base are acquisition costs and call centre related expenses. The Group targets an overall cost-to-income ratio of below 25%. The improvement in the Group's cost ratio was driven largely by significant efficiency gains achieved by Youi Australia.

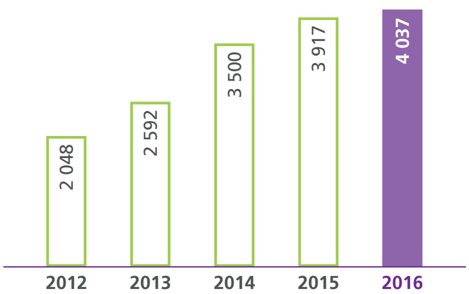
Cost-to-income ratio (%)



NEW BUSINESS WRITTEN

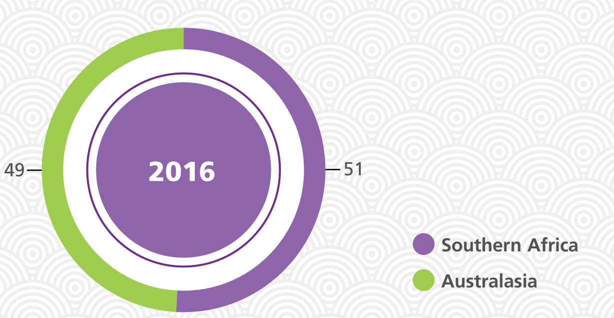
From a higher base, the Group achieved 3% growth in the annualised new business premium written in the year under review. Overall, new business volumes were stable compared to the prior financial year, however tough economic conditions negatively impacted business volumes in the South African operation.

Annualised new business premium written (R'million)

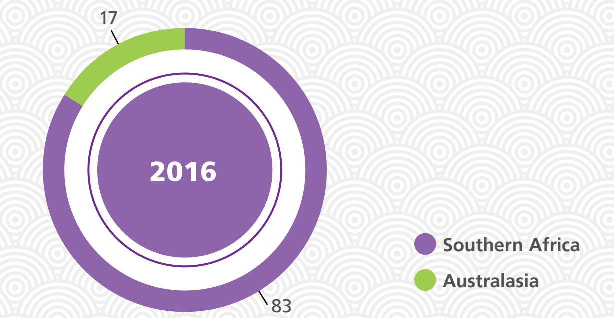


DIVERSIFICATION OF PREMIUM REVENUE AND EARNINGS

Gross written premium (%)

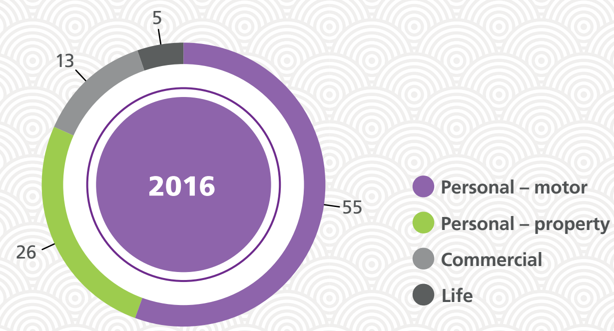


Headline earnings (%)

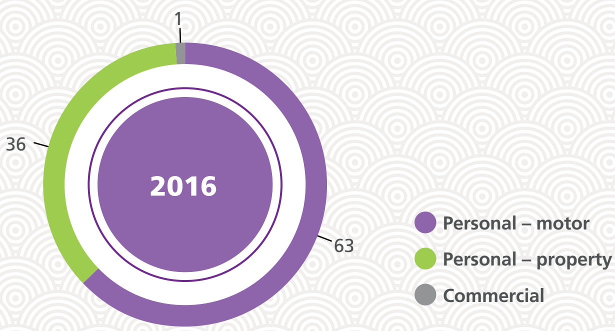


DIVERSIFICATION OF PREMIUM REVENUE BY PRODUCT

Southern Africa (%)



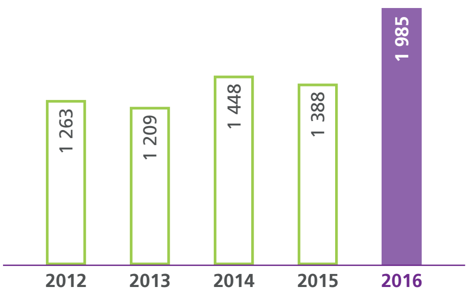
Australasia (%)



OVERVIEW OF RESULTS

The Group delivered a strong earnings performance during the year under review. Headline earnings increased by 43% to R1.985 billion on the back of good performances by all major business segments. In particular, a significantly improved financial performance by Youi Australia was the largest driver in the improved result.

Normalised earnings (R'million)



Group key financial outcomes

	2016	2015	% Change
Gross written premium (R'million)	**14 754**	12 469	18.3%
Headline earnings (R'million)	**1 985**	1 388	43%
Headline ROE (%)[1]	**38.4%**	30.9%	
Headline earnings per share (cents)	**57,0**	39,9	42.9%
Diluted headline earnings per share (cents)	**54,7**	39,2	39.5%
Dividend declared per share (cents)	**36,0**	30,5	18%
Claims ratio (including non-claims bonuses) (%)	**54.4%**	55.5%	
Cost-to-income ratio (%)	**26.2%**	28.2%	
Combined ratio[2] (%)	**82.7%**	86.3%	

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:

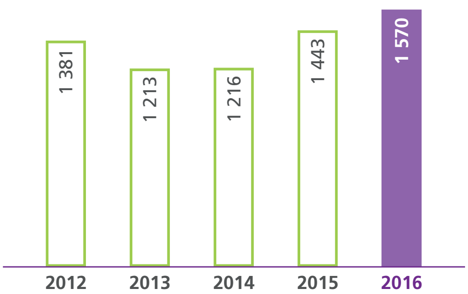
	2016	2015	% Change
OUTsurance	**1 570**	1 443	8.8%
OUTsurance Life	**60**	38	57.9%
OUTsurance Namibia (49%)	**15**	15	–
Central (including consolidation adjustments)	**19**	(5)	–
Youi Group	**347**	(110)	>100%
Youi Australia	**497**	51	>100%
Youi New Zealand	**(107)**	(130)	(17.7%)
Central funding costs	**(43)**	(31)	38.7%
Non-controlling interest	**(26)**	7	(>100%)
Headline earnings	**1 985**	1 388	43%

BUSINESS UNIT PERFORMANCE

OUTsurance

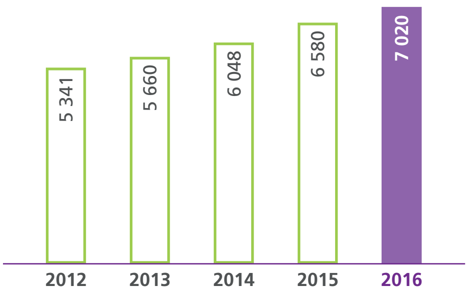
Against a backdrop of poor economic growth, OUTsurance delivered a pleasing financial performance. Headline earnings grew by 8.8% to R1.57 billion. Gross written premium revenue increased by 6.7%. The growth in premium is attributed to the higher inflationary environment. New business volumes were under pressure, particularly in the second half of the year owing to poor economic conditions and intense competition. The higher interest rate environment drove higher investment income which materially contributed to earnings growth.

Headline earnings (R'million)



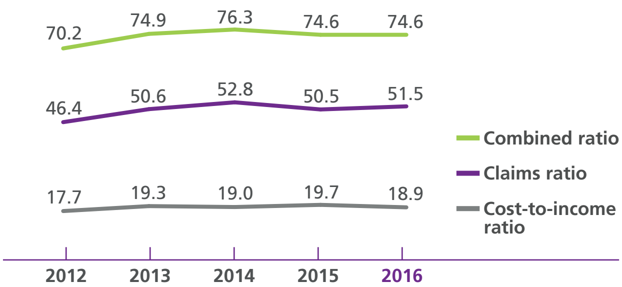
The core personal lines operation which excludes the FirstRand Homeowners book, grew premiums by 7.1% driven by premium inflation. Business OUTsurance achieved satisfactory growth of 11%, benefitting from policy growth and inflation.

Gross written premium (R'million)



The claims ratio increased from 50.5% to 51.5% during the year under review which remains below the long-term target range.

Key ratios (%)



The decrease in the cost-to-income ratio is attributed to below inflation growth in marketing and operational expenditure.

R'million	2016	2015	% Change
Gross written premium	**7 020**	6 580	6.7%
Net earned premium	**6 907**	6 490	6.4%
Headline earnings	**1 570**	1 443	8.8%
Claims ratio (including bonuses) (%)	**51.5%**	50.5%	
Cost-to-income ratio (%)	**18.9%**	19.7%	
Combined ratio (%)[1]	**74.6%**	74.6%	

1 After profit share distributions paid to FirstRand Limited.

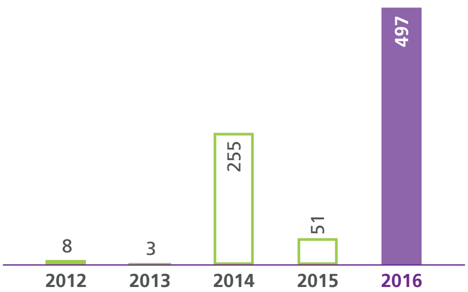
Youi

Youi delivered a much improved financial performance during 2016. This result compares to a comparative year in which Australia experienced an unusually high number of natural catastrophes. Youi Australia grew headline earnings from R51 million in 2015 to R497 million. A substantial decrease in Youi Australia's cost-to-income ratio is a key driver behind Youi's improved underwriting margin.

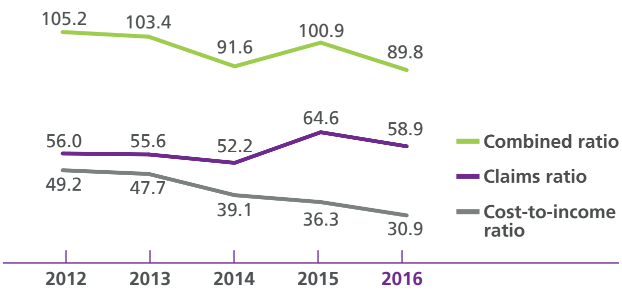
Youi New Zealand generated a start-up loss of R107 million for the year. Although new business volumes have slowed due to a highly competitive environment, the start-up continues to gain traction in the New Zealand personal lines market.

After taking into account central funding costs, the Youi Group delivered headline earnings of R347 million.

Youi Australia – normalised earnings (R'million)



Youi Australia – Key ratios (%)



Youi Australia achieved a claims ratio of 58.9% for the year. This result compares favourably with the prior year claims ratio which was impacted by numerous large weather related catastrophes.

Youi Australia's cost to income ratio decreased from 36.3% to 30.9% during the 2016 financial year. This decrease is attributed to the enhanced scale of the business coupled with cost containment and the realisation of operational efficiencies.

The improvements in the claims and cost-to-income ratios resulted in a combined ratio of 89.8% for the year.

Business Unit Performance *continued*

Youi Group key financial outcomes

	2016	2015	% Change
Rand (R'million)			
Gross written premium	**7 342**	5 572	31.8%
Net earned premium	**6 162**	4 363	41.2%
Headline earnings attributable to ordinary shareholders	**347**	(110)	>100%
Australian Dollars ($'million)			
Gross written premium	**695**	588	18.2%
Net earned premium	**585**	462	26.6%
Headline earnings attributable to ordinary shareholders	**33**	(12)	>100%
Ratios			
Claims ratio (%)	**59.1%**	64.8%	
Cost-to-income ratio (%)	**32.8%**	39.6%	
Combined ratio (%)	**91.9%**	104.4%	
AUD/ZAR exchange rate			
– Closing	**11.00**	9.35	17.6%
– Average	**10.53**	9.45	11.4%

Youi Australia key financial outcomes

	2016	2015	% Change
Rand (R'million)			
Gross written premium	**7 034**	5 409	30.0%
Net earned premium	**6 110**	4 362	40.1%
Headline earnings	**497**	51	>100%
Australian Dollars ($'million)			
Gross written premium	**668**	572	16.8%
Net earned premium	**580**	462	25.5%
Headline earnings	**47**	5	>100%
Ratios			
Claims ratio (%)	**58.9%**	64.6%	
Cost-to-income ratio (%)	**30.9%**	36.3%	
Combined ratio (%)	**89.8%**	100.9%	

Due to the relatively short trading history of Youi New Zealand, a deferred tax asset relating to the assessed loss of the business is not yet recognised. For the same reason acquisition costs incurred during the period did not qualify for deferral in line with the Group's accounting policy to defer acquisition costs for policies with a contractual term of one year or more.

Youi New Zealand key financial outcomes

	2016	2015	% Change
Rand (R'million)			
Gross written premium	**308**	163	89.0%
Net earned premium	**52**	1	>100%
Headline earnings	**(107)**	(130)	17.7%
Australian Dollars ($'million)			
Gross written premium	**27**	19	42.1%
Net earned premium	**5**	<1	>100%
Headline earnings	**(10)**	(15)	(33.3%)
Ratios			
Claims ratio (%)	**78%**	>100%	

As shown on page 12, the Youi Group incurred central funding costs of R43 million for the year under review. The funding costs relate to an intragroup funding arrangement established to support the expansion into the New Zealand market and to support the high growth rate of Youi Australia. The funding arrangement consists of long-term redeemable preference shares which were issued by Youi Holdings to OUTsurance. The instruments pay a market related yield and the income generated by OUTsurance is eliminated against this central cost upon Group consolidation. For the purpose of funding Youi Australia, the preference share structure is replicated between Youi Holdings and Youi Australia.

At 30 June 2016, the Group's effective interest in the Youi Group was 93%. Based on the number of share options currently in issue, the Group's interest can dilute to 80.5%.

OUTsurance Life

For the year under review, OUTsurance Life grew premium income by 24.1% to R392 million. Headline earnings grew by 57.9% to R60 million on the back of premium growth, higher investment income and the cost efficiencies. OUTsurance Life's embedded value increased by 24.7% to R682 million and is further analysed on page 40. The underwriting experience of the business remains satisfactory.

OUTsurance Life key financial outcomes

R'million	2016	2015	% Change
Gross written premium	392	316	24.1%
Headline earnings	60	38	57.9%
Embedded value	682	547	24.7%

OUTsurance Namibia

OUTsurance Namibia benefitted from strong new business volume growth during the year under review. Gross written premiums grew by 13.8% to R215 million. The strong growth has however introduced new business strain which has resulted in higher claims and cost-to-income ratios. OUTsurance Namibia generated headline earnings of R30 million which is 3.2% lower than the comparative year.

The Group owns 49% of OUTsurance Namibia with a 51% controlling stake owned by FNB Namibia Holdings Limited.

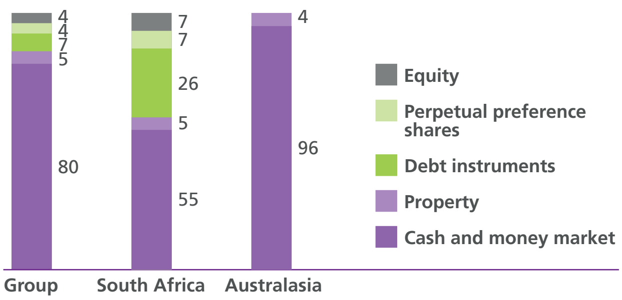
OUTsurance Namibia key financial outcomes

R'million	2016	2015	% Change
Gross written premium	**215**	189	13.8%
Net earned premium	**194**	158	22.8%
Headline earnings	**30**	31	(3.2%)
Claims ratio (%)	**53.0%**	52.1%	

BALANCE SHEET MANAGEMENT

The majority of the Group's assets are invested in cash and near cash instruments. During the year under review, the equity exposure on the South African balance sheet was increased to take advantage of diversification benefits available under the new Solvency Assessment and Management (SAM) regime, effective 2017.

Composition of investable assets (%)



Credit risk exposure (%)

Capital position

At 30 June 2016, the regulated entities in the Group traded off adequate capital positions as summarised in the table below:

Solvency coverage ratio	2016	2015	Target CAR
Group	**2.0**	1.7	1.2
Short-term insurance			
OUTsurance	**1.8**	1.7	1.2
OUTsurance Namibia	**1.6**	1.6	1.2
Youi Group	**2.7**	2.1	1.8
Long-term insurance			
OUTsurance Life	**3.9**	1.6	1.5

Balance sheet management *continued*

The target solvency coverage ratio for each entity has been set considering the likelihood and impact of various stress scenarios coupled with the unique risk profile of each business.

The new SAM regime which will apply to the South African insurance entities and the consolidated Group is expected to be effective from 1 July 2017. The Group is well prepared to comply with the requirements of this new regulatory regime. SAM is a risk-based regulatory regime which is closely aligned with the principles of Solvency II.

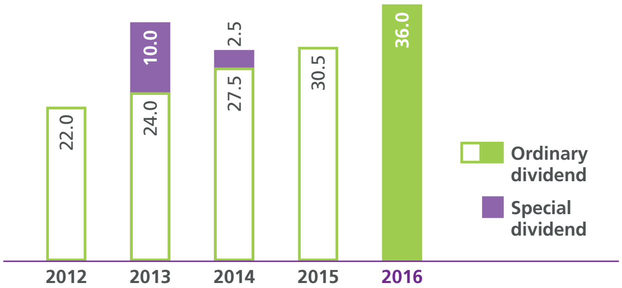
The SAM regime is not yet finalised and the expected impact of SAM may be subject to change. Based on the current calibration and interpretation of the standard formula, indications are that the solvency coverage ratio for both OUTsurance and OUTsurance Life will benefit from the application of SAM.

Dividends

The Group declared a final dividend of 19.5 cents per ordinary share resulting in a full year dividend of 36 cents a share. The 18% growth in the Group's full year dividend is lower than the 43% growth in headline earnings which is explained by the fact that Youi is retaining profit to support continued growth and for the regulatory capital required to develop its new head office campus on the Sunshine Coast.

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

Dividend history (cents per share)



Jan Hofmeyr
Chief Financial Officer

30 August 2016

headline earnings **reconciliation**

R'000	2016	2015	% Change
IFRS profit attributable to equity holders	**2 008 903**	1 339 236	50%
Non-controlling interest	**(25 947)**	6 968	(>100%)
IFRS earnings attributable to ordinary shareholders	**1 982 956**	1 346 204	47.3%
Adjusted for:			
Impairment of available-for-sale reserve	**3 804**	51 006	
Gain on disposal of property and equipment	**(1 571)**	(188)	
Tax effect of headline earnings adjustments	**(446)**	(9 469)	
Headline earnings	**1 984 743**	1 387 553	43%

five year **financial review**

R'million	2012	2013	2014	2015	2016
Statement of profit and loss and other comprehensive income – IFRS					
Gross written premium	7 032	8 288	10 352	12 469	**14 754**
Underwriting result[1]	1 544	1 378	1 681	1 533	**2 328**
Profit before tax	2 003	1 823	2 089	1 971	**2 913**
Headline earnings attributable to ordinary shareholders	1 514	1 209	1 448	1 388	**1 985**
Earnings attributable to ordinary shareholders	1 501	1 250	1 445	1 346	**1 983**
Earnings per share (cents)					
– Basic	43,8	36,4	41,8	38,7	**56,9**
– Diluted	41,8	35,5	40,1	38,0	**54,7**
Headline earnings per share (cents)					
– Basic	44,2	35,2	41,8	39,9	**57,0**
– Diluted	42,2	34,4	40,2	39,2	**54,7**
Dividend declared per share (cents)	22,0	24,0	27,5	30,5	**36,0**
Special dividend declared per share (cents)	10,0	2,5	–	–	**–**
Statement of financial position – IFRS					
Total assets	7 327	7 750	9 898	11 847	**14 690**
Total equity	4 291	3 784	4 453	4 711	**5 896**
Average equity attributable to ordinary shareholders	3 113	3 350	3 818	4 490	**5 170**
Key ratios					
Claims ratio (including non-claims bonuses) (%)	47.2%	51.3%	51.9%	55.5%	**54.4%**
Cost-to-income ratio (%)	24.3%	26.8%	27.1%	28.2%	**26.2%**
Combined ratio (%)	76.1%	81.8%	81.8%	86.3%	**82.7%**
Normalised results					
Normalised gross written premium[2]	7 032	8 288	10 352	12 469	**14 754**
Normalised earnings	1 263	1 209	1 448	1 388	**1 985**
Normalised earnings per share (cents)					
– Basic	36,9	35,2	41,8	39,9	**57,0**
– Diluted	35,9	34,4	40,2	39,2	**54,7**
Normalised return on equity (%)[3]	43,9%	37,9%	38,4%	30,9%	**38,4%**

1 After taking into account profit share distributions.
2 Excludes premium written by Momentum Short-Term Insurance.
3 Attributable to ordinary shareholders and calculated based on average normalised equity.


We look out for your
home and contents
so you can
FOCUS
ON OTHER
things.
youi
you.insured
car home contents

our **stakeholders**

Engaging with our stakeholders in sustainable long-term mutually beneficial relationships is key to creating win-win outcomes and the achievement of our strategy and objectives. The main stakeholder groups are summarised in the table below.

WHO ARE THEY?		THEIR MATERIAL NEEDS	HOW DO WE COMMUNICATE WITH THEM?
OUR PEOPLE	Permanent and temporary employees as well as contractors.	A great company to work for; a safe work environment; a caring employer; high performance focus balanced with fun activities; innovative corporate culture; company values; open and honest communication; fair remuneration and development opportunities.	Employee wellness initiatives; 100% open plan offices; regular team, department and company meetings; value surveys; various forums, functions, fun and sport activities; recognition and development programmes; electronic communication; "TalkOUT" sessions.
OUR CLIENTS	Existing clients and prospective clients. Consumers include individuals, businesses and companies.	Value for money products and services; fair treatment and awesome service.	Through our employees in call centres or face to face; surveys; advertising; electronic media; social media; press releases; policy and contract documentation.
OUR SUPPLIERS	Claims and other service providers and suppliers.	Prompt and accurate payments, access to procurement opportunities.	Personal interaction, procurement road shows, newsletters, electronic communications and call centre.
OUR COMMUNITY	Communities in which companies and offices in our group operate, including charitable organisations.	Responsible corporate citizenship; charitable initiatives; enterprise development; access to insurance services.	Staff Helping SA OUT; staff volunteers; electronic communications; face-to-face visit; OUTsurance Pointsmen project; procurement opportunities; various projects where our companies; employees and suppliers are involved to make a difference in our communities.
GOVERNMENT, REGULATORS AND INDUSTRY BODIES	The various regulators, industry bodies, government departments, associations and Ombud schemes that are relevant to the various group companies.	Comply with laws, regulations and codes of conduct and communicate openly to the benefit of the industry and consumers.	Engagement and participation through various monthly and quarterly committee, board and other forum meetings. Electronic communications; telecommunications; dedicated officers for direct liaison; statutory returns and other reporting.

"I came to OUT not knowing and understanding the Insurance industry. But being coached and working with OUTies, was the best experience ever. And one is always learning here at OUT. Well, this is the great company to work for. Friendly, Family, Flexible, Challenging, Rewarding."

Patty Majeng

our **people**

Our people are our strength and we invest time, effort and energy to create careers for our staff. Of our total workforce 99.9% are permanently employed. Included in the Group workforce number below are our Youi staff members in Australia and New Zealand. 68% of the total staff complement reside in South Africa.

	2016	2015	2014	% Change (2015 / 2016)
Total Group workforce	**4 285**	4 436	4 036	(3.4%)
Group Female (%)	**41.6%**	42.9%	44.9%	(1.3%)
South African ACI[1] (%)	**59.7%**	62.6%	61.5%	(2.9%)
South African disabled staff members	**30**	26	33	15.4%

1 Africans, Coloureds and Indians.

TOTAL GROUP WORKFORCE

4 285

OUTsurance South Africa

2 575
staff members
employed for 45 months (averaged)

85.1% operational staff members — employed for **40.0 months** (averaged)

14.9% staff members in support functions — employed for **83.5 months** (averaged)

Youi Australia & New Zealand

1 710
staff members
employed for 29 months (averaged)

87.8% operational staff members — employed for **25.2 months** (averaged)

12.2% staff members in support functions — employed for **51.6 months** (averaged)

PEOPLE DEVELOPMENT

The Group encourages employees to acquire new or advanced skills and viewpoints, by providing them with study assistance to develop themselves in their relevant fields. An amount of R5 212 155 was provided for external training and R1 076 063 on study assistance during 2016.

	2016	2015	2014	% Change (2015 / 2016)
Southern African Study assistance (R'000)	**988**	1 241	500	(20.4%)
Skills development[1]	**77.8%**	77.7%	88.8%	0.1%

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.*

Training and study assistance spend 2016

	External training	Formal studies
OUTsurance South Africa	R2 810 726	R988 329
Youi Australia	AU$211 595 (R2 323 080)	AU$6 725 (R73 833)
Youi New Zealand	NZ$7 451 (R78 348)	NZ$1 322 (R13 898)

We have a dedicated Occupational Health and Safety (OHS) officer and committee to oversee the health and safety of our people. We train our staff in disciplines like emergency evacuation, first aid and firefighting. Regular fire drills and training sessions are held, overseen and certified on completion by independent specialists.

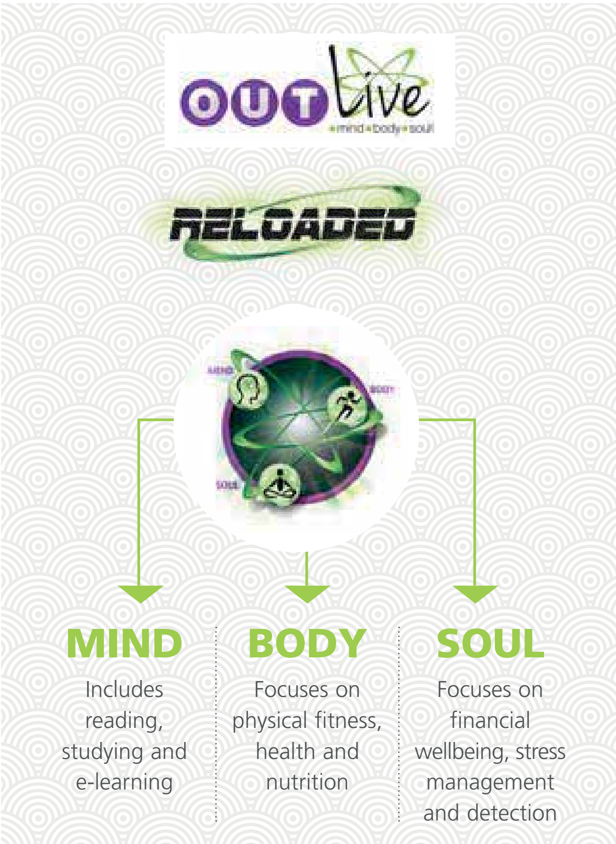
"It's an amazing place with amazing people. Potential to grow within the company as well as helping your personal growth."

Business sales advisor

HEALTH AND WEALTH

OUTsurance relies on healthy, motivated employees who are productive at work and have a sense of wellbeing. The company understands the effect that individual health and wellness have on our people and therefore offer support and guidance to employees through various employee health and wellness activities, services and events that have a positive and direct impact on individuals.

In 2013 the company launched the OUTlive campaign to improve the overall health and wellness of employees and to support one of the "great company to work for" initiatives. The campaign focuses on three main areas:



Individuals are encouraged to participate in health and wellness activities to build a culture of employee wellness. During the financial year South African employees participated in 34 209 activities which translates to an average of 13 activities per staff member.

In addition to the on-site medical facility the company also introduced a financial wellness centre and library during the financial year. The financial wellness service is a tailor-made, professionally managed financial wellness programme that assists and supports employees on their journey to financial freedom, while employees can use the library to relax and enrich their minds.

YouiLife is the Australian health and wealth employee programme. The primary goal of the program is to provide employees with the opportunity to improve their physical and mental health and personal wealth. This is achieved through onsite activities such as physical health assessments, exercise classes and financial planning. Youi employees participated in 84 activities during the 2016 reporting period.

"The values of the company – respect, passion, awesome service, people development, recognition, honesty, leadership is alive and well.

If you have dreams and goals, OUTsurance will help you reach it."

Ernie Pieterse

our **clients**

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 R2.8 billion paid to loyal Southern African clients in OUTbonus payouts to date.

"A massive thank you to OUTsurance. My car just stopped working in Hermanus last night. Called this morning, techy sent, car sorted with numerous calls from OUTsurance in-between. But what was truly amazing, was the call once I was on the road back to Cape Town from OUTsurance to make sure I was on my way and safely so. Outstanding service! Thank you to advisor Daniel Van Huyssteen for your superior service and compassion! I hope you know that it is so appreciated."

Elaine Valkenburg

Group

Increase in total number of live policies

↑4.5%

Youi

Client base growth

↑9.6%

	2016	2015	2014	% Change (2015 / 2016)
Group number of live policies ('000)	**1 967**	1 883	1 624	4,5%
OUTbonus value paid out per annum (R'000)	**397 277**	341 400	335 525	16,4%

OUTbonus payouts to clients

2001
1st OUTbonus payouts

2006
R100 million

2011
R1 billion

2016
R2.8 billion

SERVICE FEEDBACK

Awesome service forms part of our core values and we strive to exceed our clients' expectations. We encourage honest client feedback through an online survey feedback system that allows us to track comments and take appropriate action. We monitor the service experience of our clients through a dedicated department that respond to queries and track progress to ensure that these matters are resolved in a timely and efficient manner.

	2016	2015	2014	% Change (2015 / 2016)
OUTsurance Customer Satisfaction Index (CSI)	**86.1%**	87.9%	88.6%	(1.8%)
Youi Customer Satisfaction Index (CSI)	**89.8%**	90.8%	91.1%	(1%)

The Customer Satisfaction Index (CSI) is calculated by subtracting the number of "detractors" (sum of the bad and very bad response) from the number of "promoters" (sum of the good and awesome responses) and dividing it by the total number of responses received. The CSI figure excludes social media feedbacks.

Our CSI is based on an automated e-mail survey following each sale, policy 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.

Since 2013 both Youi and OUTsurance opened their websites to client feedback. Clients can share their feedback on our TALK@OUT and Youi walls on our websites. The feedback we receive and our response is posted for everyone to see. We have seen an increase in both our Youi and OUTsurance wall compliment ratio during the 2016 financial year.

OUTsurance

Youi

OUTsurance TALK@OUT COMPLIMENTS

CAR ASSISTANCE

I locked the keys in the boot of my car, and Andre arranged for Joe Davis locksmith to come and assist. About 1 minute before they were scheduled to arrive he called to see if they were there, I said no. Within another 2 minutes the supplier had called to say he was about 10 minutes away & was sorry for the delay. The job was done within 10 minutes & Andre called again to see if I had been assisted. I have been with OUTsurance for about 10 years now and am very happy with the service I have always received.

– Mrs Judy Da Silva

SERVICE NEVER DISAPPOINTS

Geyser burst on Friday. Emergency plumbers on scene in less than a hour. New geyser sorted by lunchtime Saturday. No hassles and efficient, friendly service a phone call away.

– Miss Hannelie Van Heerden

MOSES MALATSI

Moses was awesome. It was the first time I was involved in a collision and I was very apprehensive about the entire claim process. There was a lot of information I did not have and did not know. Moses was very patient and understanding while providing me with all the relevant information I needed. The claim process was made as painless as possible – and that is most appreciated, especially when I was feeling a bit "fragile". Thank you so much.

– Mrs Mandy Carolissen

AMEND INSURANCE COVER

My personal situation has changed since going on retirement and therefore needed to relook at my cover. Chris was extremely helpful in making alternative suggestions in order to achieve a drastically reduced premium.

– Mr Johnny Marx

AWESOME SERVICE

I have been a policy holder for just over ten years and have never had reason to complain about the service received from OUTsurance. Thank You.

– Mr Barry Liversage

AWESOME SERVICE FROM OUTSERVICE

This is my second claim with OUTsurance and have never had anything else but super service. I would recommend anyone to join OUTsurance for a problem free payout to your claim. Really very happy with OUTsurance.

– Mrs Jame Ramos

AWESOME SERVICE FROM TESS WALLER

Tesse was friendly, quick to respond to my call and advised me on what I need. She relooked at my whole portfolio and assisted in optimising my monthly payment. Great job. OUTsurance – consistent as always. Pleasure doing business with you.

– Mr Rudolf De Munnik

The Ombudsman for Short-term Insurance (OSTI) published industry statistics for 54 insurers in their 2015 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 did extremely well with an overturned ratio well below the industry average. Industry figures are published on the website of the OSTI www.osti.co.za for download.

	OUTsurance	Industry
Claims received by insurers (FSB statistics)	**284 411**	2 980 374
Number of complaints received by OSTI per thousand claims	**2/1 000**	3/1 000
Overturn rate	**13.0%**	26.7%
Number of claims decisions overturned per 10 000 claims[1]	**2/10 000**	8/10 000

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

AWARDS

Rekord Best of Pretoria:
Best Insurance Company.

2015 AMARA Awards – Private Sector:
Best Internal Recruitment Team.


2015
READERS' CHOICE
Best of the best
Certificate of Achievement
The winner of
Best Insurance Company
is awarded to
OUTsurance
Head of Advertising Gauteng
INDEPENDENT
The Star

Star Readers' choice:
Best Insurance Company

Readers digest Quality Service Silver Award:
Youi

our **service providers**

OUTsurance is committed to Broad-OUTsurance is committed to Broad-Based Black Economic Empowerment (B-BBEE) and is currently rated as a level four contributor and recognised as a value-adding supplier.

Our commitment to transformation and empowerment is expressed through, amongst other things;

- Black Ownership, Management Control and Employment Equity.
- Procurement of raw materials, products and services from B-BBEE rated companies.

	2016	2015	2014	% Change (2015 / 2016)
Preferential procurement[1]	**96.6%**	91.5%	94.8%	5.1%
South African service provider CSI ratio[2]	**85.8%**	86.8%	87.0%	(1%)
Youi service provider CSI ratio	**83.3%**	81.2%	82.6%	2.1%

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.
2 The CSI ratios have been re-stated to reflect the ratios as at the end of every financial year.

The CSI is calculated by subtracting the number of "detractors" (sum of the bad and very bad response) from the number of "promoters" (sum of the good and awesome responses) and dividing it by the total number of responses received. The CSI figure excludes social media feedbacks.

OUTsurance currently has 2 012 service providers throughout South Africa. Our clients rate the service they receive from our service providers on customer surveys sent out after each and every claim. The valuable feedback is provided to our service providers on a regular basis to ensure our clients always get awesome service.

A host of web-based and mobile applications are used to enhance the efficiency of our service provider interactions.

User friendly mobile applications for iOS and Android devices can be downloaded by our service providers and used to do inspections on cars, motorcycles, trailers, caravans and even watercrafts. This does not only allow us to save paper, but also mitigates 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 policy.

our community

STAFF HELPING SA OUT

Giving back to the community is an integral part of the OUTsurance culture. The Staff Helping SA OUT (SHSAO) initiative provides support to the less fortunate. The company donated R361 703 towards SHSAO during the 2016 financial year and employees were given the opportunity to add on to this by means of monthly salary deductions as well as additional contributions for special projects.

Staff salary deductions increased with 85.5% from the previous year to R612 184. The increase was mainly due to the introduction of the Campus Sleep@OUT initiative where the CEO and employees sleep at our OUTsurance campus with the idea to get a glimpse of what life is like for someone who sleeps outside in the cold. Money raised by this project was donated to charitable organisations.

OUTsurance employees raised an additional R60 085 for special projects such as the blanket and canned food drive, Shavathon, and other projects with a further 1 183 hours volunteered to help South Africans in need.

The funds that were contributed by the company and the employees were used to finance different Corporate Social Investment (CSI) projects and initiatives. CSI projects are grouped into six categories namely: infrastructure development, basic needs, health and HIV/AIDS, skills development, education projects and arts, culture and sports projects as highlighted in the table alongside.

	2016
Staff Helping SA OUT employee salary deduction	612 184
Staff Helping SA OUT company contribution	361 703
Staff additional contributions	60 085
Total SHSAO contribution	**1 033 972**
Value of time spent on CSI / SED	218 913
Rand value of CSI / SED spend on infrastructure development	345 132
Rand value of CSI / SED spend on basic needs and social development	205 045
Rand value of CSI / SED spend on health and or HIV/AIDS	44 292
Rand value of CSI / SED spend on skills development	23 435
Rand value of CSI / SED spend on education projects	24 934
Rand value of CSI / SED spend on arts, culture and sports	1 475
Total Rand value of CSI / SED spend	**863 226**

Youi took part in six charity projects during 2016. These projects crossed three countries and $10 363 (R113 779) 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.

Our community *continued*

BLOOD DRIVE

The Group supports the blood donation drive. This gives employees who meet the requirements of being a donor an opportunity to donate blood and save lives. The South African National Blood Service (SANBS) brings their mobile units to the OUTsurance campus for staff to conveniently donate blood at work. In 2016, 67 new South African donors joined the cause to be a hero and save a life.

South Africa donated 935 blood units, Youi Australia donated 259 blood units and Youi New Zealand donated 65 blood units. The total number of blood units donated translated into 3 777 possible lives saved.

	2016	2015	2014	% Change (2015 / 2016)
Group units blood donated	**1 259**	1 502	1 525	(16.2%)
South African new blood donors	**67**	98	165	(31.6%)

POINTSMEN

OUTsurance remains committed to alleviating traffic congestions, contributing towards road safety and creating job opportunities in underprivileged communities through the continued support and sponsorship of the Pointsmen programme. There are currently 154 bright-yellow bib wearing and friendly traffic Pointsmen on the busiest corners of the cities of Johannesburg, Tshwane and Cape Town. With the OUTsurance App, motorists can also suggest a location where Pointsmen are needed and they will be there to make their day.

@Leroux_mark
@TMPDSafety sort out this traffic mess c/o Atterbury & Lois? Or should the awesome @OUTsurance guys save us again.

@MsMamo
The OUTsurance traffic controllers at Waterfall deserve a performance bonus every day, all day!!

	2016	2015	% Change
Total pointsmen programme spend (R'000)	32 049	28 754	11.5%
Total number of OUTsurance pointsmen	154	144	6.9%

CARBON FOOTPRINT

What is greenhouse gas (GHG)?

Greenhouse gasses are relevant when we measure our carbon footprint as they "retain heat" and keep the earth warm like a blanket. Excessive GHG emissions keep the earth too warm and disturb the delicate balance required for sustainable life on mother earth. The human activities that are contributing to disturbing the GHG balance of the atmosphere are called anthropogenic emissions.

There are different types of GHG's and they vary in terms of their impact on earth, also referred to as the global warming potential. It is important to convert the different types of GHG's into a measurement that will allow us to compare apples with apples. That is the purpose of expressing what we measure in terms of "tonnes of carbon dioxide equivalent" (TCO_2e). Carbon dioxide (CO_2) is a common GHG which is produced when something that contains carbon (C) combusts in an atmosphere that contains oxygen (O_2). We use various conversion factors for each type of emission to get to the "TCO_2e" we show in the carbon footprint table. The TCO_2e in the table is simply: the (global warming potential) x (tonnes of specific GHG).

The above-mentioned scopes are also indicated in the carbon emissions calculated for the Group which includes the business in Southern Africa, Australia and New Zealand. Our carbon footprint is summarised in the table alongside:

The GHG Protocol (http://www.ghgprotocol.org/) divides GHGs into three scopes based on their sources and whether there is direct or indirect emission of GHGs:

SCOPE 1 → includes all our **direct GHG emissions**

SCOPE 2 → are the **indirect GHG emissions** associated with the consumption of purchased electricity or heat, ie: the forms of energy that we buy

SCOPE 3 → are all the **other indirect emissions**, including the transport-related activities in vehicles not owned or controlled by us, waste disposal, etc.

Scope Detail

Scope	Source	2016 Emissions	2015 Emissions	2014 Emissions	2016 % of Total	2015 / 2016 Variance
1	Fleet Petrol	**874**	851	1 048	7.8%	2.7%
1	Fleet Diesel	**402**	457	492	3.6%	(12.0%)
1	Generator Diesel	**43**	35	75	0.4%	22.9%
1	Liquid Petroleum Gas	**23**	23	16	0.2%	0%
1	R22 Refrigerants	**159**	262	185	1.4%	(39.3%)
1	R410A Refrigerants	**0**	10	29	0.0%	(100%)
2	Electricity – Generated	**6 747**	7 807	9 259	60.2%	(13.6%)
3	Electricity – Transmission and distribution	**707**	836	1 001	6.3%	(15.4%)
3	Actual Paper (kg) Used	**3**	4	4	0.0%	(25%)
3	Business Air (Domestic)	**463**	409	354	4.1%	13.2%
3	Business Air (International)	**219**	253	207	2.0%	(13.4%)
3	Employee claimed – Petrol	**1 216**	1 273	1 364	10.8%	(4.5%)
3	Employee claimed – Diesel	**359**	252	302	3.2%	42.5%

Scope Summary

		2016	2015	2014		
1	Business Fleet Fuels & Refrigerants	**1 501**	1 639	1 845	13.4%	(8.4%)
2	Electricity	**6 747**	7 807	9 259	60.2%	(13.6%)
3	Paper Used, Scope 3 Electricity, Business Air and Road Travel	**2 967**	3 026	3 232	26.5%	(1.9%)

Total Emissions

	2016	2015	2014		
Total Carbon Emissions per Annum (TCO_2e)	**11 216**	12 473	14 336		(10.1%)
Number of Employees	**4 285**	4 436	4 036		(3.4%)
TCO_2e Per Employee	**2,6**	2,8	3,6		(6.9%)
Total Number of Person Hours Worked (HW)*	**7 815 840**	8 091 264	7 361 664		(3.4%)
Tons CO_2e / HW**	**0,0014**	0,0015	0,0019		(6.9%)

* *Calculated: 1 824 HW multiplied by number of employees at year end.*
***Average Volume of Carbon Emissions per Person Hour Worked.*

An overall reduction of our carbon footprint is evident in the above table when comparing the 2016 figures to those of 2015 and 2014. The total carbon emissions per employee for the year was 2.6 compared to 2.8 in the previous year. Electricity represents the biggest part of our carbon footprint and we have managed to reduce our footprint by 13.6% in the last year. Our electricity footprint was in fact 27.1% lower in 2016 compared to 2014. The next table provides additional information regarding our electricity and energy consumption for the last two years.

Our community *continued*

Additional energy consumption information	2016	2015
Total electricity consumption (MWh)	**8 093 526**	9 498 577
Total indirect energy consumption (Gigajoules, GJ) – from electricity consumed	**29 137**	34 195
Total indirect energy consumed per person hour worked (MJ / HW)	**0,000004**	0,000004
Total electricity consumed per person hour worked (MWh / HW)	**1,04**	1,17

The positive results of our endeavours to keep our energy consumption and carbon footprint as low as possible are evident in the above tables.

Various initiatives are in place to minimise our impact on the environment. We continue to employ energy saving projects and improved facilities management resulting in more energy efficient buildings. This includes carbon reducing projects such as using geyser timers, energy saving LED lights and air-conditioning that deactivates during periods of inactivity. Night-watchman Enterprise Solutions are used to power off our idle call centre computers outside business hours.

Sustainability and environmental awareness is a priority for OUTsurance and that is why we recycle our waste in an environmentally friendly manner through certified recyclers.

Our clients are saving the world one page at a time. To reduce carbon emissions, our clients are encouraged to choose to receive their documentation via email rather than hard copies. All policy documentation are also available on our website www.outsurance.co.za for download.

Our innovative strategies in giving our clients the best service and making OUTsurance a great company to work for also make it easier for our service providers to do fast, reliable and secure online transactions that requires the least amount of paper possible.

	2016	2015	2014	% Change (2015 / 2016)
Electronic Document Ratio (EDR)	**83.1%**	80.8%	77.2%	2.3%
EDR excluding 'welcome packs'	**88.2%**	86.4%	83.5%	1.8%

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.

Group total
Recycled waste
51 819kg

OUTsurance
37 779kg

Youi
14 040kg

The Group recycled a combined total of 51 819kg of waste of which 72.9% was for OUTsurance and 27.1% for Youi. Only 6.5% of the OUTsurance recycled waste was common mix waste that was disposed of. The remaining 93.5% was split between paper, tin, cardboard, glass, plastic and E-waste.

Group total
Recycled paper
17 424kg

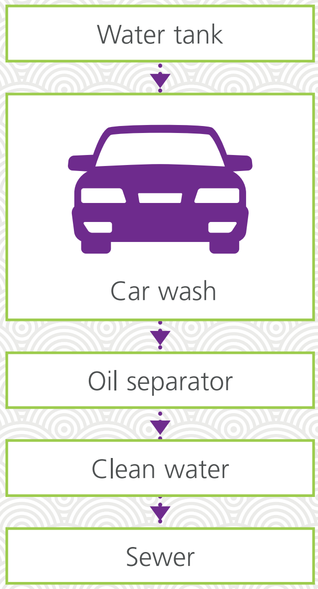
OUTsurance
14 268kg

Youi
3 156kg

Our onsite canteen uses SABS approved cleaning chemicals tested for use in the food industry. Our contractors also use products that have less impact on the environment such as waterless hand sanitisers and other chemicals used to keep our campus green and clean. OUTsurance is duly registered for the storing, handling or / and use of hazardous substances. Medical waste such as Sharps, infectious waste, SHE bins and pharmaceutical waste from our onsite clinic is disposed using certified medical waste service providers.

A water tank collects and stores rain water which is used to wash cars at our onsite car wash. The water from the car wash then goes through a process where the oil is separated from the dirty water. The oil and other dirt is then collected and disposed of safely. The remaining water goes into the sewer. The water tank reserves can also be used to flush our bathrooms should there be a need due to water restrictions or interruption of water supply for other reasons.

The diagram below illustrates how water is recycled at our onsite car wash



Internal Audit **assurance statement**

OUTsurance Holdings Internal Audit performed an agreed upon procedural review of the information outlined on pages 19 to 35 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 2015; and
- The audit report focused 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; and
- 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

30 August 2016

risk **management**

The board, executive management, the risk management department as well as the respective business risk owners combine efforts to ensure that risk management is embedded in the Group's operations whilst managing the group of companies in terms of the business strategy and goals. This approach is key to an effective risk management system and practices ensuring that risks are managed in line with the board approved risk appetite.

A documented Group Risk Management Strategy and Framework (GRMS) guides the risk management system and processes. The risk management system, comprises the totality of our strategies, policies, and procedures for identifying, measuring, monitoring, managing, controlling, mitigating and reporting of all current and emerging material risks to which the companies and Group may be exposed.

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 the individual insurance companies and those of the Group.

Regular risk management reports inform the boards and its committees as well as executive management and risk owners on the risk profile of the respective insurers. The evaluation of the effectiveness of the risk management function takes place on an annual basis and the risk management system is reviewed on an annual basis by the Internal Audit function.

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, and to safeguard 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 policyholder' interests must be tightly managed.

A 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

The Group has the following control functions in place: Internal Audit, Risk Management, Compliance and Actuarial. The internal control system serves to provide the board with reasonable assurance that our businesses are managed and operated:

- within the applicable laws and regulations as well as industry codes of conduct;
- in accordance with the delegation of authority, business strategy and objectives;
- in accordance with company policies and procedures.

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

- An Internal Control System Policy;
- Regular risk management assessments, reviews and reports by the risk management function, the executive committee, the Audit, Risk & Compliance committee, the Internal Risk committee and the board;
- Clearly defined management roles, responsibilities and governance structures;
- Clear segregation of duties;
- Formally delegated limits of authority and mandates;
- Documented and communicated policies and procedures;
- Our risk management strategies and policies are listed and maintained in a central register;
- Appropriate controls to ensure the fairness, accuracy and completeness of all information;
- Accounting controls and reconciliations;
- Strong management reporting systems;
- Disciplined budgeting processes;
- Appropriate fit and proper policy and requirements for responsible persons;
- 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;
- Appropriate training.

It is the responsibility of senior management to:

- Create awareness of the importance of a robust internal control environment;
- To communicate to their staff their individual roles in the risk management process; and
- To 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.and sustainability information.

The three lines of defence provides a sound governance model which promotes transparency, accountability, consistency and segregation of roles. The first line assurance is provided by the management team, the second line assurance providers are the Risk, Compliance, Actuarial Control and Quality Assurance departments. The third line of defence comprises the Internal and External Auditors.

The combined assurance forum serves to ensure that the objectives of the model are achieved and reports in this regard to the board's Audit, Risk and Compliance Committee.

Combined Assurance Model – three lines of defence

	1 First line of defence MANAGEMENT OVERSIGHT	2 Second line of defence MANAGEMENT OF RISK	3 Third line of defence INDEPENDENT ASSURANCE
OBJECTIVE	Setting strategy, performance measurement, and establishing and maintaining risk management, control and governance across the business.	Providing a risk framework and effective risk management system for sound decision making, planning and prioritisation of the business activities.	Provides independent & objective assurance of the overall adequacy and effectiveness of governance, risk management & control as established by the first and second layers of defence.
REPORTING LINES	EXCO & OPSCO providing direction, guidance and oversight over the focus areas.	Risk & Compliance Committees, board's Audit and Risk Committees, Regulators.	Regulators, Board and Audit Committees.
ASSURANCE PROVIDERS	Management.	Risk Management, Compliance and Actuarial Control Functions, Quality Assurance Team.	Internal Audit and External Audit.

THE RISKS WE FACE

Our risks are classified broadly into strategic, financial and operational risks in our risk classification system which is documented in the Group Risk Management Strategy and Framework. Our risk management process is mature and allows us to effectively identify, assess, manage, monitor and mitigate risks.

We report to our governance structures on the risk profiles and key risk indicators which we monitor for each business unit and insurer in line with the board approved risk appetite and risk management strategy. The main risks are summarised below.

MAIN RISKS	CONTEXT AND IMPACT	MITIGATION
REPUTATIONAL RISK	Our brand and reputation are important to us. We want our stakeholders to associate our name with a credible, long-term sustainable and trustworthy insurance group where they always get something out. In a group of companies there is the risk of brand contagion where an event relating to one entity may affect other entities in the group.	One of our corporate values is to provide awesome service to our clients. This is key to our efforts to protect our reputation. Behaviour that can harm our reputation and credibility is therefore closely monitored and managed through various initiatives and in line with our focus to continuously improve service.
MARKET CONDUCT RISK	Market conduct risks relate to market integrity and the risks to the delivery of fair customer outcomes. Placing the client's best interest at heart of everything we do has always been part of our corporate culture, but we have to monitor and manage these risks to ensure that we deliver the desired outcomes and live the fair treatment principles.	We carefully identify and assess any possible market conduct risk and behaviour which is not aligned with the principles of Treating Customers Fairly (TCF). Various initiatives to monitor and report on such risks are in place and processes and procedures to support TCF outcomes are embedded in our operations.
REGULATORY COMPLIANCE RISK	Regulatory compliance describes the goal to ensure that we are aware of and take the necessary steps to comply with the relevant laws and regulations. Regulatory changes also affect business processes, procedures and increase costs. Country risk becomes an important factor in the assessment of regulatory compliance when entities in the group operate in different countries and regulatory environments.	Training and awareness programmes are provided. Our governance processes are pro-active in identifying and acting on legislative changes. Compliance consultations and assessments of our business practices and processes support other efforts. Country risk relating to regulatory compliance receives specific attention and separate risk registers per entity ensures appropriate focus and attention to risks.
OPERATIONAL RISK	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.	These risks are managed through 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 RISK	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.	The daily activities of our assessors, investigators, auditors and risk management teams include fraud prevention and detection and we collaborate closely with the South African Insurance Crime Bureau in this regard. Whistle-blowing and fraud lines serve to allow reporting of unethical or fraudulent behaviour in line with our fraud risk management policy.

MAIN RISKS	CONTEXT AND IMPACT	MITIGATION
UNDERWRITING RISK	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.	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.
OPERATIONAL SYSTEMS / IT RISK	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.	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.
MARKETING AND ADVERTISING RISK	Failure to have relevant marketing strategies in place may result in a decline in leads and business growth. It affects the overall sustainability of a direct Insurer.	There are internal marketing committees responsible for screening, approval and monitoring of all marketing campaigns and material. Regular reporting takes place on key performance indicators including lead volumes.
ECONOMIC RISK	Poor economic conditions may result in less favourable business conditions leading to spending cuts and cancellation of policies.	We endeavour to offer value for money products and to retain our clients. Our scientific underwriting model which is based on the risk profile of each client, ensures that we offer appropriate premiums.
DISRUPTIVE TECHNOLOGY AND COMPETITOR RISK	Disruptive technology, which include trends and changes in the industry or in business in general can adversely affect us if we do not evolve and innovate. Changes in the competitive environment can put pressure on our company to make changes to product offerings, processes, systems or policies.	We maintain our innovative focus, we strive to be pro-active, we monitor technological, global and industry trends and developments to ensure that our products and service offerings remain relevant.

OUTsurance life
embedded value

EMBEDDED VALUE OF COVERED BUSINESS

Actuarial Practice Note (APN) 107 governs the way in which embedded values of life insurance companies are reported.

The embedded value of covered business is the present value of earnings from covered business attributable to shareholders, excluding any value that may be attributed to future new business. It is calculated on an after-tax basis taking into account current legislation and known future changes.

The embedded value of covered business consists of:

- Adjusted net worth (ANW); plus
- The value of in-force covered business; less
- The cost of required capital.

The total profit recognised over the lifetime of a policy is the same as under International Financial Reporting Standards (IFRS) but the timing of recognition of profits is different.

Covered business is defined as business regulated by the Financial Services Board (FSB) as long-term insurance business written in OUTsurance Life Insurance Company Limited ("OUTsurance Life").

The ANW represents the excess of assets over liabilities on the statutory valuation method.

The value of in-force covered business is the discounted value of the projected stream of after-tax shareholder profits arising from existing in-force covered business. These shareholder profits arise from the release of margins under the statutory basis of valuing liabilities which differs from the release of profits on the published accounting basis.

The required capital is defined as the level of capital that is restricted for distribution to shareholders. This comprises the statutory Capital Adequacy Requirement (CAR) calculated in accordance with Standard Actuarial Practice (SAP) 104 plus any additional capital considered appropriate by the Board given the risks of the business. The required capital has been set at 1.5 x CAR, which is the target CAR Ratio.

The cost of required capital is the present value, at the risk discount rate, of the projected release of the required capital allowing for investment returns on the assets supporting the projected required capital.

The value of new business is calculated as the discounted value, at point of sale, using a risk-adjusted discount rate, of the projected stream of after-tax profits for new covered business issued during the past 12 months. The value of new business is also reduced by the cost of required capital for new covered business. The value of new business has been calculated on closing assumptions. No adjustment has been made for the discounting of tax provisions in the embedded value.

Profitability of new covered business is measured by the ratio of the net value of new business to the present value of new business premiums (gross of reinsurance), which is defined as the discounted value, using a risk-adjusted discount rate, of expected future premiums on new recurring premium business.

The return on embedded value is calculated by expressing the embedded value earnings as a percentage of the embedded value at the beginning of the period.

This is the first year OUTsurance Life is disclosing embedded value and comparatives have been provided.

The table below shows the components of the embedded value of OUTsurance Life at 30 June 2016:

Embedded value of covered business

	2016 June R'000	2015 June R'000	% Change
Covered business ANW	**431 908**	331 452	30.3%
Free surplus	**276 449**	58 621	>100%
Required capital	**155 459**	272 831	(43.0%)
Present value of in-force business (PVIF)	**434 367**	383 738	13.2%
Cost of required capital	**(184 001)**	(168 594)	9.1%
	682 274	546 596	24.8%
Return on embedded value	**15.7%**	11.6%	

The embedded value of OUTsurance Life increased by 24.8% since June 2015. A significant contributor to the growth in the embedded value relates to the implementation of an interest rate risk matching strategy implemented to hedge the unique risks associated with the OUTBonus product feature offered. This implementation occurred during the financial year under review and has significantly reduced the regulatory capital requirement.

The table below shows the reconciliation of ordinary shareholders' funds to covered business ANW:

	2016 June R'000	2015 June R'000
Ordinary shareholders funds on a published basis	**526 718**	416 879
Allowance for deferred acquisition costs in policyholder liabilities (net of tax)	**(94 810)**	(85 427)
Covered business ANW	**431 908**	331 452

Embedded value earnings

The table below show the embedded value earnings of OUTsurance Life for the 12 months under review:

	Adjusted net worth R'000	PVIF R'000	Cost of required capital R'000	Embedded value R'000
at June 2016 (12 months)				
Embedded value at end of the period	**431 908**	**434 367**	**(184 001)**	**682 274**
Capital injected	**(50 000)**	**–**	**–**	**(50 000)**
Movement in available-for-sale reserve	**112**	**–**	**–**	**112**
Embedded value at beginning of the period	**(331 452)**	**(383 738)**	**168 594**	**(546 596)**
Embedded value earnings for the period	**50 568**	**50 629**	**(15 407)**	**85 790**
Movement in allowance for deferred acquisition costs in policyholder liabilities (net of tax)	**9 383**			
Headline earnings	**59 951**			
at June 2015 (12 months)				
Embedded value at end of the period	331 452	383 738	(168 594)	546 596
Capital injected	(60 000)	–	–	(60 000)
Embedded value at beginning of the period	(257 575)	(287 859)	109 609	(435 825)
Embedded value earnings for the period	13 877	95 879	(58 985)	50 771
Movement in allowance for deferred acquisition costs in policyholder liabilities (net of tax)	23 653			
Headline earnings	37 530			

Components of embedded value earnings

	Adjusted net worth R'000	PVIF R'000	Cost of required capital R'000	Embedded value R'000
At June 2016				
Value of new business at point of sale	**–**	**62 560**	**(23 391)**	**39 169**
New business strain at point of sale	**(133 808)**	**133 808**	**–**	**–**
Expected return on covered business	**–**	**51 285**	**(923)**	**50 362**
Expected profit transfer	**129 814**	**(129 814)**	**–**	**–**
Operating experience variances	**12 563**	**(49 106)**	**(38 780)**	**(75 323)**
Operating assumption and model changes	**5 045**	**1 916**	**(470)**	**6 491**
Embedded value earnings from operations	**13 614**	**70 649**	**(63 564)**	**20 699**
Investment return variances	**33 402**	**–**	**–**	**33 402**
Effect of economic assumption changes	**3 552**	**(20 020)**	**48 157**	**31 589**
Embedded value earnings for the period	**50 568**	**50 629**	**(15 407)**	**85 790**
At June 2015				
Value of new business at point of sale	–	92 031	(54 037)	37 994
New business strain at point of sale	(110 605)	110 605	–	–
Expected return on covered business	–	38 892	(1 470)	37 422
Expected profit transfer	112 304	(112 304)	–	–
Operating experience variances	(1 775)	(33 203)	604	(34 374)
Operating assumption and model changes	3 093	3 894	(3 900)	3 087
Embedded value earnings from operations	3 017	99 915	(58 803)	44 129
Investment return variances on in-force covered business	4 108	–	–	4 108
Investment return variances on adjusted net worth	10 534	–	–	10 534
Effect of economic assumption changes	(3 782)	(4 036)	(182)	(8 000)
Embedded value earnings for the period	13 877	95 879	(58 985)	50 771

Value of new business

The table below shows the value of new business written for the preceding twelve months:

	2016 June R'000	2015 June R'000
Value of new business		
Gross value of new business	**62 560**	92 031
Cost of required capital	**(23 391)**	(54 037)
	39 169	37 994
Present value of new business premiums	**693 145**	763 930
New business margin	**5.7%**	5.0%

Sensitivity analysis

The table below provides an analysis of the sensitivities of the embedded value of the in-force book:

	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% Change R'000
At June 2016				
Base value at 30 June 2016	**434 367**	**(184 001)**	**250 366**	**–**
1% increase in risk discount rate	**418 625**	**(184 367)**	**234 258**	**(6.4%)**
1% decrease in the interest rate environment	**461 690**	**(219 298)**	**242 392**	**(3.2%)**
10% decrease in maintenance expenses	**448 968**	**(183 819)**	**265 149**	**5.9%**
10% decrease in new business acquisition expenses	**434 367**	**(184 001)**	**250 366**	**–**
10% decrease in lapse rates	**425 693**	**(197 367)**	**228 326**	**(8.8%)**
5% decrease in morbidity and mortality rates	**455 368**	**(183 458)**	**271 910**	**8.6%**
at June 2015				
Base value at 30 June 2015	383 738	(168 594)	215 144	–
1% increase in risk discount rate	368 815	(175 519)	193 296	(10.2%)
1% decrease in the interest rate environment	408 875	(180 272)	228 603	6.3%
10% decrease in maintenance expenses	396 784	(168 535)	228 249	6.1%
10% decrease in new business acquisition expenses	383 738	(168 594)	215 144	–
10% decrease in lapse rates	376 415	(174 335)	202 080	(6.1%)
5% decrease in morbidity and mortality rates	401 940	(168 445)	233 495	8.5%

The table below provides an analysis of the sensitivities of the value of new business written:

	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% Change R'000
At June 2016				
Base value at 30 June 2016	62 560	(23 391)	39 169	
1% increase in risk discount rate	57 071	(22 182)	34 889	(10.9%)
1% decrease in the interest rate environment	71 177	(38 920)	32 257	(17.6%)
10% decrease in maintenance expenses	66 307	(23 344)	42 963	9.7%
10% decrease in new business acquisition expenses	76 674	(23 391)	53 283	36.0%
10% decrease in lapse rates	71 616	(26 963)	44 653	14.0%
5% decrease in morbidity and mortality rates	66 779	(23 451)	43 328	10.6%
at June 2015				
Base value at 30 June 2015	92 031	(54 037)	37 994	
1% increase in risk discount rate	85 701	(55 631)	30 070	(20.9%)
1% decrease in the interest rate environment	102 210	(61 361)	40 849	7.5%
10% decrease in maintenance expenses	96 590	(54 001)	42 589	12.1%
10% decrease in new business acquisition expenses	103 761	(54 037)	49 724	30.9%
10% decrease in lapse rates	98 330	(57 321)	41 009	7.9%
5% decrease in morbidity and mortality rates	97 183	(54 045)	43 138	13.5%

Notes to the embedded value of covered business

Economic assumptions

The following economic assumptions were used in calculating the embedded value at 30 June 2016:

	2016 June	2015 June
Gross investment return, risk discount rate and inflation		
Point used on the relevant yield curve	11.8	12.5
Fixed-interest securities (bond curve – non ALM)	11.2%	11.0%
Fixed-interest securities (swap curve – ALM)	8.9%	N/A
Inflation rate	9.4%	8.8%
Risk discount rate	16.2%	15.9%


We get how you use
or don't use your car.
But we can
SAVE
YOU
lots.
youi
you.insured
car home contents

corporate **governance**

THE GOVERNANCE FRAMEWORK

The board of directors of OUTsurance Holdings Limited as well as the boards of the insurers in the Group adopted a Group Governance Framework to ensure the prudent management and oversight of the insurance business of the OUTsurance Group as it serves to protect the interests of policyholders and other stakeholders.

THE BOARD OF DIRECTORS

The OUTsurance Holdings board's primary responsibility is to oversee, direct and control the affairs and performance of the Group's operations in a transparent and responsible manner and to drive the sustainable growth of shareholder interests. The board recognises its responsibility to ensure that there is effective corporate governance and risk management in the Group and to uphold high standards in terms of regulatory compliance, social, environmental and ethical matters. The board of directors oversees the activities of the group ensuring that it is in line with best practice and that the conduct of employees has the fair treatment of customers at heart.

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 responsibilities to approve corporate strategy set to achieve objectives, to ensure that there are appropriate policies and procedures, effective risk management and governance, reliable and transparent financial and regulatory reporting. The board reviews and approves business plans, monitors financial performance and evaluates the successful implementation of strategic decisions.

The board is supported by insurer boards and board committees in performing its oversight responsibilities and ensuring that the company activities and culture is aligned with our corporate values and policies.

DELEGATION OF AUTHORITY

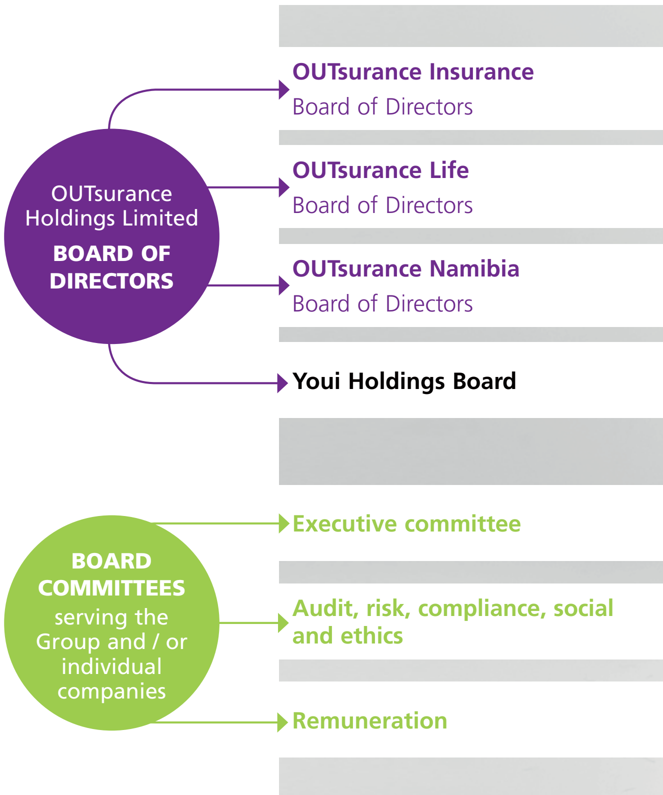
The board delegates its authority as stipulated in the delegation of authority document which is reviewed and approved on an annual basis. This allows efficient management of the daily affairs of the companies in the Group within the framework of the delegation of authority. Other governance policies as well as company procedures are maintained in a central register and are reviewed by the respective governance structures.

INSURER BOARDS AND BOARD COMMITTEES

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

The various board and other management committees which exist to ensure effective governance and oversight for insurers in the Group in the Southern African, Australasian and Namibian operations respectively, all ultimately feed back into the OUTsurance Holdings board committees. The board committees facilitate the discharge of specific board responsibilities and provide dedicated and skilled focus on particular areas.

The board committees have the appropriate resources, skills, expertise, independence and authority. The Group Remuneration Board Committee consists of three non-executive members and the chairperson is an independent director. The Group Audit, Risk, Compliance, Social and Ethics Committee comprises three independent members and the chairperson is an independent director. The relevant formal charters and policies are in place.



"The people, the great culture and organisational structure. The company ticks all the boxes that make the company an awesome one to work for, from the values, culture, environment, processes, benefits, development and wellness programs, the list is endless."

Winnie Mdluli

OUTSURANCE HOLDINGS BOARD

Details of the directors of the OUTsurance Holdings Board:

MR LAURIE DIPPENAAR (67) *Non-executive director, Chairman*

MCom – University of Pretoria; CA(SA)
Appointed: 27 January 1998

MR KUBANDIRAN PILLAY (55) *Independent director*

BA; LLB; MCJ (USA)
Appointed: 19 February 2014

MR ALAN WILLIAM HEDDING (65) *Independent director*

BCom; BCompt (Hons); CA(SA)
Appointed: 10 October 2013

MS JUDY MADAVO (57) *Independent director*

BA (Hons) Sociology and Social Administration
MSc Medial Sociology – University of London/Bedford College
Appointed: 8 November 2004

MR GEORGE LOUIS MARX (62) *Independent director*

BSc (Econ) Cum Laude – Potchefstroom/North West; FASSA
Chartered Enterprises Risk Actuary
Appointed: 20 August 2008

MR RUDOLF PRETORIUS (54) *Independent director*

BCom (Hons); CA(SA)
Appointed: 27 January 1998

MR HERMAN LAMBERTUS BOSMAN (47)
Non-executive director

BCom (Law); LLB, LLM, CFA
Appointed: 5 November 2015

MR NEVILLE NIGHTINGALE (70) *Lead Independent director*

FIAC; PMD from Harvard
Appointed: 8 March 1999

MR WILLEM ROOS (44) *Executive director*

BCom (Hons) (Actuarial Science); FASSA
Appointed: 30 April 2001

MR HOWARD ARON (50) *Executive director*

Diploma Business Management – Newport University
Diploma BM (EE)
Appointed: 30 April 2001

MR MARTHINUS VISSER (42) *Alternate executive director*

BCom (Hons) Actuarial Science
Appointed: 20 August 2009

MR PETER COOPER (60) *Non-executive director*

BCom (Hons) – University of Cape Town; CA(SA)
Higher Diploma in Income Tax – Wits
Appointed: 11 May 2000

MR FRANCOIS KNOETZE (53) *Non-executive director*

BCom (Hons); FIA
Appointed: 19 February 2014

BOARD AND COMMITTEE EVALUATION

Effectiveness evaluations take place on an annual basis of the board, the board committees and the control functions using a formal evaluation process which is concluded by providing comprehensive reports to the relevant governance structures, including the board. The evaluations conducted for the year revealed no material concerns and feedback provided indicated that the board, committees and the control functions operated effectively and as stipulated by the respective charters.

The directors confirmed that board reports are detailed, informative and comprehensive and that all relevant aspects of the business were dealt with in the reports and at the meetings which were reported to be well organised and effectively run.

BOARD COMPOSITION, SKILLS AND EXPERTISE

The OUTsurance Holdings board consists of an appropriate mix of executive and non-executive appointments. The board comprises 13 members (including an alternate director) of whom 10 are non-executive directors. The majority of non-executive directors are also independent. The average length of service of a director on the board is 10.3 years, with the average length of service for non-executive directors being 9.7 years and 12.3 for executive directors. The board composition includes one female independent director. Two of the independent directors are from the historically disadvantaged South Africans (HDSA) group.

The board appointed a lead independent director in the previous year to assist the board and the chairperson when required.

Formal procedures are followed for the appointment of new board members. The Group has a Fit and Proper Policy in place which is applicable to all responsible persons as defined in the policy including directors. An informal orientation programme is available to incoming 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.

PROCEEDINGS 2016

The board met four times at scheduled meetings in the period under review and the directors' attendance of meetings is summarised in the next table. The meeting attendance ratio for the year was 98%.

Board meetings and attendance

	Aug 2015	Nov 2015	Feb 2016	May 2016
Mr Laurie Dippenaar (Chairman)	A	✓	✓	✓
Mr Neville Nightingale	✓	✓	✓	✓
Mr Kubandiran Pillay	✓	✓	✓	✓
Mr Alan Hedding	✓	✓	✓	✓
Ms Judy Madavo	✓	✓	✓	✓
Mr George Marx	✓	✓	✓	✓
Mr Rudolf Pretorius	✓	✓	✓	✓
Mr Peter Cooper	✓	✓	✓	✓
Mr Francois Knoetze	✓	✓	✓	✓
Mr Willem Roos	✓	✓	✓	✓
Mr Howard Aron	✓	✓	A	✓
Mr Herman Bosman (Appointed 5 Nov 2015)	N/A	N/A	✓	✓
Mr Marthinus Visser (*alternate to H Aron)	✓	✓	✓	✓

Notes:
A – Apologies noted.
N/A – Mr Bosman's first meeting, following his appointment, was February 2016.
Attendance ratio 98%. Feb 2016 is noted as full attendance as overseas director's alternate attended.

"OUTsurance is a great company to work for, you are not forced to remain stagnant in the same place, there is much room for growth within the organisation which a lot of other companies do not offer. The "crazy about people, obsessed with service" is alive and well in OUTsurance, you even start to live it in the outside world."

Isabel Mpedi

EXECUTIVE COMMITTEE

The OUTsurance Holdings executive committee is responsible for implementing the strategies approved by the Board and for managing the day-to-day affairs of the Group. The executive committee is mandated to this end by the board in terms of the delegation of authority. The committee is chaired by the joint chief executive officer and the committee meets every two weeks. The members of the executive committee are tabled below:

OUTsurance Holdings Group EXCO

MR WILLEM ROOS
Group Chief Executive Officer

MR ERNST GOUWS
Chief Executive Officer OUTsurance

MR JAN HOFMEYR
Chief Financial Officer

MR MARTHINUS VISSER
Chief Actuary

MR WILBUR SMITH
Chief Operating Officer – Sales and Client Care

MR BURTON NAICKER
Chief Operating Officer – Claims and Legal

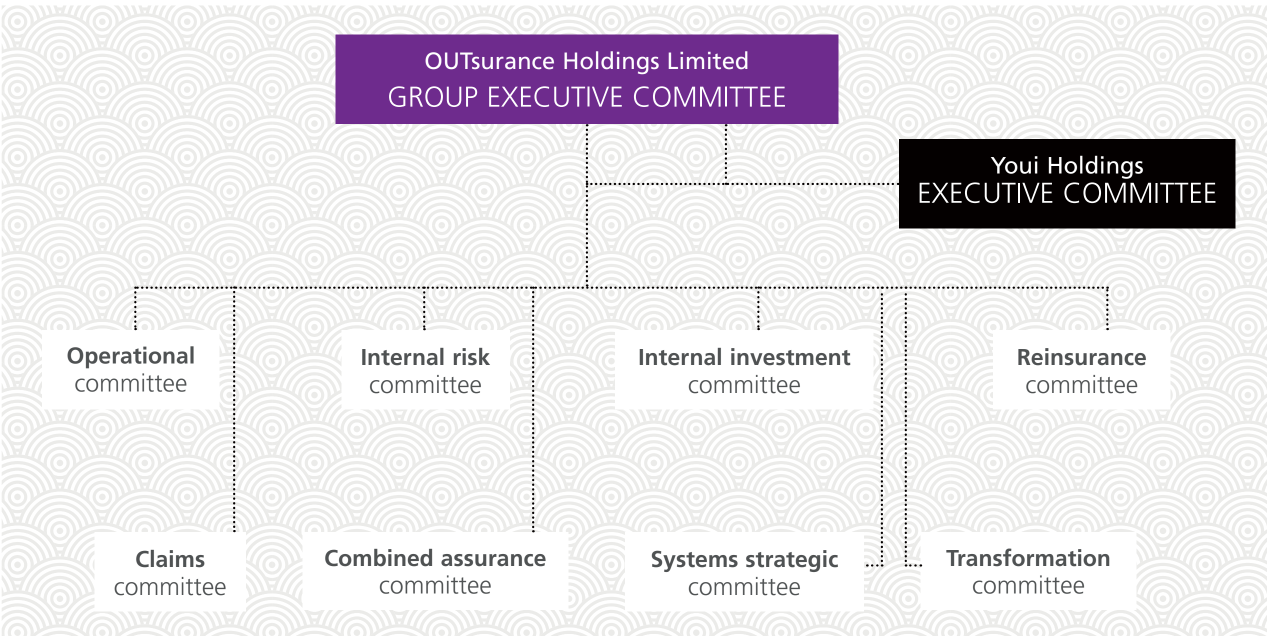
MS LYNETTE BISSCHOFF
Chief Risk Officer

MS KENEILOE SELAMOLELA
Head of Training

MR SUREN NAIDOO
Head of Human Resources

MR PETER CRONJE
Head of Marketing

The executive committee oversees and guides the following internal committees:



report of the
audit, risk and 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 is satisfied that they are in compliance with IFRS.

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 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 2015, 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 2016 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 2017. The committee is satisfied with the implementation progress of the SAM requirements as well as the skills and expertise of management in this regard.

AUDIT COMMITTEE

OUTsurance Holdings Limited Audit, Risk and Compliance Committee ("ARC committee") is accountable to fulfill the audit and risk committee functions, duties and oversight for OUTsurance and OUTsurance Life Insurance Companies. The composition, knowledge, experience and size of the ARC Committee complies with the requirements of Section 22 of the Short Term Insurance Act 53 of 1998 and Section 23 of the Long Term Insurance Act 52 of 1998. The ARC committee at all times includes members with technical, accounting and actuarial skills as well as experience in both long and short-term insurance. The ARC committee ensures that adequate time and oversight is provided to all licenced entities.

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 2015	February 2016	June 2016
Mr N Nightingale	✓	✓	✓
Mr G Marx	✓	✓	✓
Mr A Hedding	✓	✓	✓

NL Nightingale
Chairman
Signed: Sandton
Date: 30 August 2016

"It's 8 years and counting and I've got one year and a few months to go before I get my star at reception!

I love working for OUTsurance, I look forward to coming to work and being part of a team and working towards achieving my goals. It's the best company to work for and OUTsurance really looks after their staff. Getting Hello Peter Compliments and Awesome CSI rating and getting rewarded for it, is just a bonus for doing your job."

Tess Waller

report by the
remuneration committee

The remuneration committee (Remco) serves to review and assess the effectiveness of the Group's remuneration policy. It ensures that the policy is aligned with the risk management strategy of the Group and that it adequately reflects and protects the interests of major stakeholders.

Key responsibilities of Remco include the review and approval of annual remuneration packages of employees and non-executive directors. During the evaluation of recommended remuneration packages and / or annual increases, Remco considers, within the context of the business plan, factors such as economic indicators, the Group's performance, comparisons to market salaries, salary survey data, outcomes of performance reviews and may seek independent advice or other relevant material, where required.

COMMITTEE MEMBERS AND MEETINGS

The charter of the committee stipulates that there must be a minimum of three members of the board serving as members of the remuneration committee, the majority must be non-executive directors and the chairman of the committee must be an independent director of the board. In the past year the committee comprised of the members listed below:

The committee meets at least once a year and special meetings may be convened if required. In the past year, one meeting was held in June 2016 and the attendance of members is noted in the table below.

Remuneration committee members		Meeting attendance June 2016
Mr Kubandiran Pillay (Chairman)	Independent director	✓
Mr Laurie Dippenaar	Non-executive director	✓
Mr Peter Cooper	Non-executive director	✓
Mr Willem Roos	Executive director	✓

REMUNERATION POLICY

A remuneration policy is in place and approved by the OUTsurance Holdings board of directors for the entities in the Southern African Group of companies. Remco, on behalf of the board adopts and oversees the effective implementation of the remuneration policy. The purpose of the policy is to prevent excessive or inappropriate risk taking, in line with the board's identified risk management strategy and appetite. It is consistent with our business strategy and performance, thus protecting the long-term interests of our group and our stakeholders.

The remuneration policy for the Australian and New Zealand subsidiaries of Youi Holdings (Pty) Ltd is documented in a separate policy as approved by the Youi Holdings Board. This policy is aligned with the OUTsurance Holdings Group Policy. Remco considers and ratifies Youi's remuneration decisions.

The remuneration policy outlines key components and objectives of how OUTsurance considers, reviews and approves all employees' and directors' remuneration, inclusive of executive management and heads of control functions as well as other employees whose actions may have a material impact on the risk exposure of the company.

The above-mentioned components and objectives include the:

- Group's remuneration objectives;
- Mix or types of remuneration arrangements, including fixed and variable components;
- Measurement of an individual employee's performance, and;
- Structure for approval of remuneration arrangements, including but not limited to performance-based remuneration components.

The Group's primary remuneration objectives are to ensure that:

- The total remuneration payable by the company is commensurate with its business plan, risk appetite and objectives;
- The total remuneration in no way limits the company from achieving key growth and profitability targets, or its ability to strengthen its capital base;
- Individual employee remuneration remains adequate for attracting and retaining quality staff;
- All individual employee remuneration is aligned to, but not limited only to, company role requirements; their performance against set objectives; general conduct and; level of experience; and
- Remuneration practices give effect to the principle of equal pay for work of equal value, ensuring fairness and equity.

The basis of remuneration:

- Is viewed in conjunction with wider people-management practices to support a consistent approach to achieving desired culture and behaviour in the organisation;
- Is performance related and linked to delivery against agreed targets and objectives;
- Is benchmarked to reliable and relevant market data specific to the financial services and insurance sector;
- Remuneration design and management is considered a key business competence and receives the required focus and resources;
- Individual and group performance objectives are aligned to business plans and performance reviews on all levels are done at least once a year; and
- Underperformance is dealt with in line with agreements, policies and objectives.

Information regarding directors' and prescribed officers' emoluments is available on page 147.

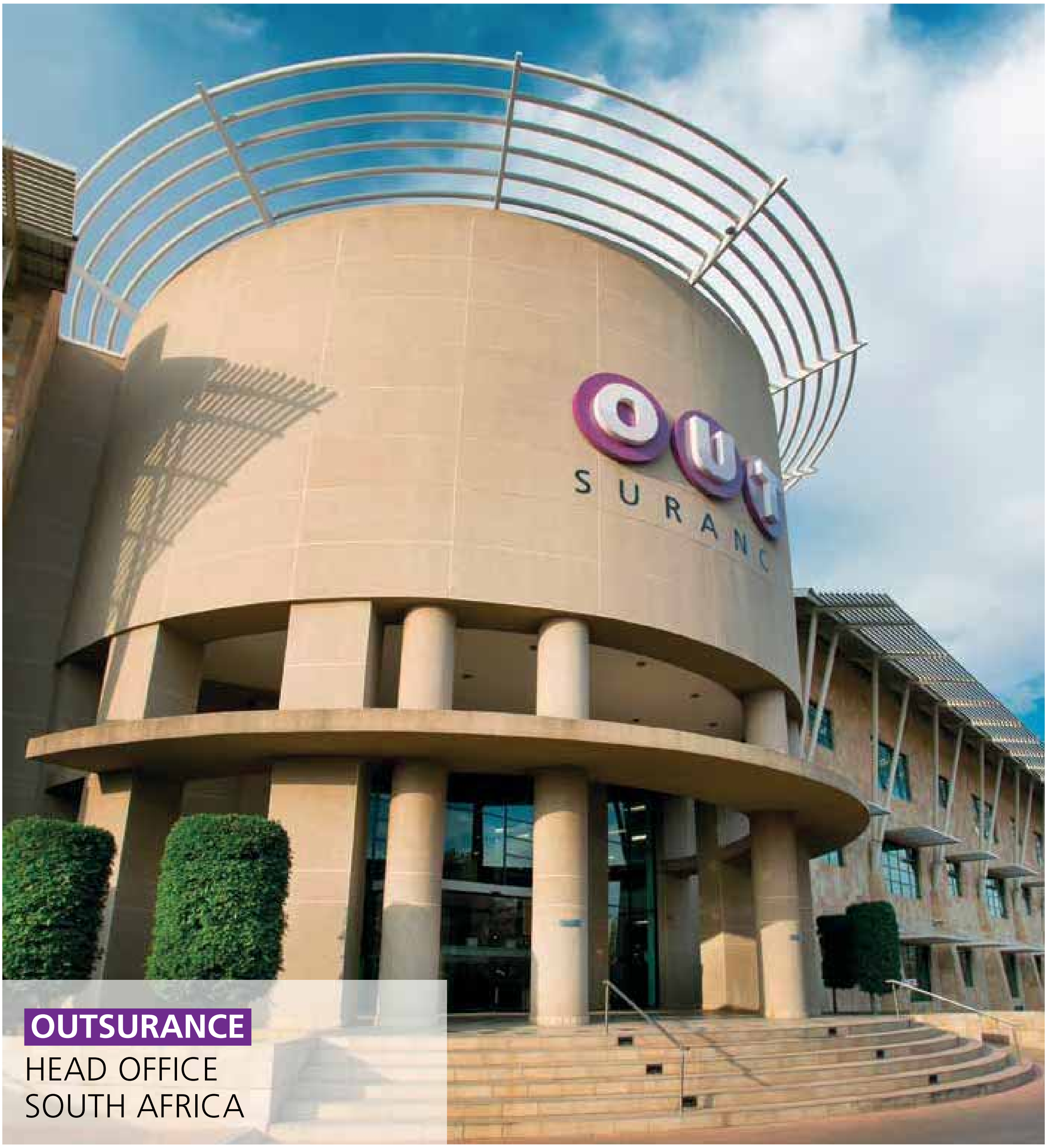
Kubandiran Pillay
Chairman of the Committee

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 WILL **FOREVER CHANGE THE WAY YOU LOOK** AT LIFE INSURANCE.

This is where outstanding people **provide outstanding service**



OUTSURANCE
HEAD OFFICE
SOUTH AFRICA

YOUI
NEW ZEALAND
HEAD OFFICE

YOUI
AUSTRALIA
HEAD OFFICE

we get you!

GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2016

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

Statement of responsibility by the Board of directors

In accordance with Companies Act requirements, the directors of OUTsurance Holdings Limited are responsible for the preparation of the 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 65.

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 made an assessment 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 2016 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 2016 prepared in accordance with IFRS which appear on pages 64 to 166, were approved by the Board of directors on 30 August 2016 and are signed on its behalf by:

LL Dippenaar
Chairman
Signed: Sandton
Date: 30 August 2016

P Cooper
Non-executive director
Signed: Sandton
Date: 30 August 2016

Certificate by the Group company secretary

for the year ended 30 June 2016

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 2016, 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: 30 August 2016

Directors' report

NATURE OF THE BUSINESS

OUTsurance Holdings Limited ("the Company") is a public company and the holding company of the OUTsurance 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. Long-term insurance is provided to individuals in the form of 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.

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 8. The results are presented in the statement of profit and loss and other comprehensive income on page 64. A segmental analysis is provided on page 108.

DIVIDENDS

Ordinary dividend

The following ordinary cash dividends were declared in respect of the 2016 financial year:

	Year ended 30 June	
Cents per share	**2016**	2015
Interim (declared 28 February 2016)	**16,50**	14,50
Final (declared 30 August 2016)	**19,50**	16,00
	36,00	30,50

The final dividend is payable on 04 October 2016 to shareholders registered on the 29 September 2016.

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.

SHAREHOLDER ANALYSIS

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

	2016	2015
Firness International Pty Limited	**83.6%**	83.4%
OUTsurance Investment Trust	**6.4%**	6.4%
WT Roos[1]	**5.0%**	5.1%

[1] Direct beneficial interest of 2.7% 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
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 PR Pretorius		27/01/1998
Mr NL Nightingale		08/03/1999
Ms J Madavo		08/11/2004
Mr G Marx		20/08/2008
Mr AW Hedding		28/05/2013
Mr F Knoetze		19/02/2014
Mr K Pillay		19/02/2014
Mr HL Bosman		05/11/2015

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 48 for the register of board meeting attendance.

DIRECTORS AND PRESCRIBED OFFICER EMOLUMENTS

Details of director and prescribed officer remuneration is provided in note 35 to the financial statements.

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

The report of the audit, risk and compliance committee appears on pages 50 to 51.

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 Investment 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.

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.

The Group is in the process of establishing a new head office for the Youi Group on the Sunshine Coast in Australia. Building will commence in 2016 and be completed by 2018. The property will be owned by the Group.

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 64 to 166, which comprise the statements of financial position as at 30 June 2016 and the statements of profit and loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes, 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 2016, 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 2016, 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: FJ Krüger
Registered Auditor

Johannesburg

30 August 2016

Consolidated statement of profit and loss and other comprehensive income

for the year ended 30 June 2016

	Notes	2016 R'000	2015 R'000
Gross insurance premium written	5	**14 753 916**	12 468 507
Outward reinsurance premiums		**(854 358)**	(555 005)
Net premiums written		**13 899 558**	11 913 502
Change in provision for unearned premiums	25	**(472 292)**	(765 573)
Earned premiums, net of reinsurance		**13 427 266**	11 147 929
Commission income		**91 900**	18 744
Other income	6	**8 920**	10 329
Investment income	7	**487 971**	406 186
Net gains/(losses) from fair value adjustments on financial assets	8	**9 868**	(54 312)
Income		**14 025 925**	11 528 876
Claims on insurance contracts net of reinsurance	9	**(6 888 525)**	(5 831 263)
Gross insurance contract claims incurred		**(7 049 232)**	(6 554 744)
Reinsurers' share of insurance contract claims		**160 707**	723 481
Non-claims bonuses on insurance contracts	25	**(362 395)**	(315 157)
Acquisition expenses	10	**(29 204)**	(34 634)
Marketing and administration expenses	11	**(3 591 462)**	(3 149 384)
Transfer to policyholder liabilities under insurance contracts		**(51 533)**	(41 351)
Fair value adjustment to financial liabilities		**(204 351)**	(200 642)
Result of operating activities		**2 898 455**	1 956 445
Finance charges	12	**(160)**	(465)
Equity accounted earnings from associate	19	**14 671**	15 026
Profit before taxation		**2 912 966**	1 971 006
Taxation	13	**(904 063)**	(631 770)
Net profit for the year		**2 008 903**	1 339 236
Other comprehensive income			
Fair value gains on available-for-sale financial instruments	8	**1 028**	16 538
Deferred income tax relating to available-for-sale financial instruments		**(4 077)**	(3 087)
Exchange differences on foreign operations		**364 444**	(141 592)
Total comprehensive income for the year		**2 370 298**	1 211 095
Net profit attributable to:			
Ordinary shareholders		**1 982 956**	1 346 204
Non-controlling interest		**25 947**	(6 968)
Net profit for the year		**2 008 903**	1 339 236
Total comprehensive income attributable to:			
Ordinary shareholders		**2 323 184**	1 218 063
Non-controlling interest		**47 114**	(6 968)
Total comprehensive income for the year		**2 370 298**	1 211 095

Consolidated statement of financial position

at 30 June 2016

	Notes	2016 R'000	2015 Restated R'000	2014 Restated R'000
ASSETS				
Property and equipment	17	**669 372**	520 642	514 195
Employee benefits	27	**110 245**	64 100	106 712
Investment in associate	19	**38 626**	32 775	25 589
Reinsurers' share of insurance contract provisions	25	**257 324**	568 845	112 404
Deferred acquisition costs	25	**365 074**	332 434	336 114
Financial assets				
Fair value through profit and loss	20	**8 369 491**	6 296 372	4 867 435
Available-for-sale	20	**1 452 529**	1 305 922	1 265 149
Loans and receivables	21	**2 755 336**	1 955 614	1 425 949
Deferred tax	22	**193 722**	188 295	220 266
Tax receivable		**–**	526	2 321
Cash and cash equivalents	23	**477 856**	581 389	1 021 952
TOTAL ASSETS		**14 689 575**	11 846 914	9 898 086
EQUITY				
Capital and reserves attributable to equity holders				
Share capital	24	**34 780**	34 843	34 642
Share premium	24	**197 656**	249 923	163 296
Other reserves				
Share-based payment reserve		**8 580**	2 914	–
Foreign currency translation reserve		**550 995**	183 498	325 090
Available-for-sale reserve		**80 775**	83 824	70 373
Retained earnings		**4 893 454**	4 019 227	3 722 442
Total shareholders' equity		**5 766 240**	4 574 229	4 315 843
Non-controlling interest	18	**130 137**	136 344	137 608
TOTAL EQUITY		**5 896 377**	4 710 573	4 453 451
LIABILITIES				
Insurance contract liabilities	25	**7 067 907**	5 936 745	4 474 525
Employee benefits	27	**153 430**	138 287	110 992
Share based payment liability	28	**202 105**	147 151	130 272
Financial liabilities at fair value through profit and loss	29	**104 461**	107 063	105 488
Tax liabilities		**244 582**	42 016	23 714
Financial liabilities at amortised cost				
Insurance and other payables	26	**1 020 713**	765 079	599 644
TOTAL LIABILITIES		**8 793 198**	7 136 341	5 444 635
TOTAL EQUITY AND LIABILITIES		**14 689 575**	11 846 914	9 898 086

Consolidated statement of changes in equity

for the year ended 30 June 2016

Group	Share capital R'000	Share premium R'000	Available-for-sale reserves R'000
Balance as at 30 June 2014	34 642	163 296	70 373
Total comprehensive income for the year	–	–	(37 555)
Impairment of available-for-sale financial assets	–	–	51 006
Loss attributable to minorities	–	–	–
Issue of share capital	201	86 627	–
Share option expense transferred to retained earnings	–	–	–
Share-based payment expense	–	–	–
Issue of shares to minorities	–	–	–
Ordinary dividend paid (Note 16)	–	–	–
Balance as at 30 June 2015	**34 843**	**249 923**	**83 824**
Total comprehensive income for the year	**–**	**–**	**(6 853)**
Impairment of available-for-sale financial assets	**–**	**–**	**3 804**
Profit attributable to minorities	**–**	**–**	**–**
Purchase of treasury shares from minorities	**(63)**	**(52 267)**	**–**
Share option expense transferred to retained earnings	**–**	**–**	**–**
Share-based payment expense	**–**	**–**	**–**
Transactions with minorities	**–**	**–**	**–**
Ordinary dividend paid (Note 16)	**–**	**–**	**–**
Balance as at 30 June 2016	**34 780**	**197 656**	**80 775**

Foreign currency translation reserve R'000	Share-based payments reserve R'000	Retained earnings R'000	Total ordinary shareholders' interest R'000	Non-controlling interest R'000	Total R'000
325 090	–	3 722 442	4 315 843	137 608	4 453 451
(141 592)	–	1 339 236	1 160 089	–	1 160 089
–	–	–	51 006	–	51 006
–	–	6 968	6 968	(6 968)	–
–	–	–	86 828	–	86 828
–	–	(3 631)	(3 631)	–	(3 631)
–	2 914	–	2 914	–	2 914
–	–	–	–	5 704	5 704
–	–	(1 045 788)	(1 045 788)	–	(1 045 788)
183 498	**2 914**	**4 019 227**	**4 574 229**	**136 344**	**4 710 573**
364 444	**–**	**2 008 903**	**2 366 494**	**–**	**2 366 494**
–	**–**	**–**	**3 804**	**–**	**3 804**
(21 167)	**–**	**(25 947)**	**(47 114)**	**47 114**	**–**
–	**–**	**–**	**(52 330)**	**–**	**(52 330)**
–	**–**	**(3 384)**	**(3 384)**	**–**	**(3 384)**
–	**5 666**	**–**	**5 666**	**–**	**5 666**
24 220	**–**	**29 101**	**53 321**	**(53 321)**	**–**
–	**–**	**(1 134 446)**	**(1 134 446)**	**–**	**(1 134 446)**
550 995	**8 580**	**4 893 454**	**5 766 240**	**130 137**	**5 896 377**

Consolidated statement of cash flows

for the year ended 30 June 2016

	Notes	2016 R'000	2015 R'000
OPERATING ACTIVITIES			
Cash generated by operations	30	**3 866 433**	3 111 417
Finance charges		**(160)**	(465)
Taxation paid	31	**(686 636)**	(594 089)
Ordinary dividends paid		**(1 134 446)**	(1 045 788)
Preference dividends paid	32	**(206 953)**	(199 067)
Cash inflow from operating activities		**1 838 238**	1 272 008
INVESTING ACTIVITIES			
Intellectual property			
Payments		**(115 561)**	(26 900)
Settlements		**416**	671
Property and equipment acquired to maintain operations		**(262 829)**	(139 505)
Proceeds on disposal of property and equipment		**18 581**	651
Proceeds on disposal of financial assets		**3 492 706**	4 130 569
Purchase of financial assets		**(5 697 744)**	(5 586 936)
Cash outflow from investing activities		**(2 564 431)**	(1 621 450)
FINANCING ACTIVITIES			
Proceeds from issue of shares to minorities		**–**	5 704
Purchase of treasury shares by share scheme participants		**83 640**	104 012
Purchase of treasury shares by share trust		**(135 970)**	(17 184)
Cash (outflow) / inflow from financing activities		**(52 330)**	92 532
Increase in cash and cash equivalents		**(778 523)**	(256 910)
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents Effect		**581 389**	1 021 952
of exchange rate on cash and cash equivalents		**674 990**	(183 653)
Decrease in cash and cash equivalents		**(778 523)**	(256 910)
Closing balance of cash and cash equivalents	23	**477 856**	581 389

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 Investment Holdings Limited.

The financial statements were authorised for issue by the directors on 30 August 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies were consistent with that of the prior year, unless where stated under the relevant accounting policy.

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").

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 profit and loss and other 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 36.

2.1.1 Amendments to published standards effective in the current year:

During the year no new accounting standards, interpretations or amendments were adopted by the Group for the first time.

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 11: *Joint Arrangements* (Effective from 1 January 2016) - This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The standard did not have an impact on the Group, as the Group has no joint ventures.
- IAS 1: *Presentation of financial statements* (Effective from 1 January 2016) – In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Group is yet to assess the full impact of IAS 1's amendment on the consolidated financial statements, however no material impact is expected on the Group.
- IAS 16: *Property, plant and equipment and IAS 18: Intangible Assets* (Effective from 1 January 2016) – In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This amendment has no impact on the Group.
- IAS 16: *Property, plant and equipment and IAS 41: Agriculture* (Effective from 1 January 2016) In this amendment to IAS 16 the IASB has scoped in bearer plants, but not the produce on bearer plants and explained that a bearer plant not yet in the location and condition necessary to bear produce is treated as a self-constructed asset. In this amendment to IAS 41, the IASB has adjusted the definition of a bearer plant to include examples of non-bearer plants and remove current examples of bearer plants from IAS 41. This amendment has no impact on the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2.1 Basis of presentation *continued*

- IAS 19: *Employee Benefits* (Effective from 1 January 2016) – Discount rate: regional market issue. The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment does not have an impact on the Group as the Group has no defined benefit plans.
- IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations* (Effective from 1 January 2016) – Amendment to the changes in methods of disposal. Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. This amendment is not expected to have an impact on the Group.
- IFRS 7: *Financial Instruments: Disclosures* (Effective from 1 January 2016) - Applicability of the offsetting disclosures to condensed interim financial statements. The amendment removes the phrase 'and interim periods within those annual periods' from the standard, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. However, the International Accounting Standards Board ("IASB") noted that IAS 34 requires an entity to disclose 'an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'. Therefore, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, the IASB would expect the disclosures to be included in the entity's condensed interim financial report. This amendment is not expected to have a material impact on the Group.
- IFRS 7: *Financial Instruments: Disclosures* (Effective from 1 January 2016) -Servicing contracts - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in order to assess whether the disclosures are required. This amendment is not expected to have an impact on the Group.
- IAS 34: *Interim Financial Reporting* (Effective from 1 January 2016) – Disclosure of information 'elsewhere in the interim financial report'. The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g. in the management commentary or risk report). The IASB specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. This amendment is not expected to have an impact on the Group.
- IAS 27: *Separate Financial Statements on equity accounting* (Effective from 1 January 2016) – In this amendment, the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Group is yet to assess the full impact of IAS 27's amendment, however no material impact is expected on the Group.
- IFRS 10: *Consolidated financial statements and IAS 28: Investments in Associates and Joint Ventures* (Effective from 1 January 2016) – Investment Entities: Applying the consolidation exception. The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. The standard does not have a material impact on the Group.
- IFRS 10: *Consolidated financial statements and IAS 28: Investments in Associates and Joint Ventures* (Original effective date was 1 January 2016 but postponed) – Sale or contribution of assets between an investor and its associate or joint venture. The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to IFRS 10 and IAS 28. Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures. The IASB postponed the effective date as a broader review is planned that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. The standard does not have a material impact on the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2.1 Basis of presentation *continued*

- IFRS 14: *Regulatory deferral accounts* (Effective from 1 January 2016) – The IASB has issued IFRS 14 specific to first time IFRS adopters. This is an interim standard on the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). Rate regulation is a framework where the price that an entity charges to its customers for goods and services is subject to oversight and / or approval by an authorised body. The standard does not have an impact on the Group.
- IAS 12: *Income taxes* (Effective from 1 January 2017) – The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets. The Group is yet to assess the full impact of IAS 12's amendment, however no material impact is expected on the Group.
- IAS 7: *Cash flow statements* (Effective from 1 January 2017) – In January 2016, the IASB issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities. The Group is yet to assess the full impact of IAS 7's amendment, however no material impact is expected on the Group.
- IFRS 15: *Revenue from contracts with customers* (Effective from 1 January 2018) – New standard arising from the IASB's and FASB's joint project. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or service transfers to a customer. The Group is yet to assess the full impact of IFRS 15's amendment, however no material impact is expected on the Group.
- IFRS 9: *Financial Instruments* (Effective from 1 January 2018) – This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments 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. The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39. Early adoption of the above requirements has specific transitional rules that need to be followed which are likely to change once the IASB completes all phases of IFRS 9. The Group is yet to assess IFRS 9's full impact, however material reclassifications are not expected for the Group.
- IFRS 16: *Leases* (Effective from 1 January 2019) – IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting remaining substantially unchanged from its predecessor, IAS 17. IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The Group is yet to assess IFRS 16's full impact, however material reclassifications are not expected for the Group.
- There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Annual Improvements Project:

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. An exposure draft of the amendments arising from the 2014 – 2016 cycle has been issued for public comment. There are no significant changes in the improvement projects that are expected to affect the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

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 profit and loss and other comprehensive income.

Gains and losses on disposal of subsidiaries are presented separately on the statement of profit and loss and other 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.

2.2.3 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2.2 Consolidated financial statements *continued*

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 profit and loss and other comprehensive income and its share of post-acquisition movements 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.

2.3 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 a risk other than a 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2.4 Recognition and measurement of insurance contracts *continued*

2.4.1 Short-term insurance *continued*

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 profit and loss and other 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.

2.4.2 Long-term insurance

Benefits are provided under long-term policies for credit protection and 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 for the calculation basis and the specific assumptions used to calculate the policyholder liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2.4 Recognition and measurement of insurance contracts *continued*

2.4.2 Long-term insurance *continued*

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 profit and loss and other 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 profit and loss and other 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.

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 cost which is 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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2.4 Recognition and measurement of insurance contracts *continued*

2.4.3 Deferred acquisition costs *continued*

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 profits 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 arrangements is similar to the policy under 2.4 above.

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.

The cell captive business was transferred on 31 March 2015 to RMB Structured Insurance ("RMBSI"), a subsidiary of RMI Holdings Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

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 profit and loss and other 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 profit and loss and other 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).

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

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 profit and loss and other comprehensive income. Repairs and renewals are charged to the statement of profit and loss and other 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.

2.11 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 may not exceed what the carrying value would have been had the impairment not have been recognised before.

2.12 Financial instruments

2.12.1 General

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 profit and loss and other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2.12 Financial instruments *continued*

2.12.1 General *continued*

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 profit and loss and other 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 profit and loss and other comprehensive income as part of interest income. Dividends on available-for-sale equity instruments are recognised in the statement of profit and loss and other comprehensive income when the entity's right to receive payment is established and are included in investment income.

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 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.

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.

The Group uses zero-coupon deposits to offset the interest rate risk inherent in some of the life insurance products underwritten by OUTsurance Life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2.12 Financial instruments *continued*

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.

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 profit and loss and other 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 contract 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, in accordance with IAS 32.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2.12 Financial instruments *continued*

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
- 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 profit and loss and other 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 profit and loss and other 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 profit and loss and other comprehensive income, the impairment loss is reversed through the profit for the year. Impairment losses recognised in the statement of profit and loss and other comprehensive income on equity instruments are not reversed through the statement of profit and loss 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2.14 Share capital *continued*

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.

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 profit and loss and other 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 profit and loss and other 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 profit and loss and other 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.

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 represents the amount which the Group has as a present obligation to pay, resulting from 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

2.16 Employee benefits *continued*

Post-employment benefits

The Group's employees contribute to the OUTsurance Insurance Company defined pension and provident contribution 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 pension and provident contribution fund plans during the year is charged to the statement of profit and loss and other 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 would need 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 two 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 the Youi Holdings Pty Limited Group.

The Group expenses the fair value of the employee services received in exchange for the granting 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 profit and loss and other 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 profit and loss and other 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.

2.18 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

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 profit and loss and other 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 profit and loss and other 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.

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 profit and loss and other 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 Investment Committee, OUTsurance 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 transitional arrangements on adoption of the IFRS. The IASB published a revised exposure draft on insurance contracts in June 2014. The envisaged implementation date is for years commencing on or after 1 January 2020, however earlier adoption may be allowed.

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.

The initial date for implementation was 1 January 2014. Due to a changing regulatory environment (both local and international), this implementation date was deferred until 1 January 2017.

The SAM Framework will be given effect to, through a new Insurance Bill, along with the publication of insurance prudential standards made under the Bill. At the same time the SAM Framework is being introduced, a 'twin peaks' model for financial regulation is being implemented in South Africa through the Financial Sector Regulation Bill. This model will see the establishment of a Prudential Authority in the SARB, responsible for the prudential supervision of banks, insurers and financial conglomerates, and a Financial Sector Conduct Authority responsible for market conduct supervision of financial institutions.

3. MANAGEMENT OF RISK AND CAPITAL *continued*

3.1 Risk management framework *continued*

3.1.1 Changing regulatory and business landscape *continued*

3.1.1.2 Solvency Assessment and Management ("SAM") continued

National Treasury tabled the Insurance Bill in Parliament on 28 January 2016. The Bill will be considered by the Standing Committee on Finance ("SCOF") in Parliament, which is anticipated to invite public comments and submissions on the Bill during the second half of 2016. Deliberations on the Insurance Bill will follow the finalisation of the SCOF's consideration of the FSR Bill. Deliberations on the FSR Bill in SCOF continued in the first quarter of 2016 and are scheduled to resume in the second half of 2016. It is hoped, subject to Parliamentary processes, that both the FSR Bill and Insurance Bill will be made effective on 1 January 2017.

To prepare the industry for the implementation of the SAM Framework, a parallel run was initiated, in which insurers are required to report information under the SAM regime along with existing reporting required under the Insurance Acts. This process began on 1 July 2014 and will continue until the full implementation of the SAM regime.

3.1.1.3 Financial Sector Regulation Bill ("FSR")

The Financial Sector Regulation Bill gives effect to the government decision in 2011 to shift to a Twin Peaks model of financial sector regulation for South Africa. Twin Peaks is a comprehensive and complete system for regulating the financial sector. It represents a decisive shift away from a fragmented regulatory approach to reduce the possibility of regulatory arbitrage or forum shopping and close gaps in the regulatory system.

Two regulators will be established – a Prudential Authority within the South African Reserve Bank and a new Financial Sector Conduct Authority ("FSCA"). The Prudential Authority will supervise the safety and soundness of banks, insurance companies and other financial institutions while the FSCA will supervise how financial services firms conduct their business and treat customers. The Reserve Bank will oversee financial stability within a policy framework agreed with the Minister of Finance.

The Twin Peaks system of regulation will (when fully phased in) focus on a more harmonised system of licensing, supervision, enforcement, customer complaints (including ombuds), appeal mechanism (tribunal) and consumer advice and education.

National Treasury has indicated that the FSR Bill, which will give effect to the Twin Peaks model of financial regulation in South Africa, will be processed first by Parliament, followed by the Insurance Bill. This will enable the Insurance Bill to build on the regulatory framework created through the Financial Sector Regulation Bill.

The comment period on the Bill was extended until 1 February 2016. Deliberations on the Bill are expected to continue into the second half of 2016.

3.1.1.4 Insurance Bill

The Insurance Bill aims to put a legal framework in place for the prudential supervision of insurance businesses in South Africa that meets international standards for insurance regulation and supervision. It seeks to introduce a micro-insurance regulatory framework and promote financially sound insurers. The Insurance Bill 2015 was introduced in the National Assembly in December 2015. It is expected that the commencement date will be in the second half of 2016.

3.1.1.5 Treating Customers Fairly ("TCF")

The FSB continues to introduce TCF into both its regulatory and supervisory frameworks on a gradual basis by way of incremental implementation. In applying the incremental implementation of TCF, the FSB is focusing on:

- Challenging firms TCF commitment when investigating concerns;
- Testing of TCF commitment and culture by focusing on effectiveness and operational implementation;
- Identifying market conduct risk indicators;
- Specific thematic supervisory initiatives testing risks to fair customer outcomes;
- Structured reporting on market conduct risk indicators;
- Reviewing existing regulatory frameworks to test whether they support fair customer outcomes;
- Introducing TCF principles into existing legislation;
- Reflecting TCF principles into the overarching Twin Peaks regulatory framework.

3. MANAGEMENT OF RISK AND CAPITAL *continued*

3.1 Risk management framework *continued*

3.1.1 Changing regulatory and business landscape *continued*

3.1.1.5 Treating Customers Fairly ("TCF") continued

The FSB has also indicated that the future approach to regulation and supervision of market conduct will be:

- Transparent, comprehensive and consistent;
- Intensive and intrusive;
- Outcomes based (TCF, market integrity and other policy outcomes will be taken into account);
- Risk based and proportional;
- Pre-emptive and proactive with an aim to be able to create a credible deterrent for undesired market conduct;
- Aligned to applicable international standards.

The FSB's supervisory expectations will require ongoing, proactive and demonstrable management of conduct risk indicators which will result in:

- Continuous improvement in product design, service delivery and customer experience;
- Fair pricing;
- Appropriate products;
- Clear and understandable disclosures;
- Improved claims handling practices;
- Reduction in persistent and recurring complaints;
- Meaningful management information and reporting;
- Enhanced governance and oversight of distribution channels;
- Customer focused decision making.

A large amount of focus will be placed on insurers having accurate, dependable, quality and usable data which will assist in identifying market conduct risks more precisely making it easier to demonstrate compliance.

It will be expected that there must not be an over-reliance on reporting on TCF from a compliance function only, but also that TCF considerations and reporting is done across operational areas as well.

Ultimately the FSB has indicated that there will be no more just talking of TCF but it will be required to demonstrate proactive management of conduct risks across the value chain which will manifest in continuous improvements to products, delivery and overall experience resulting in better outcomes for customers.

OUTsurance continues to implement practices which support the six TCF outcomes and which focus on customer centric decision making. This includes our claims philosophy which is ever evolving, the various claims meetings and auditing responsibilities in the first, second and third lines of defence in terms of our combined assurance approach. Our staff error process provides evidence that customers are not prejudiced by our mistakes. On-going monitoring of and reporting on key performance indicators relating to customer treatment and service continue to be a focus in our business and includes reporting to the board on all matters related to our customers.

TCF is specifically addressed with new staff members during induction and in addition thereto an awareness campaign was recently circulated company-wide.

It is especially pleasing that TCF is not something that is only being driven from the compliance function. Management and staff in the operational areas frequently reference TCF when it comes to decision making and this reinforces that OUTsurance is a company where TCF is firmly embedded in its culture which comes through in our value of "Awesome Service".

3. MANAGEMENT OF RISK AND CAPITAL *continued*

3.1 Risk management framework *continued*

3.1.1 Changing regulatory and business landscape *continued*

3.1.1.5 Treating Customers Fairly ("TCF") continued

3.1.1.5.3 Retail Distribution Review ("RDR")

The RDR proposes far-reaching reforms to the regulatory framework in respect of the distribution of retail financial products in South Africa. Essentially the RDR proposals seek to provide customers with confidence in the retail financial services market in that they will be treated fairly which will result in a sustainable market for financial advice and financial services. The RDR contained 55 specific proposals. It is envisaged that the RDR will be implemented in 3 phases set out below:

- Phase 1: Changes to be effected within the existing regulatory framework, using subordinate legislative and administrative powers. Phase 1 implementation is expected late 2016.
- Phase 2: Changes to be incorporated into the Financial Sector Regulation ("FSR") Act, through conduct standards made under the FSR Act or through amendments to other primary legislation. The implementation window for such changes is broadly between the effective date of the relevant provisions of the FSR Act and the effective date of a future overarching market conduct Act (Conduct of Financial Institutions Act ("COFI")).
- Phase 3: Longer term structural changes to be implemented once the COFI Act is in effect. This is expected to happen in early 2018. Typically these will be changes which would be most pragmatic to implement once the harmonisation of existing sector-specific legislation under the COFI Act and the revised market conduct licencing framework for institutions are in place.

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.

	Percentage of Total Gross Written Premium	
Types of insurance contracts written	Personal lines	Commercial
Personal accident	<1%	<1%
Liability	–	14.9%
Miscellaneous	<1%	–
Motor	65.6%	57.7%
Property	33.7%	27.2%
Transportation	<1%	<1%

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 historic arrangements whereby the Group underwrote various risk products marketed and distributed by other FirstRand Limited Group divisions. The management of cell captive risks underwritten by the Group was performed by the cell administrators itself.

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 Terms and conditions of insurance contracts continued

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.

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

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

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.

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*

Concentrations of risk and mitigating policies continued

The South African operation is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 53.87% of the total sum insured is domiciled. The Australian operation is exposed to a concentration of insurance risk in South East Queensland of Australia where 21.3% of the total sum insured is domiciled. The New Zealand operation is exposed to a concentration of insurance risk in Auckland where 59.9% 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 these areas.

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

The Group historically underwrote certain cell captive arrangements for products marketed and distributed by the FirstRand Group. The Group transferred its rights and delegations owing from these arrangements with effect, 31 March 2015.

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:

- Underwritten Life;
- Credit Protection;

The following gives a brief explanation of each product:

Underwritten Life

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.

An optional outbonus is also available to policyholders. This allows the policyholder to receive all premiums paid over a period of 15 years, if all terms and conditions are met.

Credit Protection

The Credit Protection product covers the following insurance risks:

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

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

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.

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.

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.

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

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.

3.3 Financial risk management

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.

3. MANAGEMENT OF RISK AND CAPITAL *continued*

3.3 Financial risk management *continued*

3.3.1 Financial instruments measured at fair value *continued*

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 2016				
Financial assets				
Equity securities				
Listed preference shares	**393 298**	**–**	**–**	**393 298**
Exchange traded funds	**411 766**	**–**	**–**	**411 766**
Debt securities				
Unlisted preference shares	**–**	**647 465**	**–**	**647 465**
Zero-coupon deposits	**–**	**82 987**	**–**	**82 987**
Term deposits	**–**	**5 218 801**	**–**	**5 218 801**
Government, municipal and public utility securities	**–**	**431 145**	**–**	**431 145**
Money market securities <1 year	**–**	**1 959 974**	**–**	**1 959 974**
Money market securities >1 year	**–**	**676 584**	**–**	**676 584**
	805 064	**9 016 956**	**–**	**9 822 020**
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	**–**	**–**	**104 461**	**104 461**
	–	**–**	**104 461**	**104 461**
Group at 30 June 2015				
Financial assets				
Equity securities				
Listed preference shares	504 255	–	–	504 255
Exchange traded funds	241 869	–	–	241 869
Debt securities				
Unlisted preference shares	–	559 798	–	559 798
Term deposits	–	3 491 383	–	3 491 383
Government, municipal and public utility securities	–	634 020	–	634 020
Money market securities <1 year	–	1 487 119	–	1 487 119
Money market securities >1 year	–	683 850	–	683 850
	746 124	6 856 170	–	7 602 294
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	–	–	107 063	107 063
	–	–	107 063	107 063

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 the statement of financial position 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 investment as at the statement of financial position date. These instruments are included in level 1 and comprise mainly equity and debt instruments classified as trading securities. The ordinary share investment is an investment in an exchange traded fund which tracks the performance of the top forty and top fifty companies, listed on the JSE.

Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are market observable, the instrument is included in level 2.

Level 2 instruments comprise of the following:

- Derivative, debt and short-term money market instruments where the value is determined by using market observable input, e.g. JIBAR, prime rate, foreign currency rates, listed bond rates of similar instruments, without significant adjustments
- Investment contract liabilities

The unlisted preference shares are redeemable with a notice period ranging from thirty days to three years. Dividend yields range from 59.39% to 65.18% 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 money market instruments are determined based on observable market inputs.

Zero-coupon deposits are not traded actively during a financial reporting period and are classified as level 2 financial instruments.

The Group uses zero-coupon deposits to offset the interest rate risk inherent in some of life insurance products underwritten by OUTsurance Life. The counterparties to these deposits are the large South African banks. The zero-coupon deposits have been structured to allow for the payment of the notional initial deposit to be spread over the specified term to enable cash flow matching. The maturity dates of the accreting zero-coupon deposits are long-term, with maturity dates at the various trading dates not exceeding 15 years. The fair values of the accreting zero-coupon deposits are determined monthly based on observable market inputs. To determine the fair values of the accreting zero-coupon deposits, a risk-free Swap Yield Curve produced every business day by the Johannesburg Securities Exchange is referenced. The instruments are designated at fair value through profit and loss, with both the interest accrual and fair value accounted for in the statement of profit and loss and other comprehensive income.

3. MANAGEMENT OF RISK AND CAPITAL *continued*

3.3 **Financial risk management** *continued*

3.3.1 **Financial instruments measured at fair value** continued

Level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3. The financial instruments at fair value through profit and loss represent profits arising out of the profit sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends bi-annually to the FirstRand Limited Group. The only significant unobservable input in the calculation of the preference dividend is the historic profit of the profit sharing arrangements and there are no other inputs that determine the value of these instruments. Should the profit of the profit sharing arrangement increase or decrease, the preference dividend will increase or decrease in direct proportion.

Specific valuation techniques used to value level 3 financial instruments include:

- Unquoted equity instruments (Preference dividend)
  Fair value is determined based on valuation techniques where the input is determined by management, e.g. profits arising out of profit sharing arrangements, and is not readily available in the market or where market observable input is significantly adjusted.

  Inputs are determined by the profits arising and calculations are made in accordance with the profit share percentages, stipulated within the profit sharing arrangement. No assumptions or adjustments or any other inputs are made to the profits before or after distribution. Distribution of the profits arising are made in the form of preference dividends.

- Refer below for the sensitivity analysis on the key assumptions used in the valuation of preference dividends.

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	2016 R'000	2015 R'000
Opening balance	**107 063**	105 488
Preference dividend paid	**(206 953)**	(199 067)
Preference dividend charged to the statement of profit and loss and other comprehensive income	**204 351**	200 642
Closing balance	**104 461**	107 063

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.

	2016 R'000	2015 R'000
Ordinary shares		
Exchange traded funds	**411 766**	241 869
Perpetual preference shares		
Listed perpetual preference shares	**393 298**	504 255
Redeemable preference shares		
Unlisted preference shares	**647 465**	559 798
	1 452 529	1 305 922

The Group's largest concentration of equity investments in one particular company comprises 21.6% (2015: 32.35%) of the total assets subject to equity risk. The Group's largest equity investment in any one company comprises 11.2% (2015: 15.34%) of the listed asset portfolio. These concentrations are within acceptable limits for the financial year under review.

At 30 June 2016, the group's total equities securities were recorded at their fair value of R1 453 million (2015: R1 305 million). A hypothetical 10% decline or increase in each individual unit price would have the net effect of decreasing or increasing profit before taxation by R145.3 million (2014: R130.6 million) for the Group.

The Group has exposure to interest rate risk, currency risk, credit rate risk, liquidity and market risk. Refer to pages 103 to 109 for detailed sensitivity analysis on possible outcomes.

Interest rate risk

Interest rate risk is the risk that the value of 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 managers. 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

The Group's exposure to interest rate risk is R9 805 million (2015: R7 942 million), which consists of fixed rate instruments of R45 million (2015: R346 million) and variable rate instruments of R9 760 million (2015: R7 596 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:

	2016 1% increase R'000	2016 1% decrease R'000	2015 1% increase R'000	2015 1% decrease R'000
Fixed rate instruments				
Cash and cash equivalents	**(1)**	**1**	81	(81)
Government, municipal and public utility securities	**82**	**(82)**	1 874	(1 874)
Money market securities <1 year	**370**	**(370)**	1 208	(1 208)
Money market securities >1 year	**–**	**–**	300	(300)
Variable rate instruments				
Cash and cash equivalents	**4 779**	**(4 779)**	5 733	(5 733)
Term deposits	**52 188**	**(52 188)**	34 914	(34 914)
Listed preference shares	**3 933**	**(3 933)**	5 043	(5 043)
Unlisted preference shares	**6 475**	**(6 475)**	5 598	(5 598)
Government, municipal and public utility securities	**4 230**	**(4 230)**	4 466	(4 466)
Money market securities <1 year	**19 230**	**(19 230)**	13 664	(13 664)
Money market securities >1 year	**6 766**	**(6 766)**	6 539	(6 539)
	98 052	**(98 052)**	79 420	(79 420)

The Group's asset portfolio used to match regulatory policyholder liabilities exposed to interest rate risk to the extent that the liabilities are matched with fixed rate instruments. At 30 June 2016, the carrying value and fair value of this portfolio was R83 million (2015: R155 million). A 100 basis point shift in the market yield curve would result in the following changes in the capital value of this portfolio:

	2016 100 bps increase R'000	2016 100 bps decrease R'000	2015 100 bps increase R'000	2015 100 bps decrease R'000
Government bonds	**–**	**–**	15 540	(15 540)
Zero-coupon deposits	**30 631**	**(143 860)**	–	–
	30 631	**(143 860)**	15 540	(15 540)

3. MANAGEMENT OF RISK AND CAPITAL *continued*

3.3 Financial risk management *continued*

3.3.2 Market Risk continued

Currency risk

Currency risk arises as a result of movements between the functional currencies of the 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.

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	
	2016 $'000	**2016 R'000**	**2016 $'000**	**2016 R'000**
Assets	**774 377**	**8 518 147**	**72 339**	**761 464**
Liabilities	**(580 627)**	**(6 386 897)**	**(37 456)**	**(394 272)**
Equity	**(193 750)**	**(2 131 250)**	**(34 883)**	**(367 192)**
Exchange rates:				
Closing rate at 30 June 2016		**11,00**		**10,53**
Average rate: 1 July 2015 to 30 June 2016		**10,53**		**9,69**

	Australian $ exposure		New Zealand $ exposure	
	2015 $'000	2015 R'000	2015 $'000	2015 R'000
Assets	661 273	6 185 900	70 894	593 255
Liabilities	(516 771)	(4 834 151)	(25 328)	(211 949)
Equity	(144 502)	(1 351 749)	(45 566)	(381 306)
Exchange rates:				
Closing rate at 30 June 2015		9,35		8,37
Average rate: 1 July 2014 to 30 June 2015		9,45		8,76

3. MANAGEMENT OF RISK AND CAPITAL *continued*

3.3 Financial risk management *continued*

3.3.2 Market Risk continued

Currency risk continued

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:

	2016 AUD 10% appreciation R'000	2016 AUD 10% depreciation R'000	2016 NZD 10% appreciation R'000	2016 NZD 10% depreciation R'000
Comprehensive income after tax	**50 641**	**(50 641)**	**(10 715)**	**10 715**
Net asset value	**183 679**	**(183 679)**	**36 719**	**(36 719)**

	2015 AUD 10% appreciation R'000	2015 AUD 10% depreciation R'000	2015 NZD 10% appreciation R'000	2015 NZD 10% depreciation R'000
Comprehensive income after tax	5 067	(5 067)	(12 984)	12 984
Net asset value	135 174	(135 174)	38 382	(38 382)

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.

3. MANAGEMENT OF RISK AND CAPITAL *continued*

3.3 Financial risk management *continued*

3.3.3 Credit risk continued

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 2016							
Cash and cash equivalents	**–**	**240 444**	**–**	**237 412**	**–**	**–**	**477 856**
Term deposits	**–**	**5 218 801**	**–**	**–**	**–**	**–**	**5 218 801**
Government, municipal and public utility securities	**–**	**–**	**–**	**315 697**	**115 448**	**–**	**431 145**
Money market securities <1 year	**–**	**1 619**	**72 398**	**1 800 131**	**63 393**	**22 433**	**1 959 974**
Money market securities >1 year	**–**	**–**	**242 251**	**393 694**	**40 639**	**–**	**676 584**
Zero-coupon deposits	**–**	**–**	**–**	**82 987**	**–**	**–**	**82 987**
Listed preference shares	**–**	**–**	**–**	**306 813**	**80 568**	**5 917**	**393 298**
Unlisted preference shares	**–**	**–**	**100 581**	**546 884**	**–**	**–**	**647 465**
Reinsurers' share of insurance contract provisions	**968**	**122 348**	**42 809**	**91 199**	**–**	**–**	**257 324**
Loans and receivables	**–**	**8 261**	**3 278**	**2 038**	**–**	**2 741 759**	**2 755 336**
Total	**968**	**5 591 473**	**461 317**	**3 776 855**	**300 048**	**2 770 109**	**12 900 770**
Group at 30 June 2015							
Cash and cash equivalents	–	347 378	–	228 747	5 264	–	581 389
Term deposits	–	3 491 383	–	–	–	–	3 491 383
Government, municipal and public utility securities	–	–	–	634 020	–	–	634 020
Money market securities <1 year	–	–	19 714	1 401 774	65 631	–	1 487 119
Money market securities >1 year	–	1 618	215 091	387 777	69 335	10 029	683 850
Listed preference shares	–	–	–	386 120	–	118 135	504 255
Unlisted preference shares	–	–	100 540	459 258	–	–	559 798
Reinsurers' share of insurance contract provisions	–	137 054	349 122	82 507	–	162	568 845
Tax receivable	–	–	–	–	–	526	526
Loans and receivables	–	2 159	–	165	–	1 953 290	1 955 614
Total	–	3 979 592	684 467	3 580 368	140 230	2 082 142	10 466 799

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' ratings indicate 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 AAA, 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.

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 liquidity profiles of the Group's assets and liabilities, grouped by expected maturity, are outlined below:

	0 – 12 months R'000	13 – 36 months R'000	37 – 60 months R'000	> 60 months R'000	Non Monetary R'000	Discounted Effect R'000	Total R'000
Group at 30 June 2016							
Assets							
Property and equipment	–	–	–	–	669 372	–	669 372
Employee benefits	40 796	24 654	–	–	40 378	4 417	110 245
Investment in associate	–	–	–	38 626	–	–	38 626
Reinsurers' share of insurance contract provisions	157 368	40 287	42 819	–	–	16 850	257 324
Deferred acquisition costs	365 074	–	–	–	–	–	365 074
Financial assets							
Fair value through profit and loss	7 315 341	680 173	113 636	55 096	–	205 245	8 369 491
Available-for-sale	568 213	96 475	477 116	–	–	310 725	1 452 529
Loans and receivables	2 755 336	–	–	–	–	–	2 755 336
Deferred income tax	–	–	–	–	193 722	–	193 722
Cash and cash equivalents	477 856	–	–	–	–	–	477 856
Total assets	**11 679 984**	**841 589**	**633 571**	**93 722**	**903 472**	**537 237**	**14 689 575**
Liabilities							
Insurance contract liabilities	5 986 668	1 002 265	8 962	(3 386)	–	73 398	7 067 907
Employee benefits	94 715	–	20 088	25 798	–	12 829	153 430
Share based payment liability	186 701	15 404	–	–	–	–	202 105
Financial liabilities at fair value through profit and loss	104 461	–	–	–	–	–	104 461
Tax liabilities	244 582	–	–	–	–	–	244 582
Financial liabilities at amortised cost							
Insurance and other payables	1 010 989	9 724	–	–	–	–	1 020 713
Total liabilities	**7 628 116**	**1 027 393**	**29 050**	**22 412**	**–**	**86 227**	**8 793 198**

3. MANAGEMENT OF RISK AND CAPITAL *continued*

3.3 **Financial risk management** *continued*

3.3.4 **Liquidity risk** continued

	0 – 12 months R'000	13 – 36 months R'000	37 – 60 months R'000	> 60 months R'000	Non Monetary R'000	Discounted Effect R'000	Total R'000
Group at 30 June 2015							
Assets							
Property and equipment	–	–	–	–	520 642	–	520 642
Employee benefits	–	–	–	–	64 100	–	64 100
Investment in associate	–	–	–	32 775	–	–	32 775
Reinsurers' share of insurance contract provisions	465 173	40 069	49 842	154	–	13 607	568 845
Deferred acquisition costs	332 434	–	–	–	–	–	332 434
Financial assets							
Fair value through profit and loss	5 148 378	593 741	234 390	115 878	–	203 985	6 296 372
Available-for-sale	598 303	207 527	482 886	–	–	17 206	1 305 922
Loans and receivables	1 915 480	–	–	40 134	–	–	1 955 614
Deferred income tax	–	–	–	–	188 295	–	188 295
Tax receivable	526	–	–	–	–	–	526
Cash and cash equivalents	581 389	–	–	–	–	–	581 389
Total assets	9 041 683	841 337	767 118	188 941	773 037	234 798	11 846 914
Liabilities							
Insurance contract liabilities	4 772 869	831 207	91 726	119 353	–	121 590	5 936 745
Employee benefits	88 911	11 315	–	25 995	–	12 066	138 287
Share based payment liability	79 140	49 973	–	–	–	18 038	147 151
Financial liabilities at fair value through profit and loss	107 063	–	–	–	–	–	107 063
Tax liabilities	42 016	–	–	–	–	–	42 016
Financial liabilities at amortised cost							
Insurance and other payables	755 272	9 807	–	–	–	–	765 079
Total liabilities	5 845 271	902 302	91 726	145 348	–	151 694	7 136 341

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	**Actual solvency 2016**	Actual solvency 2015	Target CAR*
Group		**2.0**	1.7	1.2
Short-term insurance				
OUTsurance Insurance Company Limited	South Africa	**1.8**	1.7	1.2
OUTsurance Insurance Company of Namibia Limited (Associate)	Namibia	**1.6**	1.6	1.2
Youi Australia	Australia	**2.5**	1.8	1.5
Youi New Zealand	New Zealand	**6.3**	9.4	1.5
Long-term insurance				
OUTsurance Life Insurance Company Limited	South Africa	**3.9**	1.6	1.5

** 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*

New Zealand operations – Short-term Insurance operations

The Reserve Bank of New Zealand ("RBNZ") imposes capital requirements on New Zealand subsidiaries which are licensed general insurers calculated in accordance with the Solvency Standard for Non-life Insurance Business issued under section 55 of the Insurance (Prudential Supervision) Act 2010.

The Minimum Solvency Capital is calculated as the sum of:

- Insurance Risk Capital Charge;
- Catastrophe Risk Capital Charge;
- Reinsurance Recovery Risk Capital Charge;
- Asset Risk Capital Charge;
- Foreign Currency Risk Capital Charge; and
- Interest Rate Capital Charge.

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 meet 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, Youi Pty Limited (Australia) and Youi NZ Pty Limited;
- 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;
- 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.

4. SEGMENT INFORMATION *continued*

4.1 Market segmentation:

	SHORT-TERM INSURANCE		
	OUTsurance		
	Personal* R'000	Commercial R'000	OUTsurance Total R'000
Segment income statement information			
Year end 30 June 2016			
Gross insurance premium written	**6 061 469**	**958 347**	**7 019 816**
Outward reinsurance premiums	**(87 390)**	**(16 067)**	**(103 457)**
Change in provision for unearned premium	**(7 537)**	**(2 103)**	**(9 640)**
Earned premium, net of reinsurance	**5 966 542**	**940 177**	**6 906 719**
Commision income	**–**	**–**	**–**
Other income	**–**	**–**	**–**
Claims on insurance contracts net of reinsurance	**(2 788 730)**	**(414 046)**	**(3 202 776)**
Non-claims bonuses on insurance contracts	**(309 362)**	**(43 002)**	**(352 364)**
Marketing, acquisition and administration expenses	**(1 073 375)**	**(240 356)**	**(1 313 731)**
Transfer to policyholder liabilities under insurance contracts	**–**	**–**	**–**
Fair value adjustment to financial liabilities	**(204 351)**	**–**	**(204 351)**
Underwriting result	**1 590 724**	**242 773**	**1 833 497**
Net investment income			**369 934**
Equity accounted earnings from associate			**–**
Profit before tax			**2 203 431**

	SHORT-TERM INSURANCE			
	OUTsurance			
	Personal* R'000	Commercial R'000	Cell captives R'000	OUTsurance Total R'000
Year end 30 June 2015				
Gross insurance premium written	5 679 467	863 703	36 831	6 580 001
Outward reinsurance premiums	(68 660)	(12 480)	–	(81 140)
Change in provision for unearned premium	(8 216)	(2 797)	1 850	(9 163)
Earned premium, net of reinsurance	5 602 591	848 426	38 681	6 489 698
Commission income	–	–	–	–
Other income	–	–	–	–
Claims on insurance contracts net of reinsurance	(2 614 744)	(333 896)	(16 182)	(2 964 822)
Non-claims bonuses on insurance contracts	(278 595)	(36 562)	–	(315 157)
Marketing, acquisition and administration expenses	(1 073 472)	(206 664)	(4 979)	(1 285 115)
Transfer to policyholder liabilities under insurance contracts	–	–	–	–
Fair value adjustment to financial liabilities	(188 037)	–	(12 605)	(200 642)
Underwriting result	1 447 743	271 304	4 915	1 723 962
Net investment income				250 563
Equity accounted earnings from associate				–
Profit before tax				1 974 525

** Includes Homeowners cover book sourced from FirstRand limited.*

SHORT-TERM INSURANCE		LONG-TERM INSURANCE		
Youi Australia Personal R'000	**Youi New Zealand Personal R'000**	**OUTsurance Life R'000**	**Unallocated and consolidation adjustments R'000**	**Group Total R'000**
7 034 145	**308 434**	**391 521**	**–**	**14 753 916**
(514 475)	**(203 061)**	**(33 365)**	**–**	**(854 358)**
(409 533)	**(53 119)**	**–**	**–**	**(472 292)**
6 110 137	**52 254**	**358 156**	**–**	**13 427 266**
–	**91 900**	**–**	**–**	**91 900**
168	**377**	**–**	**8 375**	**8 920**
(3 600 373)	**(41 003)**	**(44 373)**	**–**	**(6 888 525)**
–	**–**	**(10 031)**	**–**	**(362 395)**
(1 887 630)	**(226 963)**	**(229 479)**	**37 137**	**(3 620 666)**
–	**–**	**(51 533)**	**–**	**(51 533)**
–	**–**	**–**	**–**	**(204 351)**
622 302	**(123 435)**	**22 740**	**45 512**	**2 400 616**
108 110	**16 290**	**60 481**	**(57 136)**	**497 679**
–	**–**	**–**	**14 671**	**14 671**
730 412	**(107 145)**	**83 221**	**3 047**	**2 912 966**

SHORT-TERM INSURANCE		LONG-TERM INSURANCE		
Youi Australia Personal R'000	Youi New Zealand Personal R'000	OUTsurance Life R'000	Unallocated and consolidation adjustments R'000	Group Total R'000
5 408 777	163 238	316 491	–	12 468 507
(367 659)	(85 296)	(20 910)	–	(555 005)
(678 868)	(77 542)	–	–	(765 573)
4 362 250	400	295 581	–	11 147 929
–	18 744	–	–	18 744
151	186	–	9 992	10 329
(2 816 463)	(9 067)	(40 911)	–	(5 831 263)
–	–	–	–	(315 157)
(1 566 757)	(160 616)	(189 476)	17 946	(3 184 018)
–	–	(41 351)	–	(41 351)
–	–	–	–	(200 642)
(20 819)	(150 353)	23 843	27 938	1 604 571
96 616	20 509	28 251	(44 530)	351 409
–	–	–	15 026	15 026
75 797	(129 844)	52 094	(1 566)	1 971 006

4. SEGMENT INFORMATION *continued*

4.2 Geographical segmentation

The Company is domiciled in South Africa. A summary of the Group's assets, liabilities and equity arising from transactions with international customers are as follows:

	OUTsurance R'000	Youi Australia R'000	Youi New Zealand R'000	OUTsurance Life R'000	Unallocated and consolidation adjustments R'000	Group Total R'000
Segment Balance sheet information						
Year ended 30 June 2016						
Segment assets						
Property and equipment	**99 165**	**46 831**	**31 145**	**–**	**492 231**	**669 372**
Financial assets	**5 037 423**	**7 273 867**	**579 030**	**678 570**	**(991 534)**	**12 577 356**
Cash and cash equivalents	**189 827**	**199 308**	**37 828**	**14 478**	**36 415**	**477 856**
Other assets	**155 043**	**998 141**	**113 461**	**97 040**	**(398 694)**	**964 991**
Total segment assets	**5 481 458**	**8 518 147**	**761 464**	**790 088**	**(861 582)**	**14 689 575**
Segment Equity						
Share capital	**25 000**	**1 353 927**	**576 240**	**435 002**	**(2 157 733)**	**232 436**
Retained earnings	**3 193 954**	**333 944**	**(259 293)**	**91 828**	**1 533 021**	**4 893 454**
Other reserves	**80 887**	**443 379**	**50 245**	**(112)**	**196 088**	**770 487**
Total segment equity	**3 299 841**	**2 131 250**	**367 192**	**526 718**	**(428 624)**	**5 896 377**
Segment liabilities						
Insurance contract liabilities	**1 567 056**	**5 052 812**	**252 318**	**195 721**	**–**	**7 067 907**
Other liabilities	**614 561**	**1 334 085**	**141 954**	**67 649**	**(432 958)**	**1 725 291**
Total segment liabilities	**2 181 617**	**6 386 897**	**394 272**	**263 370**	**(432 958)**	**8 793 198**
Total segment equity and liabilities	**5 481 458**	**8 518 147**	**761 464**	**790 088**	**(861 582)**	**14 689 575**

4. SEGMENT INFORMATION *continued*

4.2 Geographical segmentation *continued*

	OUTsurance R'000	Youi Australia R'000	Youi New Zealand R'000	OUTsurance Life R'000	Unallocated and consolidation adjustments R'000	Group Total R'000
Segment Balance sheet information						
Year ended 30 June 2015						
Segment assets						
Property and equipment	106 644	76 657	32 429	149	304 763	520 642
Financial assets	4 533 480	4 906 096	468 603	507 686	(857 957)	9 557 908
Cash and cash equivalents	182 586	306 549	37 949	5 318	48 987	581 389
Other assets	114 310	896 598	54 274	87 258	34 535	1 186 975
Total segment assets	4 937 020	6 185 900	593 255	600 411	(469 672)	11 846 914
Segment Equity						
Share capital	25 000	1 280 837	575 619	385 002	(1 981 692)	284 766
Retained earnings	2 829 091	(117 150)	(152 138)	31 877	1 427 547	4 019 227
Other reserves	83 824	188 062	(42 175)	–	176 869	406 580
Total segment equity	2 937 915	1 351 749	381 306	416 879	(377 276)	4 710 573
Segment liabilities						
Insurance contract liabilities	1 501 822	4 170 217	127 224	137 482	–	5 936 745
Other liabilities	497 283	663 934	84 725	46 050	(92 396)	1 199 596
Total segment liabilities	1 999 105	4 834 151	211 949	183 532	(92 396)	7 136 341
Total segment equity and liabilities	4 937 020	6 185 900	593 255	600 411	(469 672)	11 846 914

The cell captive business was transferred on 31 March 2015 to RMB Structured Insurance ("RMBSI"), a subsidiary of RMI Holdings Limited.

5. GROSS INSURANCE PREMIUM WRITTEN

	2016 R'000	2015 R'000
Short-term insurance	**14 362 395**	12 152 016
Premium written	**14 223 116**	12 022 249
Policyholder fees written	**139 279**	129 767
Long-term insurance	**391 521**	316 491
Premium received	**377 811**	304 722
Policyholder fees received	**13 710**	11 769
	14 753 916	12 468 507

6. OTHER INCOME

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

	2016 R'000	2015 R'000
Government grant received	**8 920**	10 329
	8 920	10 329

7. INVESTMENT INCOME

	2016 R'000	2015 R'000
Cash and cash equivalents		
Interest received	**399 059**	325 147
Dividends received from financial assets designated at fair value through profit and loss	**–**	7 187
Available-for-sale financial assets		
Interest – unlisted debt instruments	**37 994**	26 408
Dividends – listed equities	**50 918**	47 444
	487 971	406 186

8. NET GAINS / (LOSSES) FROM FAIR VALUE ADJUSTMENTS ON FINANCIAL ASSETS

	Available-for-sale R'000	Fair value designated through profit and loss R'000	Fair value designated through profit and loss – impairment R'000	Total R'000
2016				
Net realised losses on financial assets	**–**	**(19 812)**	**–**	**(19 812)**
Net unrealised fair value (losses) / gains	**(2 776)**	**33 484**	**–**	**30 708**
Available-for-sale reserve released to statement of profit and loss and other comprehensive income	**3 804**	**–**	**(3 804)**	**–**
	1 028	**13 672**	**(3 804)**	**10 896**
2015				
Net realised losses on financial assets	–	(3 555)	–	(3 555)
Net unrealised fair value (losses) / gains	(34 468)	249	–	(34 219)
Available-for-sale reserve released to statement of profit and loss and other comprehensive income	51 006	–	(51 006)	–
	16 538	(3 306)	(51 006)	(37 774)

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.

9. CLAIMS ON INSURANCE CONTRACTS NET OF REINSURANCE

	2016			2015		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Short-term insurance						
Gross	**(6 980 302)**	**136 150**	**(6 844 152)**	(6 496 224)	705 872	(5 790 352)
Claims paid net of recoveries	**(7 209 105)**	**544 126**	**(6 664 979)**	(5 685 118)	315 607	(5 369 511)
Change in claims reserves	**228 803**	**(407 976)**	**(179 173)**	(811 106)	390 265	(420 841)
Long-term insurance						
Claims paid	**(68 930)**	**24 557**	**(44 373)**	(58 520)	17 609	(40 911)
Life claims	**(51 547)**	**16 427**	**(35 120)**	(46 318)	14 863	(31 455)
Disability claims	**(6 442)**	**3 841**	**(2 601)**	(5 836)	1 559	(4 277)
Retrenchment claims	**(3 845)**	**383**	**(3 462)**	(2 227)	266	(1 961)
Critical illness claims	**(7 096)**	**3 906**	**(3 190)**	(4 139)	921	(3 218)
Total claims incurred	**(7 049 232)**	**160 707**	**(6 888 525)**	(6 554 744)	723 481	(5 831 263)

10. ACQUISITION EXPENSES

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

	2016 R'000	2015 R'000
Acquisition expenses incurred	**(29 204)**	(34 634)
	(29 204)	(34 634)

11. MARKETING AND ADMINISTRATION EXPENSES

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

	2016 R'000	2015 R'000
Depreciation		
Buildings	**25 382**	27 909
Computer equipment and software	**85 840**	86 144
Furniture and fittings	**5 933**	12 259
Motor vehicles	**700**	370
Total depreciation	**117 855**	126 682
Employee benefits		
Salaries excluding retirement funding	**1 590 571**	1 379 457
Medical aid contributions	**71 552**	66 231
Retirement funding	**155 331**	133 764
Service cost relating to employee benefits	**73 193**	66 207
Share-based payments	**128 604**	89 583
Total employee benefits	**2 019 251**	1 735 242
Other disclosable items		
Audit fees	**8 633**	6 726
External audit fees	**6 077**	5 340
Other fees / services	**2 556**	1 386
Operating lease expenses	**105 973**	94 999
Profit on sale of property, plant and equipment	**(1 571)**	(188)
Consulting and legal fees for professional services	**35 433**	17 721
Investment fees paid	**7 003**	6 048
Foreign exchange profit	**(476)**	(53)
Marketing and management expenses	**1 299 361**	1 162 207
Total other disclosable expenses	**1 454 356**	1 287 460
Total marketing and administration expenses	**3 591 462**	3 149 384

12. FINANCE CHARGES

	2016 R'000	2015 R'000
Interest paid – operational financing	**160**	465
	160	465

13. TAXATION

	2016 R'000	2015 R'000
Normal taxation		
Current tax	**(882 575)**	(611 024)
Current year	**(884 015)**	(694 504)
Utilisation of assessed loss	**389**	83 715
Prior year over / (under) provision	**1 051**	(235)
Deferred tax	**(18 264)**	(19 125)
Current year	**(19 366)**	(21 211)
Prior year over provision	**1 102**	2 086
Total normal taxation	**(900 839)**	(630 149)
Withholding taxation incurred	**(3 224)**	(1 621)
Total taxation charge	**(904 063)**	(631 770)
Tax rate reconciliation		
In R'000		
Normal tax on companies	**815 630**	551 882
Non-temporary differences	**61 892**	45 700
Fair value adjustment	**(9 163)**	(53)
Other	**–**	489
Capital gains tax	**7 528**	4 790
Foreign tax rate differential	**13 895**	1 083
Exempt dividends	**(31 827)**	(26 918)
Non allowable expenses	**81 459**	66 309
Prior year (over) provision	**(2 153)**	(1 852)
Deferred tax asset not recognised	**28 694**	36 040
Amount calculated at effective rate	**904 063**	631 770

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.

	2016	2015
Earnings attributable to ordinary shareholders (R'000)	**1 982 956**	1 346 204
Weighted average number of shares in issue ('000)	**3 483 476**	3 481 822
Basic earnings per share (cents)	**56,92**	38,66

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 28.

	2016	2015
Earnings attributable to ordinary shareholders (R'000)	**1 982 956**	1 346 204
Diluted earnings attributable to Youi Group (R'000)	**(43 538)**	-
Total earnings attributable to ordinary shareholders (R'000)	**1 939 418**	1 346 204
Diluted weighted average number of shares in issue ('000)	**3 547 329**	3 540 369
Weighted average number of shares in issue ('000)	**3 483 476**	3 481 822
Dilution impact of share incentive scheme ('000)	**63 853**	58 547
Diluted earnings per share (cents)	**54,67**	38,02

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:

	2016 R'000	2015 R'000
Earnings attributable to ordinary shareholders	**1 982 956**	1 346 204
Adjusted for:		
Impairment of available-for-sale instruments	**3 804**	51 006
Profit on sale of property and equipment	**(1 571)**	(188)
Tax effect of adjustments	**(446)**	(9 467)
Headline earnings attributable to ordinary shareholders	**1 984 743**	1 387 555
Weighted average number of shares in issue ('000)	**3 483 476**	3 481 822
Headline earnings per share – basic (cents)	**56,98**	39,85
Headline earnings attributable to ordinary shareholders	**1 984 743**	1 387 555
Diluted headline earnings attributable to Youi Group	**(43 538)**	–
Diluted headline earnings attributable to ordinary shareholders	**1 941 205**	1 387 555
Diluted weighted average number of shares in issue ('000)	**3 547 328**	3 540 369
Headline earnings per share – diluted (cents)	**54,72**	39,19

16. DIVIDEND PER SHARE

	2016	2015
Total dividends paid during the year (R'000)	**1 134 446**	1 045 788
Total dividends declared during the year (R'000)	**1 266 539**	1 073 040
Number of ordinary shares in issue ('000)	**3 518 163**	3 518 163
Dividends declared per share (cents)	**36,00**	30,50
Dividend paid per share (cents)	**32,25**	29,73

17. PROPERTY AND EQUIPMENT

	Land and buildings R'000	Computer equipment R'000	Computer software R'000	Furniture, Fittings and office equipment R'000	Motor vehicles R'000	Total R'000
Year ended 30 June 2016						
Opening net book amount	**346 423**	**129 688**	**21 697**	**21 843**	**991**	**520 642**
Additions	**462**	**36 530**	**22 480**	**1 973**	**1 549**	**62 994**
Property under development	**199 835**	**–**	**–**	**–**	**–**	**199 835**
Disposals	**(16 347)**	**(214)**	**(77)**	**(121)**	**(251)**	**(17 010)**
Reallocation of computer software	**–**	**(14 801)**	**14 801**	**–**	**–**	**–**
Foreign exchange adjustments	**9 406**	**4 268**	**3 433**	**3 620**	**39**	**20 766**
Depreciation charge	**(25 382)**	**(59 815)**	**(26 025)**	**(5 933)**	**(700)**	**(117 855)**
Closing net book amount	**514 397**	**95 656**	**36 309**	**21 382**	**1 628**	**669 372**
At 30 June 2016						
Cost	**610 461**	**450 647**	**149 314**	**95 683**	**2 469**	**1 308 574**
Accumulated depreciation	**(96 064)**	**(354 991)**	**(113 005)**	**(74 301)**	**(841)**	**(639 202)**
Net book amount	**514 397**	**95 656**	**36 309**	**21 382**	**1 628**	**669 372**
Year ended 30 June 2015						
Opening net book amount	350 705	119 026	21 337	22 095	1 032	514 195
Additions	26 080	82 140	17 575	13 151	559	139 505
Disposals	(7)	(238)	–	(10)	(208)	(463)
Foreign exchange adjustments	(2 446)	(1 450)	(861)	(1 134)	(22)	(5 913)
Depreciation charge	(27 909)	(69 790)	(16 354)	(12 259)	(370)	(126 682)
Closing net book amount	346 423	129 688	21 697	21 843	991	520 642
At 30 June 2015						
Cost	415 026	469 642	50 307	87 960	1 352	1 024 287
Accumulated depreciation	(68 603)	(339 954)	(28 610)	(66 117)	(361)	(503 645)
Net book amount	346 423	129 688	21 697	21 843	991	520 642

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 34 for the current and non-current analysis of property and equipment.

The Group is in the process of establishing a new head office for the Youi Group on the Sunshine Coast in Australia. Building will commence in 2016 and be completed by 2018. The property will be owned by the Group.

18. SUBSIDIARIES

The Company had the following subsidiaries at 30 June 2016:

Subsidiary	Nature of business	Country of Incorporation	Issued ordinary capital (R'000) 2016	Issued ordinary capital (R'000) 2015	Effective Holdings 2016	Effective Holdings 2015	Subsidiary carrying amount (R'000) 2016	Subsidiary carrying amount (R'000) 2015
OUTsurance Insurance Company Ltd	Short-term insurer	South Africa	**25 000**	25 000	**100%**	100%	**3 299 841**	2 937 915
OUTsurance Life Insurance Company Ltd	Long-term insurer	South Africa	**435 002**	385 002	**100%**	100%	**526 718**	416 879
Youi (Pty) Ltd (South Africa)	Administration company	South Africa	**15 000**	15 000	**100%**	100%	**16 576**	7 614
OUTsurance International Holdings (Pty) Ltd	Holdings company	South Africa	**1 169 086**	1 169 086	**100%**	100%	**1 335 594**	1 250 410
OUTsurance Shared Services (Pty) Ltd	Administration company	South Africa	**100**	100	**100%**	100%	**7 863**	8 174
Youi NZ Pty Ltd	Short-term insurer	New Zealand	**575 086**	575 086	**93.0%**	93.0%	**367 193**	381 306
Youi Holdings Pty Ltd	Holdings company	Australia	**1 312 067**	1 316 760	**93.0%**	93.0%	**2 449 563**	2 043 098
Youi Pty Ltd (Australia)	Short-term insurer	Australia	**1 188 792**	1 188 792	**93.0%**	93.0%	**2 131 455**	1 351 749
Youi Properties Pty Ltd	Property company	Australia	**1**	1	**93.0%**	93.0%	**8**	1
Micawber 296 (Pty) Ltd	Property company	South Africa	**38 105**	38 105	**100%**	100%	**308 971**	163 394

** Refer to note 14 for the Group's potential future dilution of the percentage holding in Youi Holdings Pty Ltd.*

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

The total non-controlling interest for the financial year is R130.1 million (2015: R136.4 million) which is attributable to the minority shareholders of Youi Holdings Pty Ltd.

Dilution of interest in a subsidiary without loss of control

During the 2016 financial year there was a decrease in non-controlling equity attributable to the Group of R3.8 million. The non-controlling interest is reconciled as follows:

	2016 R'000	2015 R'000
Opening balance of non-controlling interest	**136 344**	137 608
Profit attributable to non-controlling interest	**25 947**	(6 968)
Capital contributed by non-controlling parties	**–**	5 704
FCTR attributable to non-controlling interest	**21 167**	–
Transactions with minorities	**(53 321)**	–
Total attributable to non-controlling interest	**130 137**	136 344

19. INVESTMENT IN ASSOCIATE

	2016 R'000	2015 R'000
OUTsurance Insurance Company of Namibia Limited		
Investment in associate	**38 626**	32 775
	38 626	32 775
Reconciliation of investment in associate		
Opening balance	**32 775**	25 589
Share of associate after tax profit attributable to the group	**14 671**	15 026
Dividends received from associate	**(8 820)**	(7 840)
Closing balance	**38 626**	32 775

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.

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

	2016 R'000	2015 R'000
Statement of financial position		
Current assets	**163 189**	149 694
Non-current assets	**2 913**	3 970
Current liabilities	**(16 080)**	(13 601)
Technical provisions	**(70 535)**	(72 757)
Equity	**79 487**	67 306
Statement of profit and loss and other comprehensive income		
Revenue	**215 316**	189 254
After tax comprehensive income attributable to the Group	**14 671**	15 026
Cash Flow statement		
Cash inflow from operating activities	**35 492**	42 713
Cash outflow from investing activities	**(7 355)**	(15 516)
Cash outflow from financing activities	**(21 413)**	(18 840)
Increase in cash and cash equivalents	**6 724**	8 357
Opening balance of cash and cash equivalents	**51 541**	43 184
Closing balance of cash and cash equivalents	**58 265**	51 541
Opening net assets – 1 July	**67 306**	52 717
Profit for the period	**29 942**	30 665
Other comprehensive income / (loss)	**239**	(76)
Dividend	**(18 000)**	(16 000)
Closing net assets	**79 487**	67 306
Interest in associate (49%)	**38 948**	32 980
Available-for-sale and preference shares	**(322)**	(205)
Carrying value	**38 626**	32 775

Refer to note 34 for the current and non-current analysis of investments in associate.

20. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES

The Group financial assets are summarised below:

	2016 R'000	2015 R'000
Fair value designated through profit and loss		
Debt securities		
Zero-coupon deposits	**82 987**	–
Term deposits	**5 218 301**	3 491 383
Government, municipal and public utility securities	**431 145**	634 020
Money market securities <1 year	**1 959 974**	1 487 119
Money market securities >1 year	**676 584**	683 850
Available-for-sale		
Equity securities		
Listed perpetual preference shares	**393 298**	504 255
Exchange traded funds	**411 766**	241 869
Debt securities		
Unlisted redeemable preference shares	**647 465**	559 798
Total financial assets	**9 822 020**	7 602 294

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 2016			
Movement analysis			
Balance at 1 July 2015	**6 296 372**	**1 305 922**	**7 602 294**
Additions (purchases and issuings)	**5 438 268**	**259 476**	**5 697 744**
Disposals (sales and redemptions)	**(3 398 621)**	**(113 897)**	**(3 512 518)**
Unrealised fair value adjustments	**33 472**	**1 028**	**34 500**
Balance at 30 June 2016	**8 369 491**	**1 452 529**	**9 822 020**
Group 2015			
Movement analysis			
Balance at 1 July 2014	4 867 435	1 265 149	6 132 584
Additions (purchases and issuings)	5 469 701	117 235	5 586 936
Disposals (sales and redemptions)	(4 041 124)	(93 000)	(4 134 124)
Unrealised fair value adjustments	360	16 538	16 898
Balance at 30 June 2015	6 296 372	1 305 922	7 602 294

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 34 for the current and non-current analysis of investment securities.

21. FINANCIAL ASSETS – LOANS AND RECEIVABLES

	2016 R'000	2015 R'000
Receivables arising from insurance and reinsurance contracts		
Due from policyholders	**2 509 788**	1 757 985
Due from reinsurers	**31 765**	20 657
Other receivables		
Other receivables and prepayments	**213 783**	176 972
Total receivables	**2 755 336**	1 955 614

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 2016, 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 35 for further details thereof.

The carrying amount of loans and receivables approximates the fair value. Refer to note 34 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 taxes relate to the same fiscal authority.

	2016 R'000	2015 R'000
Deferred tax assets		
Provision for non-claims bonuses		
Provision relating to staff costs	**330 172**	264 191
Fair value adjustments	**10 938**	8 431
Service costs on employee benefits	**7 815**	5 566
Operating lease charges	**54**	67
Unrealised foreign exchange loss	**12**	–
Difference between accounting and tax values of assets	**3 534**	2 217
Payment received in advance	**1 233**	1 712
Special transfer credit	**–**	2 806
Assessed loss	**1 321**	35 637
Total deferred tax assets	**355 079**	320 627
Deferred tax liabilities		
Operating lease charges	**–**	(75)
Unrealised foreign exchange gain	**(22)**	–
Available-for-sale financial assets*	**(23 349)**	(19 239)
Deferred expenditure immediately deductable	**(9 152)**	(6 454)
Deferred acquisition costs	**(109 522)**	(99 729)
Special transfer credit	**(18 540)**	(4 859)
Prepayments	**(772)**	(1 976)
Total deferred tax liabilities	**(161 357)**	(132 332)
Net deferred tax assets	**193 722**	188 295

22. DEFERRED TAXATION *continued*

	2016 R'000	2015 R'000
Reconciliation of movement in deferred tax assets		
Opening balance of deferred tax asset	**320 627**	351 762
Transfer of intellectual property	**–**	(2)
Foreign exchange difference	**42 268**	(18 763)
Transfer to share based payment reserve	**3 738**	1 543
Prior year adjustment	**1 102**	2 086
Deferred tax charge for the year	**(12 656)**	(15 999)
Closing balance of deferred tax assets	**355 079**	320 627
Reconciliation of movement in deferred tax liabilities		
Opening balance of deferred tax liabilities	**(132 332)**	(131 496)
Foreign exchange difference	**(18 429)**	7 463
Transfer of intellectual property	**191**	–
Available-for-sale financial asset*	**(4 077)**	(3 087)
Deferred tax charge for the year	**(6 710)**	(5 212)
Closing balance of deferred tax liabilities	**(161 357)**	(132 332)

** 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 Australia of Nil (2015: R104.6 million).

A deferred tax asset relating to the startup loss incurred by Youi New Zealand has not been recognised due to the short trading history of the business. The deferred tax asset will be recognised once reasonable certainty exists that the losses are recoverable against future profits. The deferred tax asset for the financial year that has not been recognised is R83.4 million (2015: R41.8 million). A deferred tax asset relating to the individual policyholder fund in OUTsurance Life Insurance Company has not been recognised amounting to R198.9 million (2015: R175.8 million).

Refer to note 34 for the current and non-current analysis of deferred taxation.

23. CASH AND CASH EQUIVALENTS

	2016 R'000	2015 R'000
Cash at bank and in hand	**463 920**	561 151
Money market investments	**13 936**	20 238
	477 856	581 389

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.

	2016 R	2015 R
Authorised share capital		
3 999 999 990 (2015: 3 999 999 990) ordinary shares at R0.01 each	**39 999 990**	39 999 990
1 000 "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 (2015: 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 40 184 922 (2015: 33 874 148)	**(401 849)**	(338 741)
Closing balance	**34 779 782**	34 842 890

	R'000	R'000
Share premium		
Ordinary shares		
Issued share premium	**265 110**	265 110
Treasury shares held by the OUTsurance Holdings Share Trust	**(67 454)**	(15 187)
	197 656	249 923

25. INSURANCE CONTRACT LIABILITIES

The table below provides an overview of the Group's liability which arises from insurance contracts:

	2016			2015		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Short-term insurance contracts						
Claims reserves	**2 058 049**	**(94 757)**	**1 963 292**	2 052 773	(444 960)	1 607 813
Unearned premium provision	**4 396 180**	**(73 404)**	**4 322 776**	3 344 431	(41 428)	3 303 003
Insurance contract non-claims bonuses	**417 957**	**–**	**417 957**	402 059	–	402 059
Long-term insurance contracts						
Policyholder liabilities	**195 721**	**(89 163)**	**106 558**	137 482	(82 457)	55 025
	7 067 907	**(257 324)**	**6 810 583**	5 936 745	(568 845)	5 367 900

25. INSURANCE CONTRACT LIABILITIES *continued*

25.1 Analysis of movement in short-term insurance contract liabilities

	2016			2015		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Analysis of movement in claims reserves						
Opening balance						
Outstanding claims provision	**1 490 556**	**(303 071)**	**1 187 485**	965 741	(56 212)	909 529
Claims incurred but not reported	**562 217**	**(141 889)**	**420 328**	332 211	(3 713)	328 498
Total	**2 052 773**	**(444 960)**	**1 607 813**	1 297 952	(59 925)	1 238 027
Current year						
Claims incurred	**7 064 207**	**(309 198)**	**6 755 009**	6 090 619	(537 875)	5 552 744
Claims paid	**(5 798 845)**	**180 083**	**(5 618 762)**	(4 956 738)	270 371	(4 686 367)
Prior year						
Claims incurred	**(112 007)**	**47 941**	**(64 066)**	73 477	9 390	82 867
Claims paid	**(1 410 260)**	**364 043**	**(1 046 217)**	(728 380)	45 236	(683 144)
Movement in incurred but not reported	**46 584**	**90 649**	**137 233**	231 888	(138 175)	93 713
Change in risk margin	**(23 680)**	**34 458**	**10 778**	75 687	(39 212)	36 475
Change in claims handling costs	**5 198**	**–**	**5 198**	24 553	–	24 553
Foreign exchange difference	**234 079**	**(57 773)**	**176 306**	(44 569)	5 230	(39 339)
Transfer of reserves for cell captive business	**–**	**–**	**–**	(11 716)	–	(11 716)
Closing balance						
Outstanding claims provision	**1 452 564**	**(43 517)**	**1 409 047**	1 490 556	(303 071)	1 187 485
Claims incurred but not reported	**605 485**	**(51 240)**	**554 245**	562 217	(141 889)	420 328
Total	**2 058 049**	**(94 757)**	**1 963 292**	2 052 773	(444 960)	1 607 813

25. INSURANCE CONTRACT LIABILITIES *continued*

25.1 Analysis of movement in short-term insurance contract liabilities continued

	2016			2015		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Analysis of movement in unearned premium provision						
Opening balance	**3 344 431**	**(41 428)**	**3 303 003**	2 729 058	–	2 729 058
UPP raised	**7 783 272**	**(717 536)**	**7 065 736**	6 030 536	(452 956)	5 577 580
UPP earned	**(7 279 004)**	**685 560**	**(6 593 444)**	(5 223 535)	411 528	(4 812 007)
Transfer of reserves for cell captive business	**–**	**–**	**–**	(27 467)	–	(27 467)
Foreign exchange difference	**547 481**	**–**	**547 481**	(164 161)	–	(164 161)
Closing balance	**4 396 180**	**(73 404)**	**4 322 776**	3 344 431	(41 428)	3 303 003
Analysis of movement in insurance contract non-claims bonuses						
Opening balance	**402 059**	**–**	**402 059**	381 362	–	381 362
Charge to the statement of comprehensive income	**362 395**	**–**	**362 395**	315 157	–	315 157
Non-claims bonuses paid during the year	**(346 497)**	**–**	**(346 497)**	(294 460)	–	(294 460)
Closing balance	**417 957**	**–**	**417 957**	402 059	–	402 059

	2016 R'000	2015 R'000
Analysis of movement in deferred acquisition costs		
Opening balance	**332 434**	336 114
DAC raised	**911 629**	856 342
DAC charged to the statement of profit and loss and other comprehensive income	**(936 387)**	(837 556)
Foreign exchange difference	**57 398**	(22 466)
Closing balance	**365 074**	332 434

Based on the results of the liability adequacy test performed for Youi New Zealand at 30 June 2016, acquisition costs amounting to R51.3 million (2015: R54.4 million) did not qualify for deferral.

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	**2016 R'000**	2015 R'000	2014 R'000	2013 R'000	Prior 2012 R'000
Accident year					
2016	**5 613 836**				
2015	**972 106**	4 686 367			
2014	**58 818**	643 127	4 344 210		
2013	**14 762**	26 030	(45 757)	2 908 082	
2012 and prior	**5 457**	13 987	44 304	418 287	15 638 579
Cumulative payments to date	**6 664 979**	5 369 511	4 342 757	3 326 369	15 638 579

25.2.2 Incurred development

		Financial year in which changes occurred in claims liability			
Net claims	**2016 R'000**	2015 R'000	2014 R'000	2013 R'000	Prior 2012 R'000
Accident year					
2016	**6 505 379**				
2015	**194 191**	5 541 777			
2014	**6 964**	111 466	4 385 246		
2013	**(7 841)**	(11 731)	96 886	3 505 305	
2012 and prior	**(10 516)**	(16 867)	(20 710)	12 759	16 130 028
Current estimate of cumulative claims incurred	**6 688 177**	5 624 645	4 461 422	3 518 064	16 130 028

The IBNR, IBNR risk margin and IBNR claims handling expenses have been excluded from the table above.

25.2.3 Reporting development

		Financial year in which claims were reported			
Net claims	**2016 R'000**	2015 R'000	2014 R'000	2013 R'000	Prior 2012 R'000
Accident year					
2016	**7 039 450**				
2015	**(167 943)**	5 893 506			
2014	**10 314**	7 661	4 543 283		
2013	**(7 280)**	6 804	(24 394)	3 580 865	
2012 and prior	**584**	2	3 543	20 377	16 144 907
Current estimate of cumulative claims incurred	**6 875 125**	5 907 973	4 522 432	3 601 242	16 144 907

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.

	Gross policy-holder liability R'000	Reinsurers' share of policy-holder liability R'000	Net policy-holder liability R'000	Deferral of acquisition costs R'000	Net policy-holder liability incl deferral of acquisition costs R'000
2016					
Analysis of change in policyholder liabilities					
Opening balance	**256 131**	**(82 457)**	**173 674**	**(118 649)**	**55 025**
Policyholder Liability reserve	**223 236**	**(71 231)**	**152 005**	**(118 649)**	**33 356**
Incurred but not reported reserve	**5 738**	**–**	**5 738**	**–**	**5 738**
Outstanding claims reserve	**27 157**	**(11 226)**	**15 931**	**–**	**15 931**
Transfer to policyholder liabilities under insurance contract	**71 271**	**(6 706)**	**64 565**	**(13 032)**	**51 533**
Unwind of discount rate	**87 842**	**(19 489)**	**68 353**	**–**	**68 353**
Experience variance	**4 332**	**(297)**	**4 035**	**–**	**4 035**
Modelling methodology changes	**(9 930)**	**1 235**	**(8 695)**	**–**	**(8 695)**
Change in non-economic assumptions	**(993)**	**2 680**	**1 687**	**–**	**1 687**
Change in economical assumptions	**(17 386)**	**12 453**	**(4 933)**	**–**	**(4 933)**
New business	**8 814**	**(5 238)**	**3 576**	**–**	**3 576**
Incurred but not reported claims	**1 032**	**–**	**1 032**	**–**	**1 032**
Change in outstanding claims reserve	**(2 440)**	**1 950**	**(490)**	**–**	**(490)**
Deferral of acquisition costs	**–**	**–**	**–**	**(13 032)**	**(13 032)**
Closing balance	**327 402**	**(89 163)**	**238 239**	**(131 681)**	**106 558**
Policyholder Liability reserve	**295 915**	**(79 887)**	**216 028**	**(131 681)**	**84 347**
Incurred but not reported reserve	**6 770**	**–**	**6 770**	**–**	**6 770**
Outstanding claims reserve	**24 717**	**(9 276)**	**15 441**	**–**	**15 441**

In addition to the discounted cash flow liability, an Incurred But Not Reported ("IBNR") and an Outstanding Claims ("OCR") reserve was held amounting to R6 770 067 (2015: R5 738 935) and R15 441 196 (2015: R15 930 959) respectively. The IBNR was set using a claims run-off model based on recent experience and the OCR was set using the actual estimated outstanding claims as at year-end.

25. INSURANCE CONTRACT LIABILITIES *continued*

25.3 Analysis of movement in long-term insurance contract liabilities *continued*

	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
2015					
Analysis of change in policyholder liabilities					
Opening balance	151 951	(52 479)	99 472	(85 798)	13 674
Policyholder Liability reserve	129 372	(41 815)	87 557	(85 798)	1 759
Incurred but not reported reserve	4 436	–	4 436	–	4 436
Outstanding claims reserve	18 143	(10 664)	7 479	–	7 479
Transfer to policyholder liabilities under insurance contract	104 180	(29 978)	74 202	(32 851)	41 351
Expected experience roll-forward	61 864	(14 196)	47 668	–	47 668
Experience variance	10 252	(2 367)	7 885	–	7 885
Modelling methodology changes	10 800	(5 550)	5 250	–	5 250
Change in non-economic assumptions	(15 606)	6 060	(9 546)	–	(9 546)
Change in economical assumptions	5 565	(313)	5 252	–	5 252
New business	20 989	(13 050)	7 939	–	7 939
Incurred but not reported claims	1 302	–	1 302	–	1 302
Change in outstanding claims reserve	9 014	(562)	8 452	–	8 452
Deferral of acquisition costs	–	–	–	(32 851)	(32 851)
Closing balance	256 131	(82 457)	173 674	(118 649)	55 025
Policyholder Liability reserve	223 236	(71 231)	152 005	(118 649)	33 356
Incurred but not reported reserve	5 738	–	5 738	–	5 738
Outstanding claims reserve	27 157	(11 226)	15 931	–	15 931

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

Claims reserves

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.

The estimate for claims incurred but not reported ("IBNR") is calculated as a percentage of historic net written premium. The required IBNR percentage is calculated with reference to the run-off period of incurred claims. 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.

The Claims reserve is held so as to be at least sufficient at the 75th percentile of the ultimate cost distribution. The difference between this 75th percentile and the best estimate is considered to be an appropriate risk margin. Claims is considered to be the most sensitive to changes in assumptions, therefore a sensitivity analysis is performed. In the Southern African operations, excluding alternative risk business, a 5% (80th percentile) upward adjustment in the level of sufficiency of the claims reserve would result in an additional charge of approximately R15 million while a 5% (70th percentile) downward adjustment in the level of sufficiency would result in a release of reserves in the statement of profit and loss and other comprehensive income of approximately R13.5 million (before taxation). In the Youi Australia and New Zealand operations, a 5% (80th percentile) upward adjustment in the level of sufficiency of the claims reserve would result in an additional charge of approximately $2.8 million while a 5% (70th percentile) downward adjustment in the level of sufficiency would result in a release of reserves in the statement of profit and loss and other comprehensive income of approximately $2.4 million.

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. The risk margin is calibrated to ensure that the provision is at least sufficient at the 75th percentile of the ultimate cost distribution.

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 2016:

Assumption	Margin
Investment return	0.25% increase / decrease*
Mortality	7.5% increase
Morbidity	10% increase
Disability	10% increase
Retrenchment	15% 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 the deferral of acquisition costs. The total value of the negative reserves is R500.6 million (2015: R393.8 million). The mortality and morbidity assumptions mentioned above, both have a discretionary margin of 5% amounting to R11.5 million (2015: R35 million).

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.

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

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.

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 11.20% (2015: 10.96%).

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 9.40% (2015: 8.83%).

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.

Claims reserves

In addition to the discounted cash flow liability, both an Incurred But Not Reported ("IBNR") and an Outstanding Claims ("OCR") reserve was held. The IBNR was set using a claims run-off model based on recent experience and best estimates. The OCR was set using the actual estimate outstanding claims as at year-end.

Refer to note 34 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	5% – 10% increase / decrease
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.

25. INSURANCE CONTRACT LIABILITIES *continued*

25.5 Sensitivity of policyholder liability continued

The sensitivities shown in the table below are based on the assumption that negative reserves, amounting to R500.6 million, are not eliminated in order to derive sensitivity stresses which are more closely aligned with economic reality.

No elimination of negative rand reserves	Change in variable	Increase / (decrease) in policyholder liabilities R'000	Increase / (decrease) in policyholder liabilities %
At 30 June 2016			
Lapses	**+10%**	**(33 639)**	**(11%)**
	-10%	**42 166**	**14%**
Investment return	**+1%**	**(35 989)**	**(12%)**
	-1%	**51 648**	**17%**
Mortality / Morbidity / Disability / Retrenchment	**+10%**	**111 200**	**38%**
	-10%	**(113 310)**	**(38%)**
Mortality / Morbidity / Disability / Retrenchment	**+5%**	**55 856**	**19%**
	-5%	**(56 384)**	**(19%)**
Expenses	**+10%**	**37 951**	**13%**
	-10%	**(37 951)**	**(13%)**
At 30 June 2015			
Lapses	+10%	(34 900)	(13%)
	-10%	45 664	17%
Investment return	+1%	(31 073)	(11%)
	-1%	47 529	17%
Mortality / Morbidity / Disability / Retrenchment	+10%	101 495	37%
	-10%	(103 548)	(38%)
Mortality / Morbidity / Disability / Retrenchment	+5%	50 996	19%
	-5%	(51 510)	(19%)
Expenses	+10%	31 790	12%
	-10%	(31 790)	(12%)

26. INSURANCE AND OTHER PAYABLES

	2016 R'000	2015 R'000
Insurance related payables		
Due to intermediaries	**2 937**	4 223
Due to reinsurers	**110 745**	126 322
Other payables	**20 193**	8 349
Non insurance related payables		
Trade creditors	**44 274**	64 418
Other payables	**390 320**	235 795
Indirect tax on debtors	**404 341**	283 560
Indirect tax liability	**47 903**	42 412
Total payables	**1 020 713**	765 079

The carrying amount of payables approximates the fair value. Refer to note 34 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 two years. The balance of the intellectual property bonuses are recognised as an employee benefit asset.

	2016 R'000	2015 R'000
Leave pay liability	**120 902**	103 549
Non discretionary bonus liability	**32 528**	34 738
Total liability	**153 430**	138 287
Intellectual property bonuses asset	**110 245**	64 100
Total asset	**110 245**	64 100
Net employee benefits	**43 185**	74 187
Reconciliation of leave pay liability		
Opening balance	**103 549**	83 963
Charge for the year	**21 864**	35 682
Liability settled	**(15 210)**	(12 930)
Foreign translation difference	**10 699**	(3 166)
Closing balance	**120 902**	103 549
Reconciliation of non discretionary bonus liability		
Opening balance	**34 738**	27 029
Charge for the year	**55 733**	53 311
Liability utilised	**(59 589)**	(45 533)
Foreign translation difference	**1 646**	(69)
Closing balance	**32 528**	34 738
Reconciliation of intellectual property bonuses asset		
Opening balance	**64 100**	106 712
Additions	**115 561**	26 900
Settlements	**(416)**	(671)
Service cost for the year	**(73 193)**	(66 207)
Foreign translation difference	**4 193**	(2 634)
Closing balance	**110 245**	64 100

Refer to note 34 for the current and non-current analysis of employee benefits.

28. SHARE-BASED PAYMENTS

	2016 R'000	2015 R'000
Cash settled share-based payment liability	**202 105**	147 151
Total liability	**202 105**	147 151
Reconciliation of cash settled share-based payment liability		
Opening balance	**147 151**	130 272
Charge for the year	**123 561**	86 727
Liability settled	**(68 607)**	(69 848)
	202 105	147 151

The statement of profit and loss and other comprehensive income charge for share-based payments is as follows:

	2016 R'000	2015 R'000
OUTsurance Holdings cash-settled scheme	**123 561**	86 727
Charge to the statement of profit and loss and other comprehensive income	**123 561**	86 727

The various Group share schemes are as follows:

- OUTsurance Holdings cash-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.

Description and valuation methodology of the schemes

OUTsurance Holdings cash-settled share scheme

In terms of the current trust deed, 12% of the issued share capital of the company is available to employees under the scheme. The Trust and employees currently hold 10.05% (2015: 10.2%) of the shares in OUTsurance Holdings Limited.

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 the volatility of Rand Merchant Investment Holdings limited, the listed parent company of the Group. The volatility reflects an historic period matching the duration of the option.
- The "risk-free interest rate" input is derived from 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.

28. SHARE-BASED PAYMENTS *continued*

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 Ltd 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, 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.

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 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.

28. SHARE-BASED PAYMENTS *continued*

Share options

	2016	
	OUTsurance Holdings cash-settled scheme	Youi Holdings equity-settled scheme
Number of options in force and exercised at the beginning of the year	**58 547 091**	**294 098 750**
Range of strike prices of opening balances	**2,80 to 5,57**	**$0.10 to $0.486**
Number of options granted during the year	**21 370 000**	**1 750 000**
Strike price of options granted during the year (cents)	**7,15**	**$0.486**
Number of options delivered during the year	**(15 750 000)**	**(3 048 000)**
Range of strike prices on date of delivery	**7,15**	**$0.10**
Number of options cancelled / forfeited during the year	**(314 394)**	**–**
Range of strike prices of forfeited options	**7,15 to 8,08**	**–**
Number of options in force at the end of the year	**63 852 697**	**292 800 750**
Range of strike prices of closing balance	**8,08**	**$0.10 to $0.486**
Market value per ordinary share[1]	**8,08**	**$0.555**
Number of scheme participants	**134**	**41**
Weighted average remaining vesting period (years)	**1,33**	**0,07**

	2015		
	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	6 196 703	60 749 998	286 974 250
Range of strike prices of opening balance	1,74 to 1,84	2,22 to 3,33	$0.10
Number of options granted during the year	–	18 912 091	8 550 000
Strike price of options granted during the year	–	5,57	$0.3718
Number of options delivered during the year	(6 196 703)	(20 849 987)	(1 425 500)
Range of strike prices on date of delivery	1,74 to 1,84	2,22	$0.10
Number of options cancelled / forfeited during the year	–	(265 011)	–
Range of strike prices of forteited options	1,74	3,30 to 5,57	–
Number of options in force at the end of the year	–	58 547 091	294 098 750
Range of strike prices of closing balance	–	2,80 to 5,57	$0.10 to $0.3718
Market value per ordinary share[1]	7,10	7,10	$0.486
Number of scheme participants	0	107	39
Weighted average remaining vesting period (years)	–	1,05	0,24

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

28. SHARE-BASED PAYMENTS *continued*

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 2016 was as follows:

	2016 R'000	2015 R'000
Number of treasury shares and market value		
Number of shares in portfolio at the beginning of the year	**33 874**	54 014
Number of shares purchased during the year	**17 989**	2 767
Number of shares released during the year	**(11 678)**	(22 907)
Number of shares held in portfolio at the end of the year	**40 185**	33 874
Market value per share held in portfolio at year-end (Rand)	**8.08**	7.10
Market value of portfolio at year-end	**324 694**	240 506
Cost price of treasury shares		
Cost price of shares held in portfolio at the beginning of the year	**15 526**	102 354
Cost price of shares purchased during the year	**135 970**	17 184
Cost price of shares released during the year	**(83 640)**	(104 012)
Cost price of shares held in portfolio at the end of the year	**67 856**	15 526
Loans to the share trust		
Value of loans made to the trust at the beginning of the year	**15 526**	102 354
Value of loans made to the trust at the end of the year	**67 856**	15 526

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

Share scheme expenditure

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

	OUTsurance Holdings cash-settled scheme	
	2016	**2015**
Share price	**R8,08**	R7,10
Exercise price	**7,15**	2,80 to 5,57
Remaining duration	**0 to 3 years**	0 to 3 years
Expected volatility	**22.00%**	21.70%
Risk free interest rate	**8.10%**	6.65%
Dividend yield	**4.00%**	4.00%
Annual employee turnover	**4%**	0%

28 . SHARE-BASED PAYMENTS *continued*

OUTsurance Holdings Share Trust continued

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

	Youi Holdings equity-settled scheme	
	2016	2015
Share price	**$0.4860**	$0.3718
Exercise price	**$0.4860**	$0.3718
Option duration	**3**	4
Expected volatility	**22%**	22%
Risk free interest rate	**1.88%**	2.96%
Dividend yield	**0%**	0%
Annual employee turnover	**0%**	0%

29. 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 profit and loss and other 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.

	2016 R'000	2015 R'000
Shareholders for preference dividends on profit shares	**104 461**	107 063
	104 461	107 063

Refer to note 34 for the current and non-current analysis of shareholders for preference dividends.

30. RECONCILIATION OF CASH GENERATED BY OPERATIONS

	2016 R'000	2015 R'000
Comprehensive income for the year before tax	**3 278 438**	1 845 952
Adjusted for:		
Depreciation	**117 855**	126 682
Share of profit in associate	**(14 671)**	(15 026)
Dividends received from associate	**8 820**	7 840
Share based payments – equity settled schemes	**2 282**	(717)
Net fair value adjustments on financial assets	**(14 688)**	(13 343)
Profit on disposal of fixed assets	**(1 571)**	(188)
Fair value adjustment on financial liabilities	**204 351**	200 642
Provision for non-claims bonuses on insurance contracts for the year	**362 395**	315 157
Non-claims bonuses on insurance contracts paid	**(346 497)**	(294 460)
Finance charges	**160**	465
Change in unearned premium provision	**472 292**	765 573
Change in deferred acquisition costs	**(32 640)**	3 680
Change in claims reserves	**179 172**	420 841
Change in policyholder liability under long term insurance contracts	**51 533**	41 351
Employee benefit service cost	**73 193**	66 207
Transfer of cell captive business	**–**	(39 183)
Cash generated by operations before working capital changes	**4 340 424**	3 431 473
Change in working capital	**(473 991)**	(320 056)
(Increase) in receivables	**(799 722)**	(529 665)
Increase in payables	**255 634**	165 435
Increase in share-based payment liability	**54 954**	16 879
Increase in employee benefits	**15 143**	27 295
Cash generated by operations	**3 866 433**	3 111 417

31. TAXATION PAID

	2016 R'000	2015 R'000
Taxation payable – opening balance	**(41 490)**	(21 393)
Charge in statement of profit and loss and other comprehensive income	**(904 063)**	(631 770)
Adjustment for deferred tax charge	**14 335**	17 584
Taxation payable – closing balance	**244 582**	41 490
Taxation paid	**(686 636)**	(594 089)

32. PREFERENCE DIVIDENDS PAID

	2016 R'000	2015 R'000
Preference dividends unpaid at the beginning of the year	**(107 063)**	(105 488)
Preference dividend charged to the statement of profit and loss and other comprehensive income in respect of cell captive arrangements and profit shares	**(204 351)**	(200 642)
Preference dividend unpaid at the end of the year	**104 461**	107 063
Preference dividend paid	**(206 953)**	(199 067)

33. COMMITMENTS

	2016 R'000	2015 R'000
South Africa		
Up to 1 year	**1 868**	2 607
Between 1 and 5 years	**1 899**	3 767
Total operating lease commitments[1]	**3 767**	6 374
Australasia		
Up to 1 year	**49 604**	38 858
Between 1 and 5 years	**98 416**	100 829
Between 5 and 10 years	**54 939**	59 408
Total operating lease commitments for Youi Group[2]	**202 959**	199 095

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 three years. The leases are renewable for further periods of up to four years. Youi NZ Pty Ltd leases its office building under a non-cancellable operating lease expiring within a maximum of eight years. The lease is not renewable.

34. 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.

	Group		
	Carrying Amount R'000	Current R'000	Non-current R'000
At 30 June 2016			
ASSETS			
Property and equipment	669 372	–	669 372
Employee benefits	110 245	77 652	32 593
Investment in associate	38 626	–	38 626
Reinsurers' share of insurance contract provisions	257 324	163 577	93 747
Deferred acquisition costs	365 074	365 074	–
Financial assets			
Fair value through profit and loss	8 369 491	7 315 341	1 054 150
Available-for-sale	1 452 529	568 213	884 316
Loans and receivables	2 755 336	2 755 336	–
Deferred tax	193 722	82	193 640
Cash and cash equivalents	477 856	477 856	–
TOTAL ASSETS	14 689 575	11 723 131	2 966 444
LIABILITIES AND EQUITY			
Total shareholders' equity	5 766 240	–	5 766 240
Non-controlling interest	130 137	–	130 137
Insurance contract liabilities	7 067 907	5 986 669	1 081 238
Employee benefits	153 430	94 715	58 715
Share-based payment liability	202 105	186 701	15 404
Financial liabilities at fair value through profit and loss	104 461	104 461	–
Tax liabilities	244 582	244 582	–
Insurance and other payables	1 020 713	1 010 989	9 724
TOTAL EQUITY AND LIABILITIES	14 689 575	7 628 117	7 061 458

34. 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
At 30 June 2015			
ASSETS			
Property and equipment	520 642	–	520 642
Employee benefits	64 100	58 789	5 311
Investment in associate	32 775	–	32 775
Reinsurers' share of insurance contract provisions	568 845	471 382	97 463
Deferred acquisition costs	332 434	332 434	–
Financial assets			
Fair value through profit and loss	6 296 372	5 148 377	1 147 995
Available-for-sale	1 305 922	598 303	707 619
Loans and receivables	1 955 614	1 682 717	272 897
Deferred tax	188 295	251	188 044
Tax receivable	526	526	–
Cash and cash equivalents	581 389	581 389	–
TOTAL ASSETS	11 846 914	8 874 168	2 972 746
LIABILITIES AND EQUITY			
Total shareholders' equity	4 574 229	–	4 574 229
Non-controlling interest	136 344	–	136 344
Insurance contract liabilities	5 936 745	4 772 869	1 163 876
Employee benefits	138 287	88 911	49 376
Share-based payment liability	147 151	79 140	68 011
Financial liabilities at fair value through profit and loss	107 063	107 063	–
Tax liabilities	42 016	42 016	–
Financial liabilities held at amortised cost			
Insurance and other payables	765 079	755 272	9 807
TOTAL EQUITY AND LIABILITIES	11 846 914	5 845 271	6 001 643

35. RELATED PARTY TRANSACTIONS

The Group defines related parties as:

- The parent company, Rand Merchant Investment Holdings Limited ("RMI Holdings"). RMI Holdings owns its investment in OUTsurance Holdings Limited through a wholly owned subsidiary Firness International (Pty) Limited.
- 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 Ltd executive committee.

Principal shareholders

The Group is ultimately controlled by RMI Holdings Limited. At the reporting date, RMI Holdings owned 83.6% (2015: 83.4%) of OUTsurance Holdings Limited, with the OUTsurance Holdings Share Trust owning 1.1% (2015: 1%), OUTsurance Investment Trust owning 6.4% (2015: 6.4%) and management 8.9% (2015: 9.2%) of the issued share capital.

Subsidiaries

Details of investment in subsidiaries are disclosed in note 18.

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

Associates

Details of investment in associates are disclosed in note 19.

35. RELATED PARTY TRANSACTIONS *continued*

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

	2016 R'000	2015 R'000
Transactions with related parties		
Momentum Asset Management / Aluwani Capital		
Asset management fee paid	**2 543**	2 628
FNB Life		
Claims paid	**–**	2 961
Administration fee paid	**–**	4 975
Premium received	**–**	(15 704)
Dividends paid	**–**	5 481
Discovery Health		
Medical aid premiums paid	**63 519**	59 882
MMI Holdings Limited		
Medical aid premiums paid	**7 789**	6 144
Pension fund contribution	**78 311**	72 106
Group life premiums paid	**6 869**	9 262
Disability fee paid	**–**	5 026
Administration fees received	**–**	(9 649)
Firness International (Pty) Limited		
Ordinary dividends paid	**1 020 290**	475 268
RMI Holdings Limited		
Ordinary dividends paid	**–**	405 376
RMB Structured Insurance		
Transfer of cell captive business	**–**	39 183
Investment income (received)		
Discovery Holdings Limited	**(4 694)**	(4 536)
Year end balances with related parties		
Discovery Holdings Limited		
Preference share investment	**50 000**	55 360
Key management personnel		
Remuneration		
Salaries and bonuses	**73 213**	79 309
Non-executive directors fees	**4 717**	5 746
Other short-term employee benefits	**–**	1 633
Share-based payments	**40 914**	37 760
Total compensation of key management personnel	**118 844**	124 448
Insurance related transactions		
Premiums received	**1 115**	1 072
Claims paid	**(191)**	(327)

35. 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 100% 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 2016 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
2016					
Non-executive directors					
P Cooper	466[5]	–	–	–	466
LL Dippenaar	512[6]	–	–	–	512
AW Hedding	209	–	–	–	209
F Knoetze	146[4]	–	–	–	146
J Madavo	146	–	–	–	146
G Marx	209	–	–	–	209
NL Nightingale	272	–	–	–	272
K Pillay	156	–	–	–	156
PR Pretorius	146	–	–	–	146
HL Bosman[7]	110[4]	6 648[3]	1 500[3]	531[3]	8 789
Executive directors and prescribed officers					
Executive directors					
WT Roos	–	3 508	–	–	3 508
H Aron	–	8 729	–	–	8 729
MC Visser	–	3 237	–	–	3 237
Prescribed officers					
E Gouws	–	3 056	–	–	3 056
JH Hofmeyr	–	2 300	–	–	2 300
Total	2 372	27 478	1 500	531	31 881

35. 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
2015					
Non-executive directors					
P Cooper	388[5]	2 606[3]	–	813[3]	3 807
LL Dippenaar	514[6]	–	–	–	514
AW Hedding	200	–	–	–	200
F Knoetze	140[4]	–	–	–	140
J Madavo	140	–	–	–	140
G Marx	200	–	–	–	200
NL Nightingale	260	–	–	–	260
K Pillay	115	–	–	–	115
PR Pretorius	140	–	–	–	140
Executive directors and prescribed officers					
Executive directors					
WT Roos	–	3 383	3 463	–	6 846
H Aron[2]	–	7 742	–	–	7 742
MC Visser	–	3 053	3 000	–	6 053
Prescribed officers					
E Gouws	–	2 861	2 850	–	5 711
JH Hofmeyr	–	2 000	1 800	–	3 800
Total	2 097	21 645	11 113	813	35 668

1 Performance related bonus are paid on a two-year cycle.
2 The performance bonus cycle for H Aron commenced on 30 June 2014.
3 Paid by Rand Merchant Investment Holdings for services as an executive director of Rand Merchant Investment Holdings.
4 Directors fees are paid to representative companies.
5 Includes fees for serving on the Rand Merchant Investment Holdings Board as a non-executive director (2016:R289 233) (2015: R197 511).
6 Includes fees for serving on the Rand Merchant Investment Holdings Board as a non-executive director (2016:R282 333) (2015: R224 067).
7 Appointed to the OUTsurance Holdings Limited Board on 26 November 2015.

35. 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	Vesting date To	Settlement type	Opening balance 1 July 2015 '000	For-feited this year '000	Taken up this year '000	Granted in current year '000	**Closing balance 30 June 2016 '000**	Benefit derived R'000
WT Roos	2,80	12/07/01	15/07/01	Cash	1 500	–	1 500	–	**–**	6 525
	3,33	13/07/01	16/07/01	Cash	750	–	–	–	**750**	–
	5,57	14/07/01	17/07/01	Cash	500	–	–	–	**500**	–
	7,15	15/07/01	18/07/01	Cash	–	–		600	**600**	–
H Aron	2,80	12/07/01	15/07/01	Cash	1 500	–	1 500	–	**–**	6 525
	3,33	13/07/01	16/07/01	Cash	750	–	–	–	**750**	–
	5,57	14/07/01	17/07/01	Cash	500	–	–	–	**500**	–
	7,15	15/07/01	18/07/01	Cash	–	–	–	600	**600**	–
MC Visser	2,80	12/07/01	15/07/01	Cash	1 250	–	1 250	–	**–**	5 438
	3,33	13/07/01	16/07/01	Cash	750	–	–	–	**750**	–
	5,57	14/07/01	17/07/01	Cash	500	–	–	–	**500**	–
	7,15	15/07/01	18/07/01	Cash	–	–	–	600	**600**	–
JH Hofmeyr	2,80	12/07/01	15/07/01	Cash	900	–	900	–	**–**	3 915
	3,33	13/07/01	16/07/01	Cash	700	–	–	–	**700**	–
	5,57	14/07/01	17/07/01	Cash	500	–	–	–	**500**	–
	7,15	15/07/01	18/07/01	Cash	–	–	–	600	**600**	–
E Gouws	2,80	12/07/01	15/07/01	Cash	1 250	–	1 250	–	**–**	5 438
	3,33	13/07/01	16/07/01	Cash	750	–	–	–	**750**	–
	5,57	14/07/01	17/07/01	Cash	500	–	–	–	**500**	–
	7,15	15/07/01	18/07/01	Cash	–	–	–	600	**600**	–

35. 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	To	Opening balance 1 July 2015 '000	Forfeited this year '000	Taken up this year '000	Granted in current year '000	Closing balance 30 June 2016 '000	Benefit derived R'000
H Aron	0,100	31/08/10	30//06/18	109 375	–	–	–	**109 375**	–

RMI Holdings share appreciation rights scheme

	Strike price Rands	Exercise date	Opening balance 1 July 2015 '000	Forfeited this year '000	Taken up this year '000	Granted in current year '000	Closing balance 30 June 2016 '000	Benefit derived R'000
HL Bosman	28,74	02/04/17	631	–	–	–	**631**	–
	28,74	02/04/18	631	–	–	–	**631**	–
	28,74	02/04/19	631	–	–	–	**631**	–
	41,25	14/09/18	–	–	–	27	**27**	–
	41,25	14/09/19	–	–	–	27	**27**	–
	41,25	14/09/20	–	–	–	26	**26**	–

36. RECLASSIFICATION OF COMPARATIVES

30 June 2015	Amount as previously reported R'000	Amount as reclassified R'000	Difference R'000	Explanation
Statement of financial position				
Assets				
Financial assets – Fair value through profit and loss	**2 804 989**	**6 296 372**	**(3 491 383)**	Reclassification of term deposits from cash and cash equivalents to financial assets – fair value through profit and loss
Cash and cash equivalents	**4 072 772**	**581 389**	**3 491 383**	Reclassification of term deposits from cash and cash equivalents to financial assets – fair value through profit and loss
Total	**6 877 761**	**6 877 761**	**–**	
Statement of cash flows				
Operating activities				
Cash generated by operations	**3 115 048**	**3 111 417**	**3 631**	Reclassification of share option expense transferred to retained earnings to cash generated by operations
Share option expense transferred to retained earnings	**(3 631)**	**–**	**(3 631)**	Reclassification of share option expense transferred to retained earnings to cash generated by operations
Investing activities				
Purchase of financial assets	**(4 510 624)**	**(5 586 936)**	**1 076 312**	Reclassification of term deposits from cash and cash equivalents to financial assets – fair value through profit and loss
Opening balance of cash and cash equivalents	**3 437 023**	**1 021 952**	**2 415 071**	Reclassification of term deposits from cash and cash equivalents to financial assets – fair value through profit and loss
Closing balance of cash and cash equivalents	**(4 072 772)**	**(581 389)**	**(3 491 383)**	Reclassification of term deposits from cash and cash equivalents to financial assets – fair value through profit and loss
Total	**(2 034 956)**	**(2 034 956)**	**–**	

37. 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.

COMPANY FINANCIAL STATEMENTS

for the year ended 30 June 2016

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

Statement of profit and loss and other comprehensive income

for the year ended 30 June 2016

	Notes	2016 R'000	2015 R'000
Investment income	4	**1 226 662**	1 048 751
Fair value adjustments on financial assets	5	**–**	(44)
Income		**1 226 662**	1 048 707
Marketing and administration expenses	6	**(1 336)**	(973)
Result of of operating activities		**1 225 326**	1 047 734
Finance charges	7	**(1)**	–
Profit before taxation		**1 225 325**	1 047 734
Taxation	8	**(524)**	(608)
Total comprehensive income for the year		**1 224 801**	1 047 126

During the current and previous years, there were no items that affected profit and loss and other comprehensive income and therefore the reconciliation of profit and loss and other comprehensive income has not been disclosed.

Statement of financial position

as at 30 June 2016

	Notes	2016 R'000	2015 R'000
ASSETS			
Investment in subsidiaries	9	**1 805 751**	1 755 751
Investment in associate	10	**4 900**	4 900
Financial assets			
Loans and receivables	11	**67 856**	15 664
Deferred taxation	12	**12**	12
Cash and cash equivalents	13	**2 421**	23 261
TOTAL ASSETS		**1 880 940**	1 799 588
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	14	**35 182**	35 182
Share premium	14	**265 110**	265 110
Retained earnings		**1 580 647**	1 499 249
TOTAL EQUITY		**1 880 939**	1 799 541
LIABILITIES			
Tax liabilities		**1**	47
TOTAL LIABILITIES		**1**	47
TOTAL EQUITY AND LIABILITIES		**1 880 940**	1 799 588

Statement of changes in equity

for the year ended 30 June 2016

	Share capital R'000	Share premium R'000	Retained earnings R'000	Total R'000
Balance as at 30 June 2014	35 182	265 110	1 507 572	1 807 864
Total comprehensive income for the year	–	–	1 047 126	1 047 126
Ordinary dividend paid	–	–	(1 055 449)	(1 055 449)
Balance as at 30 June 2015	**35 182**	**265 110**	**1 499 249**	**1 799 541**
Total comprehensive income for the year	**–**	**–**	**1 224 801**	**1 224 801**
Ordinary dividend paid	**–**	**–**	**(1 143 403)**	**(1 143 403)**
Balance as at 30 June 2016	**35 182**	**265 110**	**1 580 647**	**1 880 939**

Statement of cash flows

for the year ended 30 June 2016

	Notes	2016 R'000	2015 R'000
OPERATING ACTIVITIES			
Cash generated by operations	15	**1 225 463**	1 047 605
Taxation paid	16	**(570)**	(570)
Ordinary dividend paid		**(1 143 403)**	(1 055 449)
Cash inflow / (outflow) from operating activities		**81 490**	(8 414)
INVESTING ACTIVITIES			
Investment in subsidiary			
Acquisitions		**(50 000)**	(60 000)
Cash outflow from investing activities		**(50 000)**	(60 000)
FINANCING ACTIVITIES			
Purchase of treasury shares by share scheme participants		**83 640**	104 012
Purchase of treasury shares by share trust		**(135 970)**	(17 184)
Cash (outflow) / inflow from financing activities		**(52 330)**	86 828
(Decrease) / increase in cash and cash equivalents		**(20 840)**	18 414
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents		**23 261**	4 847
(Decrease) / increase in cash and cash equivalents		**(20 840)**	18 414
Closing balance of cash and cash equivalents	13	**2 421**	23 261

1. GENERAL INFORMATION

OUTsurance Holdings Limited ("the Company") is an unlisted public company incorporated and domiciled in South Africa and a subsidiary of Rand Merchant Investment Holdings Limited.

The financial statements were authorised for issue by the directors on 30 August 2016.

2. Summary of significant accounting policies

The financial statements of OUTsurance Holdings Limited are prepared according to the same accounting policies used in preparing the consolidated financial statements of the OUTsurance Holdings Limited 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 Board, OUTsurance Holdings Audit, Risk and Compliance Committee, OUTsurance Holdings Investment Committee, OUTsurance Reinsurance Committee and the OUTsurance Holdings Risk Committee, the latter three being 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.

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

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. Equity price risk is the risk inherent in equity investments that cannot be removed by diversification.

The Company did not have any exposure to equity price risk during the current period or prior reporting period.

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*

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:

	2016 1% increase R'000	2016 1% decrease R'000	2015 1% increase R'000	2015 1% decrease R'000
Cash and cash equivalents	**24**	**(24)**	233	(233)
	24	**(24)**	233	(233)

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 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:

	BBB R'000	Not rated R'000	Total R'000
At 30 June 2016			
Cash and cash equivalents	**2 421**	**–**	**2 421**
Loans and receivables	**–**	**67 856**	**67 856**
Total	**2 421**	**67 856**	**70 277**
At 30 June 2015			
Cash and cash equivalents	23 261	–	23 261
Loans and receivables	138	15 526	15 664
Total	23 399	15 526	38 925

The loans and receivables consist of the loan to the OUTsurance Holdings Share Trust which is not rated. Transactions with this counterparty are continuously monitored by management.

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

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.

Impairment of Financial Assets

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

3. MANAGEMENT OF RISK AND CAPITAL *continued*

3.2 Financial risk management *continued*

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 liquidity profile of the Company's assets and liabilities, grouped by expected maturity, is outlined below:

	0 – 6 months R'000	>12 months R'000	Non monetary R'000	Total R'000
At 30 June 2016				
Assets				
Investment in subsidiaries	–	–	1 805 751	1 805 751
Investment in associate	–	–	4 900	4 900
Financial assets				
Loans and receivables	–	67 856	–	67 856
Deferred taxation	–	–	12	12
Cash and cash equivalents	2 421	–	–	2 421
Total assets	2 421	67 856	1 810 663	1 880 940
Liabilities				
Tax liabilities	1	–	–	1
Total liabilities	1	–	–	1
At 30 June 2015				
Assets				
Investment in subsidiaries	**–**	**–**	**1 755 751**	**1 755 751**
Investment in associate	**–**	**–**	**4 900**	**4 900**
Financial assets				
Loans and receivables	**138**	**15 526**	**–**	**15 664**
Deferred taxation	**–**	**–**	**12**	**12**
Cash and cash equivalents	**23 261**	**–**	**–**	**23 261**
Total assets	**23 399**	**15 526**	**1 760 663**	**1 799 588**
Liabilities				
Tax liabilities	**47**	**–**	**–**	**47**
Total liabilities	**47**	**–**	**–**	**47**

4. INVESTMENT INCOME

	2016 R'000	2015 R'000
Cash and cash equivalents		
Interest received	**1 885**	2 251
Dividends from subsidiaries	**1 224 777**	1 046 500
	1 226 662	1 048 751

5. FAIR VALUE ADJUSTMENTS ON FINANCIAL ASSETS

	2016 R'000	2015 R'000
Net unrealised losses on financial assets	–	44
	–	44

6. MARKETING AND ADMINISTRATION EXPENSES

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

	2016 R'000	2015 R'000
Consulting and legal fees for professional services	**284**	537
Marketing and management expenses	**1 052**	436
Total marketing and administration expenses	**1 336**	973

7. FINANCE CHARGES

	2016 R'000	2015 R'000
Interest paid	**1**	–
Total marketing and administration expenses	**1**	–

8. TAXATION

	2016 R'000	2015 R'000
South African normal taxation		
Current tax	**(524)**	(620)
Current year	**(524)**	(620)
Deferred tax	–	12
Total taxation charge	**(524)**	(608)
Tax rate reconciliation		
Normal tax on companies	**343 091**	293 365
Non-temporary differences	**(342 567)**	(292 757)
Exempt dividends	**(342 937)**	(293 020)
Non allowable expenses	**370**	263
Amount calculated at effective rate	**524**	608

9. INVESTMENT IN SUBSIDIARIES

	2016 R'000	2015 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	**385 002**	325 002
Issue of ordinary shares	**50 000**	60 000
Capitalised share-based payments	**218**	218
	435 220	385 220
Micawber 296 (Pty) Ltd		
Ordinary shares at cost	**38 105**	38 105
	38 105	38 105
Youi (Pty) Ltd		
Ordinary shares at cost	**15 000**	15 000
	15 000	15 000
OUTsurance Shared Services (Pty) Ltd		
Issue of ordinary shares	**100**	100
	100	100
Total investment in subsidiary companies	**1 805 751**	1 755 751

9. INVESTMENT IN SUBSIDIARIES *continued*

Summarised financial information on subsidiaries with non-controlling interests

	2016 R'000	2015 R'000
Statement of financial position		
Current assets	**8 607 309**	6 189 791
Non-current assets	**316 487**	137 020
Current liabilities	**(1 568 609)**	(983 314)
Technical provisions	**(5 151 205)**	(3 836 381)
Equity	**2 203 982**	1 507 116
Statement of profit and loss and other comprehensive income		
Gross written premium	**7 342 579**	5 572 016
After tax comprehensive income / (loss) attributable to the group	**348 378**	(110 341)
Cash flow statement		
Cash inflow from operating activities	**923 998**	688 206
Cash (outflow) from investing activities	**(193 212)**	(54 885)
Cash inflow from financing activities	**214 708**	192 684
Effect of exchange rates on cash and cash equivalents	**674 990**	(183 653)
Increase in cash and cash equivalents	**1 620 484**	642 352
Opening balance of cash and cash equivalents	**3 838 761**	3 196 409
Closing balance of cash and cash equivalents	**5 459 245**	3 838 761

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:

			Effective Holding	
Subsidiary	Nature of business	Country of Incorporation	2016	2015
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 (South Africa)	Administration company	South Africa	**100%**	100%
Youi Holdings Pty Ltd	Holding company	Australia	**93%**	93%
Youi Pty Ltd	Short-term insurer	Australia	**93%**	93%
OUTsurance Shared Services (Pty) Ltd	Service Company	South Africa	**100%**	100%
Youi NZ Pty Ltd	Short-term insurer	New Zealand	**93%**	93%
Youi Properties Pty Ltd	Property company	Australia	**93%**	93%

The OUTsurance Holdings Share Trust is controlled by OUTsurance Holdings Limited.

Refer to note 17 for the current and non-current analysis of investments in subsidiaries.

10. INVESTMENT IN ASSOCIATE

	2016 N$'000	2015 N$'000
OUTsurance Insurance Company of Namibia Limited		
Investment in associate	**4 900**	4 900
	4 900	4 900
Statement of financial position		
Current assets	**163 189**	149 694
Non-current assets	**2 913**	3 970
Current liabilities	**(16 080)**	(13 601)
Technical provisions	**(70 535)**	(72 757)
Equity	**79 487**	67 306
Statement of profit and loss and other comprehensive income		
Revenue	**215 316**	189 254
After tax comprehensive income attributable to the Group	**14 671**	15 026
Cash Flow statement		
Cash inflow from operating activities	**35 492**	42 713
Cash (outflow) from investing activities	**(7 355)**	(15 516)
Cash (outflow) from financing activities	**(21 413)**	(18 840)
Increase in cash and cash equivalents	**6 724**	8 357
Opening balance of cash and cash equivalents	**51 541**	43 184
Closing balance of cash and cash equivalents	**58 265**	51 541

Refer to note 17 for the current and non-current analysis of investments in associate.

11. FINANCIAL ASSETS – LOANS AND RECEIVABLES

	2016 R'000	2015 R'000
Other receivables		
Loan to share trust	**67 856**	15 526
Other receivables and prepayments	**–**	138
Total receivables	**67 856**	15 664

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 2016, 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 18 for further details thereof.

The carrying amount of loans and receivables approximates the fair value. Refer to note 17 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 Holdings Share Trust to enable transactions relating to the remuneration scheme.

	2016 R'000	2015 R'000
Opening balance	**15 526**	102 354
Repayment of loan	**(83 640)**	(104 012)
Cash advanced to trust	**135 970**	17 184
Closing balance	**67 856**	15 526

12. DEFERRED TAXATION

	2016 R'000	2015 R'000
Deferred tax assets		
Unrealised loss on investment	**12**	12
Deferred tax assets	**12**	12
Reconciliation of movement in deferred tax asset		
Opening balance of deferred tax assets	**12**	–
Deferred tax charge for the year	**–**	12
Closing balance of deferred tax asset	**12**	12

13. CASH AND CASH EQUIVALENTS

	2016 R'000	2015 R'000
Cash at bank and in hand	**2 421**	23 261
	2 421	23 261

The carrying value of cash and cash equivalents approximates the fair value. Refer to note 17 for the current and non-current analysis of cash and cash equivalents.

14. SHARE CAPITAL

	2016 R	2015 R
Authorised share capital		
3 999 999 990 (2015: 3 999 999 990) ordinary shares at R0.01 each	**39 999 990**	39 999 990
1 000 "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 (2015: 3 518 163 100) ordinary shares at R0.01 each	**35 181 631**	35 181 631
Closing balance	**35 181 631**	35 181 631

	2016 R'000	2015 R'000
Ordinary share premium		
Issued share premium	**265 110**	265 110
	265 110	265 110

The unissued shares of the Company are under the control of the directors until the forthcoming annual general meeting.

Refer to note 17 for the current and non-current analysis of share capital.

15. RECONCILIATION OF CASH GENERATED BY OPERATIONS

	2016 R'000	2015 R'000
Comprehensive income for the year before tax	**1 225 325**	1 047 734
Change in working capital	**138**	(129)
Decrease / (increase) in receivables	**138**	(129)
Cash generated by operations	**1 225 463**	1 047 605

16. TAXATION PAID

	2016 R'000	2015 R'000
Taxation payable – opening balance	**(47)**	3
Charge in statement of profit and loss and other comprehensive income	**(524)**	(608)
Adjustment for deferred tax charge	**–**	(12)
Taxation payable – closing balance	**1**	47
Taxation paid	**(570)**	(570)

17. 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 2016			
ASSETS			
Investment in subsidiaries	**1 805 751**	**–**	**1 805 751**
Investment in associate	**4 900**	**–**	**4 900**
Financial assets			
Loans and receivables	**67 856**	**67 856**	**–**
Deferred taxation	**12**	**12**	**–**
Cash and cash equivalents	**2 421**	**2 421**	**–**
TOTAL ASSETS	**1 880 940**	**70 289**	**1 810 651**
LIABILITIES AND EQUITY			
Total shareholders' equity	**1 880 939**	**–**	**1 880 939**
Tax liabilities	**1**	**1**	**–**
TOTAL EQUITY AND LIABILITIES	**1 880 940**	**1**	**1 880 939**
30 June 2015			
ASSETS			
Investment in subsidiaries	1 755 751	–	1 755 751
Investment in associate	4 900	–	4 900
Financial assets			
Loans and receivables	15 664	15 664	–
Deferred taxation	12	12	–
Cash and cash equivalents	23 261	23 261	–
TOTAL ASSETS	1 799 588	38 937	1 760 651
LIABILITIES AND EQUITY			
Total shareholders' equity	1 799 541	–	1 799 541
Tax liabilities	47	47	–
TOTAL EQUITY AND LIABILITIES	1 799 588	47	1 799 541

18. RELATED PARTY TRANSACTIONS

The Company defines related parties as:

- The parent company, Rand Merchant Investment Holdings Limited ("RMI Holdings"). RMI Holdings owns its investment in OUTsurance Holdings Limited through a wholly owned subsidiary Firness International (Pty) Ltd.
- Associate companies of the parent company 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 Ltd executive committee.

Principal shareholders

The Company is ultimately controlled by RMI Holdings Limited. At the reporting date, RMI Holdings owned 83.6% (2015: 83.4%) of OUTsurance Holdings Limited, with the OUTsurance Holdings Share Trust owning 1.1% (2015: 1%), OUTsurance Investment Trust owning 6.4% (2015: 6.4%) and management 8.9% (2015: 9.2%) of the issued share capital.

Subsidiaries

Details of investment in subsidiaries are disclosed in note 9.

Associates

Details of investment in associate are disclosed in note 10.

Key management personnel

Details of key management remuneration are disclosed in the OUTsurance Holdings Limited Group financial statements.

For the year under review, the Company entered into the following transactions with related parties:

	2016 R'000	2015 R'000
Transactions with related parties		
Rand Merchant Investment Holdings Limited		
Ordinary dividends paid	**(954 030)**	(880 643)
Year end balances with related parties		
OUTsurance Holdings Share Trust		
Loan to Share Trust	**67 856**	15 526

19. 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.

glossary

Annualised premium income	Annualised premium value of all new client policies incepted during the period under review. This measure excludes the renewal of existing client policies.
Capital adequacy ratio (CAR)	Eligible capital divided by the solvency capital requirement. Claims ratio Net incurred claims including non-claims bonus costs divided by net earned premium. The Group claims ratio measure include policyholder liability transfers relating to long-term insurance business.
Combined ratio	Net incurred claims (including non-claims bonuses) plus total operating expenses plus profit share distributions dividend by net earned premium. This ratio provides a measure of the surplus generated from the Group's insurance activities.
Cost-to-income ratio	Total operating expenses dividend by net earned premium. Total operating expenses excludes profit share distributions to FirstRand Limited relating to the Homeowners Cover product.
Eligible capital	Total equity adjusted for asset inadmissibility and valuation differences per the local or group regulations.
Normalised earnings	Normalised earnings adjustments are applied where the Group believes that certain transactions creates a mismatch between the Group's accounting and economic performance. Normalised earnings is therefore considered to most accurately reflect the Group's economic performance.
Return on equity (ROE)	Headline earnings divided by average ordinary shareholders' equity.
Solvency capital requirement (SCR)	The amount of regulatory capital required as determined by the local regulatory authorities.

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