OUTSURANCE Holdings Limited

UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

CONTENTS

OUTsurance Holdings Limited

1997/022260/06

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

INTRODUCTION

This report covers the consolidated financial results of OUTsurance Holdings Limited (the Group) for the six months ended 31 December 2014. The financial results are prepared based on International Financial Reporting Standards ("IFRS") and are unaudited.

The prior year results have been restated as a result of a change in the accounting policy relating to the treatment of deferred acquisition costs (refer to page 18 for a detailed description of the policy change).

Jan Hofmeyr, CA (SA), supervised the preparation of the consolidated financial results.

The 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% owned by Rand Merchant Insurance Holdings which is listed on the Johannesburg Securities Exchange.

FINANCIAL PERFORMANCE HIGHLIGHTS

R1 964 million
ANNUALISED NEW BUSINESS WRITTEN
up by 18%

R739 million
HEADLINE EARNINGS
up by 15%

R6 151 million
GROSS WRITTEN PREMIUM
up by 25%

14.5 cents
ORDINARY DIVIDEND PER SHARE
up by 21%

20.9 cents
DILUTED HEADLINE EARNINGS PER SHARE
up by 16%

32.1%
HEADLINE ROE

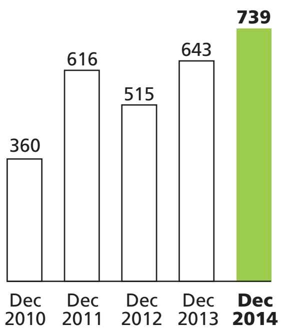
OVERVIEW OF RESULTS

The Group's operating entities delivered satisfactory operational and financial performances during the six months under review. The Group's headline earnings result grew by 15% to R739 million. The growth is largely attributable to a 17% improvement in the profitability of OUTsurance as a result of strong premium growth and lower natural catastrophe claims losses.

During the period under review, the Group launched its insurance operations in New Zealand as an extension of Youi's Australian operation. To date the performance of Youi New Zealand is satisfactory and in-line with expectations. Youi New Zealand incurred a start-up loss of R45 million partially off-setting the earnings growth achieved by Youi Australia.

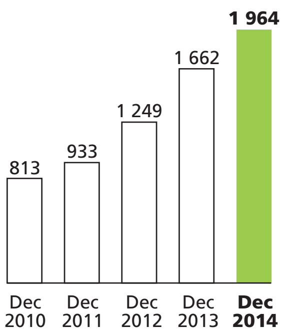
The Group's earnings results were impacted by two natural catastrophe events which included an earthquake in South Africa and a large hailstorm in Australia. Overall the Group's net loss from natural catastrophes for the six months was R92 million which is R82 million lower than the comparative period.

NORMALISED EARNINGS
(R'million)



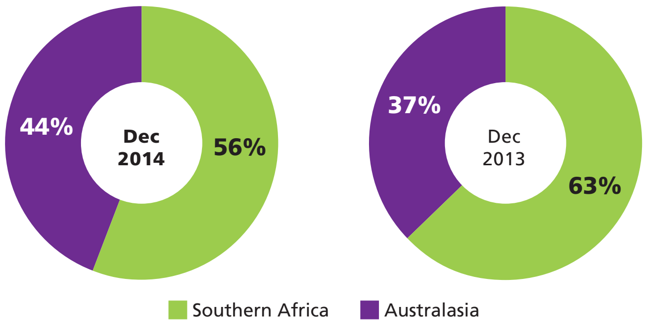
The Group's gross premium revenue increased by a strong 25% following Youi's continued growth and an improvement in South African premium inflation and lapse rates. The Group achieved 18% growth in annualised new business written from R1.66 billion in the comparative six months to R1.96 billion.

ANNUALISED NEW BUSINESS WRITTEN
(R'million)



The Youi Group's contribution to the Group's consolidated gross written premium revenue increased from 37% to 44% for the period under review.

GEOGRAPHICAL DIVERSIFICATION
(%)

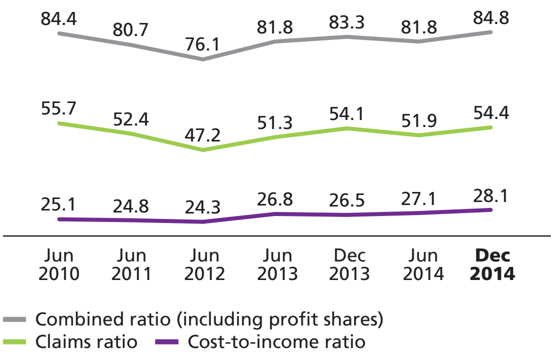


Based on gross written premium

The Group's claims ratio for the six month period increased from 54.1% to 54.4%. Seasonal wet weather conditions experienced at the beginning of the financial year together with the impact of the Brisbane hailstorms negatively impacted on Youi Australia's claims ratio.

The cost-to-income ratio increased from 26.5% to 28.1% largely due to the new business strain incurred in launching the New Zealand business and higher relative growth in Youi's cost base.

KEY RATIOS
(%)



OVERVIEW OF RESULTS CONTINUED

GROUP – KEY PERFORMANCE INDICATORS

	Six months ended 31 December			Year ended 30 June
	2014	2013	% change	**2014**
Gross written premium (R'million)	**6 151**	4 916	25%	**10 352**
Headline earnings (R'million)	**739**	643	15%	**1 448**
Headline ROE (%)[1]	**32.1%**	34.1%		**38.4%**
Headline earnings per share (cents)	**21.2**	18.6	14%	**41.8**
Diluted headline earnings per share (cents)	**20.9**	18.1	16%	**40.2**
Dividend declared per share (cents)	**14.5**	12.0	21%	**27.5**
Claims ratio (including non-claims bonuses) (%)	**54.4%**	54.1%		**51.9%**
Cost-to-income ratio (%)	**28.1%**	26.5%		**27.1%**
Combined ratio[2] (%)	**84.8%**	83.3%		**81.8%**

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

SOURCES OF HEADLINE EARNINGS

The table below shows the composition of the headline earnings generated by the Group's operating entities.

	Six months ended 31 December			Year ended 30 June
R'million	**2014**	2013	% change	**2014**
OUTsurance	**711**	610	17%	**1 216**
Youi Group[1]	**5**	25	(80%)	**231**
OUTsurance Life	**11**	7	57%	**2**
OUTsurance Namibia (49%)	**8**	4	100%	**10**
Central (including consolidation adjustments)	**5**	5	–	**11**
NCNR preference dividend	**–**	(6)	100%	**(6)**
Non-controlling interest	**(1)**	(2)	(50%)	**(15)**
Headline earnings	**739**	643	15%	**1 448**

1 Refer to page 5 for the respective contributions of Youi Australia and Youi New Zealand.

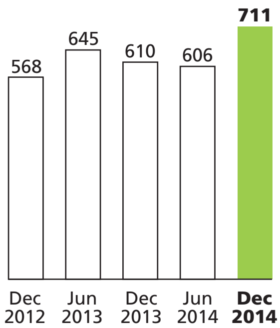
BUSINESS UNIT PERFORMANCE

OUTSURANCE

OUTsurance delivered a strong operational and financial result for the six months under review with normalised earnings growing by 17% to R711 million. The growth was largely driven by strong growth in premium revenue and an improvement in the claims ratio following lower incurred losses from natural catastrophes.

The graph provides a six-monthly breakdown of OUTsurance's earnings performance:

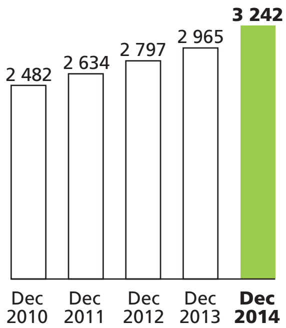
NORMALISED EARNINGS (SIX-MONTHLY BREAKDOWN)
(R'million)



OVERVIEW OF RESULTS CONTINUED

Gross premiums increased by 9% on the back of a recovery in premium inflation and an improvement in lapse experience. Personal OUTsurance grew gross written premium revenue by 8% whereas Business OUTsurance delivered 16% growth.

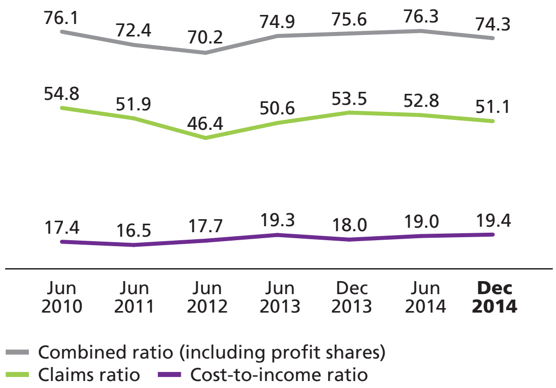
GROSS WRITTEN PREMIUM
(R'million)



The claims ratio decreased from 53.5% in the prior period to 51.1% in the period under review. OUTsurance has been able to successfully adjust premiums in response to an increase in average claims costs thereby allowing the claims ratio to stay within the target band. OUTsurance incurred a loss of R24 million relating to the Orkney earthquake in the six months under review which compares to a total net natural catastrophe loss of R84 million in the comparative period.

The cost-to-income ratio benefitted from improved top-line growth. These improvements were however offset by higher share-based payment expenses and lower fee income generated from the provision of insurance administration services to the Group's former subsidiary, Momentum short-term insurance.

KEY RATIOS
(%)



OUTSURANCE – KEY PERFORMANCE INDICATORS

R'million	Six months ended 31 December 2014	Six months ended 31 December 2013	% change	Year ended 30 June 2014
Gross written premium	3 242	2 965	9%	6 048
Net earned premium	3 200	2 893	11%	5 930
Headline earnings	711	610	17%	1 216
Claims ratio (including bonuses) (%)	51.1%	53.5%		52.8%
Cost-to-income ratio (%)	19.4%	18.0%		19.0%
Combined ratio (%)[1]	74.3%	75.6%		76.3%

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

OVERVIEW OF RESULTS CONTINUED

YOUI

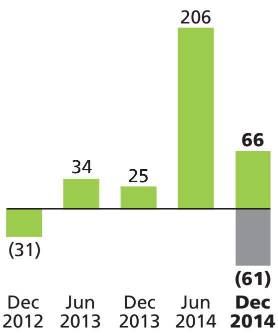
Youi delivered a satisfactory operational performance for the period under review. Youi's financial performance was negatively impacted by a higher claims ratio resulting from wet weather conditions and the impact of the Brisbane hailstorm. Youi Australia generated normalised earnings of R66 million for the six month period. After accounting for Youi New Zealand's start-up loss of R45 million and central capital funding costs incurred to fund the expansion, the Youi Group generated normalised earnings of R5 million. Youi New Zealand was launched in August 2014.

Youi Australia's earnings was significantly lower when compared to the immediately preceding six months ending 30 June 2014 when natural peril claims experience was abnormally low for the Australian industry. This favourable experience is not expected to repeat during the second half of the current financial year. During February 2015, Cyclone Marcia hit the East Coast of Australia and caused significant damage in the State of Queensland. It is expected that Youi will incur a net pre-tax loss, after taking into account reinsurance recoveries, of $7 million from this catastrophe event which will negatively impact earnings in the second half of the financial year.

The graph below provides a six monthly breakdown of the normalised earnings of the Youi Group:

NORMALISED EARNINGS (SIX-MONTHLY BREAKDOWN)

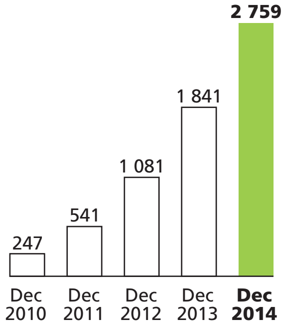
(R'million)



Gross written premium income for the Youi Group grew to R2 759 million in the six month period which represents 50% and 42% growth in Rand and Dollar terms respectively. Youi continues to gain market share on the back of successful marketing initiatives, excellent service and a value for money product offering.

GROSS WRITTEN PREMIUM – YOUI GROUP

(R'million)



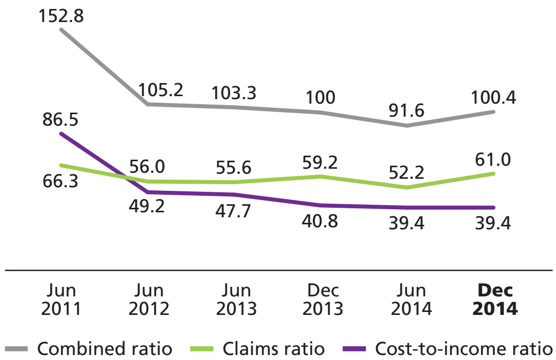
The Youi Group's claims ratio increased from 59.2% in the comparative six months to 61% as a result of relatively unfavourable weather conditions at the inception of the financial year. Youi's net impact of the natural catastrophe events for the period was R68 million compared to R90 million in the comparative six months.

Youi's gross exposure to the Brisbane hailstorm is estimated at $45 million. Our conservative reinsurance programme limited the financial impact of this event to $7 million. Youi's claims ratio remains favourable compared to the industry average.

The Youi Group's cost-to-income ratio remained stable as scale benefits achieved in the Australian business were offset by new business strain incurred by Youi New Zealand. On a standalone basis, Youi Australia achieved a cost-to-income ratio of 36.9%, down from 40.8% in the comparative six months.

KEY RATIOS – YOUI GROUP

(%)



OVERVIEW OF RESULTS CONTINUED

YOUI GROUP – KEY PERFORMANCE INDICATORS

	Six months ended 31 December			Year ended 30 June
	2014	2013	% change	**2014**
Rand (R'million)				
Gross written premium	2 759	1 841	50%	4 066
Net earned premium	2 109	1 345	57%	3 093
Headline earnings	5	25	(80%)	231
Headline earnings attributable to the Group	4	23	(83%)	216
Australian Dollar ($'million)				
Gross written premium	283	199	42%	425
Net earned premium	217	145	50%	322
Headline earnings	1	3	(67%)	22.1
Ratios				
Claims ratio (%)	61.0%	59.2%		52.2%
Cost-to-income ratio (%)	39.4%	40.8%		39.4%
Combined ratio (%)	100.4%	100%		91.6%
AUD/ZAR exchange rate				
– Closing	9.44	9.36	1%	10.01
– Average	9.72	9.25	5%	9.52

The Australian and New Zealand operations contributed as follows to the Youi Group's headline earnings result:

	Six months ended 31 December			Year ended 30 June
	2014	2013	% change	**2014**
Rand (R'million)				
Youi Australia	66	25	>100%	231
Youi New Zealand	(45)	1	>(100%)	1
Central (including consolidation adjustments)	(16)	(1)	>(100%)	(1)
Youi Holdings Group	5	25	(80%)	231

The central item comprises mostly of funding costs incurred to service an intragroup funding arrangement which was established to support the New Zealand expansion. The intragroup funding arrangement consists of long-term redeemable preference shares which were issued by Youi Holdings to OUTsurance. The preference shares pay a market related yield. The investment income earned by OUTsurance is eliminated against this central cost upon consolidation of the Group.

At 31 December 2014, the Group's effective interest in the Youi Group was 93.1%. Based on the number of share options currently in issue, the Group's interest can dilute to 80.5%.

OVERVIEW OF RESULTS CONTINUED

OUTSURANCE LIFE

OUTsurance Life delivered strong premium growth of 36% for the six months under review. The business generated R11 million in headline earnings which represents a 57% increase on the comparative result. OUTsurance Life continues to achieve scale benefits on the back of the growing in-force book.

OUTSURANCE LIFE – KEY PERFORMANCE INDICATORS

	Six months ended 31 December			Year ended 30 June
R'million	**2014**	2013	% change	**2014**
Gross written premium	150	110	36%	237
Headline earnings	11	7	57%	2

OUTSURANCE NAMIBIA

OUTsurance Namibia delivered an excellent operational and financial performance for the six month period. Gross premium revenue grew by 24% to R84 million. The business generated headline earnings of R17 million which represents 89% growth driven by premium growth and improved claims and cost-to-income ratios.

OUTSURANCE NAMIBIA – KEY PERFORMANCE INDICATORS

	Six months ended 31 December			Year ended 30 June
R'million	**2014**	2013	% change	**2014**
Gross written premium	84	68	24%	157
Net earned premium	75	61	23%	129
Headline earnings	17	9	90%	20
Claims ratio (%)	47.5%	54.4%		55.5%

CAPITAL POSITION

At 31 December 2014, the regulated entities in the Group traded off adequate capital positions as summarised in the table below:

	Six months ended 31 December			Year ended 30 June
Capital adequacy ratio	**2014**	2013	Target CAR	**2014**
Group	1.8	1.7	1.2	1.7
Short-term insurance				
OUTsurance	1.7	1.6	1.2	1.7
OUTsurance Namibia	1.4	1.3	1.2	1.6
Youi Group	2.5	1.8	1.8	2.2
Long-term insurance				
OUTsurance Life	1.8	1.9	1.8	2.5

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

OVERVIEW OF RESULTS CONTINUED

DIVIDENDS

The Group's dividend strategy allows for the payment of an ordinary dividend after taking into account the target regulatory capital requirement of the various licensed entities in the Group. The Group funds strategic growth initiatives as far as possible from retained earnings. The 21% growth in the interim dividend is in line with the capital surplus generated by the South African business from which the Group dividend is funded.

Cents per share	**2014**	2013	% change
Interim dividend	14,5	12,0	21%

The growth in the dividend may differ from the Group's underlying earnings growth due to changes in regulatory capital requirements in the various operating entities of the Group.

LOOKING FORWARD

Trading conditions in the Southern African and Australasian businesses are expected to be largely consistent with the experience of first half of the financial year. The growth in the South African operation is expected to be constrained by the challenging local economic environment.

Youi, the main growth driver of the Group is expected to continue to deliver strong premium growth and achieve economies of scale. Our management team will work towards the establishment of the Youi brand in the New Zealand market and steer the business towards break-even over the next five years. We are excited about the prospects of Youi New Zealand and expect the business to make a meaningful contribution to the growth of the Group in the medium-term. As the Australasian business becomes a larger part of the Group, the impact of exchange rate fluctuations on the financial performance of the Group will become more material.

The Group enjoyed a strong profit contribution by Youi in the second half of the 2014 financial year on the back of an abnormally low natural perils claims for the Australian environment. Since this performance is not expected to be the norm, profitability growth will not necessarily mirror revenue growth. The new business strain incurred by the New Zealand start-up will negatively impact the Group's profit growth in the medium-term.

BASIS OF PRESENTATION

OUTsurance Holdings prepares its consolidated financial results in accordance with the Companies Act (71 of 2008) and IFRS, including IAS 34 Interim Financial Reporting. This circular should be read in conjunction with the Group's annual report for the year ending 30 June 2014 which is available at www.outsurance.co.za.

The accounting policies applied are consistent with those applied during the previous financial year. During the previous financial year, the Group's accounting policy relating to the treatment of deferred acquisition costs changed. The rationale and impact of this change on the comparative interim results are outlined on page 18.

EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any material events, as defined in IAS 10, occurring between 31 December 2014 and the date of the authorisation of the interim results announcement.

LAURIE DIPPENAAR
Chairman
18 February 2015

WILLEM ROOS
Joint Chief Executive officer
18 February 2015

HEADLINE EARNINGS RECONCILIATION

R'000	Six months ended 31 December 2014	2013	% change	Year ended 30 June 2014
IFRS profit attributable to equity holders	739 378	647 538	14%	1 466 456
Non-controlling interest	(682)	(1 761)	61%	(15 344)
NCNR preference shareholders	–	(5 824)	100%	(5 824)
IFRS earnings attributable to ordinary shareholders	738 696	639 953	15%	1 445 288
Adjusted for:				
Headline earnings adjustments	(93)	2 566		2 530
Headline earnings	738 603	642 519	15%	1 447 818

The Group did not have any normalised earnings adjustments during the current or comparative periods. The Group's historic normalised earnings adjustments are explained in the Group's historic Annual Reports which are available at http://www.outsurance.co.za

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

	Six months ended 31 December			Year ended 30 June
	2014 R'000	2013 Restated R'000	% change	**2014 R'000**
Gross insurance premium written	6 151 406	4 916 368	25.1%	10 351 566
Outward reinsurance premiums	(214 008)	(171 037)	(25.1%)	(336 111)
Net premiums written	5 937 398	4 745 331	25.1%	10 015 455
Change in provision for unearned premiums	(490 439)	(406 926)	(20.5%)	(774 224)
Earned premiums, net of reinsurance	5 446 959	4 338 405	25.6%	9 241 231
Other income	7 524	2 670	>100%	7 305
Investment income	195 728	160 853	21.7%	327 468
Net gains/(losses) on fair value adjustments on financial assets	2 901	(4 055)	>(100%)	1 609
Income	5 653 112	4 497 873	25.7%	9 577 613
Claims on insurance contracts net of reinsurance	(2 796 585)	(2 198 076)	(27.2%)	(4 470 697)
Gross insurance contract claims incurred	(3 089 105)	(2 472 108)	(25.0%)	(4 748 028)
Reinsurers' share of insurance contract claims	292 520	274 032	6.7%	277 331
Non-claims bonuses on insurance contracts	(151 076)	(153 437)	1.5%	(300 686)
Acquisition expenses	(11 172)	(9 522)	(17.3%)	(28 744)
Marketing and administration expenses	(1 528 817)	(1 143 731)	(33.7%)	(2 485 155)
Transfer to policyholder liabilities under insurance contracts	(17 781)	3 966	>(100%)	(21 729)
Fair value adjustment to financial liabilities	(89 291)	(85 323)	(4.7%)	(190 810)
Result of operating activities	1 058 390	911 750	16.1%	2 079 792
Finance charges	(271)	(205)	(32.3%)	(1 188)
Equity accounted earnings from associate	8 317	4 295	93.6%	10 398
Profit before taxation	1 066 436	915 840	16.4%	2 089 002
Taxation	(327 058)	(268 302)	(21.9%)	(622 546)
Net profit for the period	739 378	647 538	14.2%	1 466 456
Other comprehensive income				
Items that may subsequently be reclassified to profit or loss				
Fair value gains and losses on available-for-sale financial instruments	(54 218)	41 519	>(100%)	40 638
Deferred income tax relating to available-for-sale financial instruments	10 121	–	100%	(16 152)
Exchange differences on foreign operations	(97 252)	36 241	>(100%)	125 554
Total comprehensive income for the period	598 029	725 298	(17.5%)	1 616 496
Net profit attributable to:				
Ordinary shareholders	738 696	639 953	15.4%	1 445 288
Non-cumulative non-redeemable preference shareholders	–	5 824	(100%)	5 824
Equity holders of the Group	738 696	645 777	14.4%	1 451 112
Non-controlling interest	682	1 761	(61.3%)	15 344
Net profit for the period	739 378	647 538	14.2%	1 466 456
Total comprehensive income attributable to:				
Ordinary shareholders	597 347	717 713	(16.8%)	1 595 328
Non-cumulative non-redeemable preference shareholders	–	5 824	(100%)	5 824
Equity holders of the Group	597 347	723 537	(17.4%)	1 601 152
Non-controlling interest	682	1 761	(61.3%)	15 344
Total comprehensive income for the period	598 029	725 298	(17.5%)	1 616 496

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

	Six months ended 31 December		Year ended 30 June
	2014 **R'000**	2013 Restated R'000	**2014** **R'000**
ASSETS			
Property and equipment	512 008	522 135	514 195
Employee benefits	78 198	24 968	106 712
Investment in associates	26 066	19 486	25 589
Reinsurers' share of insurance contract provisions	388 253	226 137	101 740
Deferred acquisition costs	363 495	259 223	336 114
Financial assets			
Fair value through profit and loss	2 610 374	2 434 562	2 452 364
Available-for-sale	1 228 040	1 257 534	1 265 149
Loans and receivables	1 663 554	1 179 116	1 436 613
Deferred income tax	176 643	280 496	220 266
Tax receivable	3 015	12 814	2 321
Cash and cash equivalents	3 657 394	2 367 593	3 437 023
TOTAL ASSETS	10 707 040	8 584 064	9 898 086
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	34 855	34 636	34 642
Share premium	258 127	162 772	163 296
Other reserves			
Share based payment reserve	2 941		
Foreign currency translation reserve	227 838	235 777	325 090
Available-for-sale reserve	26 276	87 406	70 373
Retained earnings	3 920 739	3 332 263	3 722 442
Total shareholders' equity	4 470 776	3 852 854	4 315 843
Non-controlling interest	138 290	113 656	137 608
TOTAL EQUITY	4 609 066	3 966 510	4 453 451
LIABILITIES			
Insurance contract liabilities	5 124 684	3 941 512	4 456 382
Employee benefits	89 932	66 501	110 992
Share based payment liability	108 195	36 945	130 272
Financial liabilities at fair value through profit and loss	89 292	85 323	105 488
Tax liabilities	37 727	4 008	23 714
Financial liabilities held at amortised cost			
Insurance and other payables	648 144	483 265	617 787
TOTAL LIABILITIES	6 097 974	4 617 554	5 444 635
TOTAL EQUITY AND LIABILITIES	10 707 040	8 584 064	9 898 086

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

	Share capital R'000	Share Premium R'000	Available-for-sale reserves R'000	Currency translation reserve R'000	Share based payments reserve R'000	Retained earnings R'000	Total ordinary shareholders' interest R'000	Total preference shareholders' interest R'000	Non-controlling interest R'000	Total R'000
Opening balance at 1 July 2013	34 403	108 796	45 887	199 536	–	3 194 997	3 583 619	200 500	–	3 784 119
As previously reported	34 403	108 796	45 887	187 333	–	3 016 499	3 392 918	200 500	–	3 593 418
Change in accounting policy	–	–	–	12 203	–	178 498	190 701	–	–	190 701
Total comprehensive income for the period	–	–	41 519	36 241	–	647 538	725 298	–	–	725 298
As previously reported	–	–	41 519	30 403	–	599 006	670 928	–	–	670 928
Change in accounting policy	–	–	–	5 838	–	48 532	54 370	–	–	54 370
Issue of share capital	233	53 976	–	–	–	–	54 209	–	111 895	166 104
Repurchase of preference shares	–	–	–	–	–	–	–	(200 500)	–	(200 500)
Profit attributable to minorities	–	–	–	–	–	(1 761)	(1 761)	–	1 761	–
Preference dividend paid	–	–	–	–	–	(5 823)	(5 823)	–	–	(5 823)
Ordinary dividend paid	–	–	–	–	–	(502 688)	(502 688)	–	–	(502 688)
Balance at 31 December 2013	34 636	162 772	87 406	235 777	–	3 332 263	3 852 854	–	113 656	3 966 510
Opening balance as at 1 July 2014	34 642	163 296	70 373	325 090	–	3 722 442	4 315 843	–	137 608	4 453 451
Total comprehensive income for the period	–	–	(44 097)	(97 252)	–	739 378	598 029	–	–	598 029
Issue of share capital	213	94 831	–	–	–	–	95 044	–	–	95 044
Share based payment	–	–	–	–	2 941	–	2 941	–	–	2 941
Profit attributable to minorities	–	–	–	–	–	(682)	(682)	–	682	–
Ordinary dividend paid	–	–	–	–	–	(540 399)	(540 399)	–	–	(540 399)
Balance at 31 December 2014	34 855	258 127	26 276	227 838	2 941	3 920 739	4 470 776	–	138 290	4 609 066

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

	Six months ended 31 December		Year ended 30 June
	2014 R'000	2013 R'000	**2014 R'000**
OPERATING ACTIVITIES			
Cash generated by operations	1 427 124	1 351 420	3 209 891
Finance charges	(271)	(205)	(1 188)
Taxation paid	(269 021)	(291 757)	(555 270)
Ordinary dividends paid	(540 399)	(502 688)	(918 334)
Preference dividends paid	(105 487)	(116 247)	(201 571)
Cash inflow from operating activities	511 946	440 523	1 533 528
INVESTING ACTIVITIES			
Intellectual property			
Payments	(8 826)	(11 911)	(115 215)
Settlements	1 297	–	383
Property and equipment acquired to maintain operations	(65 865)	(103 043)	(151 986)
Proceeds on disposal of property and equipment	281	304	563
Proceeds on disposal of financial assets	2 697 554	2 605 066	3 963 245
Purchase of financial assets	(2 869 773)	(2 504 536)	(3 883 348)
Cash outflow from investing activities	(245 332)	(14 120)	(186 358)
FINANCING ACTIVITIES			
Proceeds from issue of shares	–	111 895	–
Repurchase of preference shares	–	(200 500)	(200 500)
Proceeds from issue of shares to non-controlling interest	–	–	122 264
Purchase of treasury shares by share scheme participants	104 012	69 835	72 754
Purchase of treasury shares by share trust	(8 968)	(15 626)	(18 015)
Cash inflow/(outflow) from financing activities	95 044	(34 396)	(23 497)
Increase in cash and cash equivalents	361 658	392 007	1 323 673
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents	3 437 023	1 933 587	1 933 587
Effect of exchange rates on cash and cash equivalents	(141 287)	41 999	179 763
Increase in cash and cash equivalents	361 658	392 007	1 323 673
Closing balance of cash and cash equivalents	3 657 394	2 367 593	3 437 023

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks. The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's Annual Financial Statements at 30 June 2014.

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 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 valuation techniques based on observable market inputs. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.
- Level 3 – fair value is determined through valuation techniques which use significant unobservable inputs.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

GROUP AT 31 DECEMBER 2014

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Financial assets				
Equity securities				
Listed preference shares	502 594	–	–	502 594
Exchange traded funds	181 708	–	–	181 708
Debt securities				
Unlisted preference shares	–	543 738	–	543 738
Government, municipal and public utility securities	–	534 782	–	534 782
Money market securities <1 year	–	1 400 784	–	1 400 784
Money market securities >1 year	–	674 808	–	674 808
Total financial assets	684 302	3 154 112	–	3 838 414
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	–	–	89 292	89 292
Total financial liabilities	–	–	89 292	89 292

GROUP AT 31 DECEMBER 2013

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Financial assets				
Equity securities				
Listed preference shares	561 739	–	–	561 739
Exchange traded funds	157 647	–	–	157 647
Debt securities				–
Unlisted preference shares	–	538 148	–	538 148
Collective investment scheme	–	540 342	–	540 342
Government, municipal and public utility securities	–	145 998	–	145 998
Money market securities <1 year	–	948 795	–	948 795
Money market securities >1 year	–	799 427	–	799 427
Total financial assets	719 386	2 972 710	–	3 692 096
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	–	–	85 323	85 323
Total financial liabilities	–	–	85 323	85 323

There were no transfers between categories for the six months ended 31 December 2014.

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

Level 1

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

Level 2

The unlisted preference shares are redeemable with a notice period ranging from thirty days to three years. Dividend yields range from 50.8% to 68.3% of the prime overdraft rate. The fair value of the preference shares which are redeemable within one year from the reporting date is deemed to equal the redemption value. 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, being one of the large South African banks. Due to the redeemable nature, the preference shares are deemed to be debt securities. The fair values of collective investment scheme investments are determined by the closing unit price as quoted by the collective investment scheme. The collective investment scheme is not listed. The fair value of money market instruments is determined based on observable market inputs.

Level 3

The financial liabilities at fair value through profit and loss represent profits arising out of the cell captives and profit sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends on a six monthly basis to the FirstRand Limited Group.

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

RECONCILIATION OF LEVEL 3 FINANCIAL INSTRUMENTS

R'000	Six months ended 31 December 2014	Six months ended 31 December 2013
Opening balance at 1 July	105 488	110 425
Preference dividend paid	(105 487)	(110 425)
Preference dividend accrued	89 291	85 323
Closing balance at 31 December	89 292	85 323

SEGMENTAL REPORTING

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;
- Commercial insurance: This segment provides short-term insurance products to small and medium sized businesses; and
- Life Insurance: This segment provides long-term insurance products to individuals.

The information in the segment report is presented on the same basis as reported to management. Reporting adjustments are those accounting reclassifications required to produce IFRS compliant results.

The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties.

	Short-term insurance			Long-term insurance		
	Outsurance					
	Personal R'000	Commercial R'000	Youi Group Personal R'000	Outsurance Life R'000	Unallocated and consolidation adjustments R'000	Group total R'000
Segmental income statement for the six months ended 31 December 2014						
Gross written premium	2 818 306	423 951	2 759 378	149 771	–	6 151 406
Outward reinsurance premiums	(28 473)	(5 511)	(168 123)	(11 901)	–	(214 008)
Change in provision for unearned premium	(3 969)	(4 594)	(481 876)	–	–	(490 439)
Earned premium, net of reinsurance	2 785 864	413 846	2 109 379	137 870	–	5 446 959
Other income	–	–	2 502	–	5 022	7 524
Claims on insurance contracts net of reinsurance	(1 302 373)	(180 250)	(1 286 131)	(27 831)	–	(2 796 585)
Cash bonuses on insurance contracts	(133 563)	(17 513)	–		–	(151 076)
Marketing, acquisition and administration expenses	(520 802)	(101 284)	(834 421)	(94 160)	10 678	(1 539 989)
Transfer to policyholder liabilities under insurance contracts	–	–	–	(17 781)	–	(17 781)
Fair value adjustment to financial liabilities	(89 291)	–	–	–	–	(89 291)
Underwriting result	739 835	114 799	(8 671)	(1 902)	15 700	859 761
Net investment income	–	–	–	–	198 358	198 358
Share of profit of associate	–	–	–	–	8 317	8 317
Profit before tax	739 835	114 799	(8 671)	(1 902)	222 375	1 066 436

	Short-term insurance			Long-term insurance		
	Outsurance					
	Personal R'000	Commercial R'000	Youi Group Personal R'000	Outsurance Life R'000	Unallocated and consolidation adjustments R'000	Group total R'000
Segmental income statement for the six months ended 31 December 2013						
Gross written premium	2 599 083	366 226	1 841 275	109 784	–	4 916 368
Outward reinsurance premiums	(56 894)	(6 391)	(98 558)	(9 194)	–	(171 037)
Change in provision for unearned premium	(5 680)	(3 768)	(397 478)	–	–	(406 926)
Earned premium, net of reinsurance	2 536 509	356 067	1 345 239	100 590	–	4 338 405
Other income	–	–	–	–	2 670	2 670
Claims on insurance contracts net of reinsurance	(1 246 522)	(148 221)	(796 145)	(7 188)	–	(2 198 076)
Cash bonuses on insurance contracts	(136 169)	(17 268)	–	–	–	(153 437)
Marketing, acquisition and administration expenses	(412 322)	(110 646)	(548 666)	(93 439)	11 820	(1 153 253)
Transfer to policyholder liabilities under insurance contracts	–	–	–	3 966	–	3 966
Fair value adjustment to financial liabilities	(85 323)	–	–	–	–	(85 323)
Underwriting result	656 173	79 932	428	3 929	14 490	754 952
Net investment income	–	–	–	–	156 593	156 593
Share of profit of associate	–	–	–	–	4 295	4 295
Profit before tax	656 173	79 932	428	3 929	175 378	915 840

CALCULATION OF EARNINGS PER SHARE

	Six months ended 31 December		Year end 30 June
	2014	2013	**2014**
Basic headline earnings per share			
Headline earnings attributable to ordinary shareholders (R'000)	738 603	642 519	1 447 818
Weighted average number of shares in issue ('000)	3 478 537	3 456 486	3 460 026
Headline earnings per share – basic (cents)	**21,23**	18,59	**41,84**
Diluted headline earnings per share			
Headline earnings attributable to ordinary shareholders (R'000)	738 603	642 519	1 447 818
Diluted headline earnings attributable to Youi Holdings Group (R'000)	(678)	(3 406)	(30 582)
Diluted headline earnings attributable to ordinary shareholders (R'000)	**737 925**	639 113	**1 417 236**
Weighted average number of shares in issue ('000)	3 478 537	3 456 486	3 460 026
Dilution impact of share incentive scheme ('000)	56 787	77 217	66 947
Diluted weighted average number of shares in issue ('000)	**3 535 324**	3 533 703	**3 526 973**
Headline earnings per share – diluted (cents)	**20,87**	18,09	**40,18**
Total number of shares in issue ('000)	**3 518 163**	3 518 163	**3 518 163**

CHANGE IN ACCOUNTING POLICY

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The change in accounting policy has been accounted for retrospectively and the comparatives have been restated. The effect of the change is as follows:

GROUP 31 DECEMBER 2013

	Original R'000	Restated R'000	Difference R'000
Statement of financial position			
Assets			
Deferred acquisition costs	–	259 223	259 223
Deferred income tax	383 003	280 496	(102 507)
	383 003	539 719	156 716
Equities and Liabilities			
Insurance contract liabilities	4 029 867	3 941 512	(88 355)
Foreign currency translation reserve	217 736	235 777	18 041
Retained earnings	3 105 243	3 332 263	227 020
Non-controlling interest	113 646	113 656	10
	7 466 492	7 623 208	156 716
Statement of comprehensive income			
Marketing and administration expenses	(1 182 377)	(1 143 731)	38 646
Transfer to policyholder liability	(25 917)	3 966	29 883
Deferred income tax	282	(19 715)	(19 997)
Net profit for the period	(1 208 012)	(1 159 480)	48 532
Exchange difference on foreign operations	30 403	36 241	5 838
	(1 177 609)	(1 123 239)	54 370

GROUP 31 DECEMBER 2012

	Original R'000	Restated R'000	Difference R'000
Statement of financial position			
Assets			
Deferred acquisition costs	3 493	184 817	181 324
Deferred income tax	443 731	375 373	(68 358)
	447 224	560 190	112 966
Equities and Liabilities			
Insurance contract liabilities	2 987 717	2 939 899	(47 818)
Foreign currency translation reserve	166 649	176 039	9 390
Retained earnings	2 762 485	2 913 879	151 394
	5 916 851	6 029 817	112 966
Statement of comprehensive income			
Marketing and administration expenses	(985 140)	(960 650)	24 490
Transfer to policyholder liability	(12 673)	(6 105)	6 568
Deferred income tax	19 755	9 997	(9 758)
Net profit for the period	(978 058)	(956 758)	21 300
Exchange difference on foreign operations	41 677	47 368	5 691
	(936 381)	(909 390)	26 991

SIMPLIFIED GROUP STRUCTURE

The OUTsurance Holdings Limited Group is 83.4% owned by Rand Merchant Insurance Holdings.

Southern Africa

CAR INSURANCE HOME INSURANCE BUSINESS INSURANCE LIFE INSURANCE

you always get something **out**

100% owned

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

49% 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.

Australasia

CAR INSURANCE HOME INSURANCE

we get **you**

93% owned

youi AUSTRALIA

Youi Australia provides personal lines short-term insurance cover direct to the Australian public. Youi was established in 2008.

93% owned

youi NEW ZEALAND

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

DEFINITIONS

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.
Weighted number of ordinary shares	Weighted number of ordinary shares in issue during the reporting period.

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OUTSURANCE Holdings Limited