OUTSURANCE
Holdings Limited

YOU ALWAYS GET SOMETHING OUT

2013
ANNUAL REPORT

OUT SURANCE
Holdings Limited

OUTsurance is an authorised financial services provider and a member of the Rand Merchant Insurance Holdings (RMIH) Group. The Company was brought to life in 1998 by our founders Willem Roos and Howard Aron. OUTsurance has revolutionised the South African insurance market with its innovative OUTbonus concept and direct business model.

Since then OUTsurance has continued to live up to its promise of:

YOU ALWAYS GET SOMETHING OUT

by continuing to develop innovative products, delivering awesome service, and being a great Company to work for.

CONTENTS

WHO WE ARE

2 550

Employees

779

Workforce

Our head office is in Centurion, where our business operations are centralised. Small offices with assessing staff are located in 12 cities around South Africa for the convenience of our clients. The OUTsurance Namibia offices are in Windhoek and our Australian subsidiary, Youi is situated in Birtinya, on the Sunshine Coast of Australia.

The OUTsurance Holdings Group provides insurance products to the South African, Australian and Namibian markets. We abide by a simple client centric ethos of providing value for money insurance solutions backed by awesome client service.

Key to our success is our ability to accurately price risk, operational excellence and our passionate staff contributing to our dynamic work environment.

OUTsurance was established in 1998 as a direct personal lines insurance provider in the South African market. Since then the South African operation expanded to commercial and life insurance products, all provided through a direct delivery channel. OUTsurance has grown to become South Africa's leading direct short-term insurance provider.

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

OUTsurance Namibia provides personal and commercial lines insurance cover directly to the Namibian market.

OUR HISTORY

1998
OUTsurance **revolutionises the short-term insurance** industry in South Africa

2003
OUTsurance launches **Business OUTsurance**

2007
We start operating in the **Namibian short-term insurance** market

2008
Home and car insurance in Australia offered through Youi

2010
Product offerings expanded to include **Life Insurance**

SIMPLIFIED GROUP STRUCTURE

OUTSURANCE
Holdings Limited

100%	49%	100%	100%
OUTSURANCE	OUTSURANCE Namibia	OUTSURANCE Life	youi you.insured car home contents
OUTsurance provides short-term insurance cover direct to the South African public. Its product range includes personal lines and commercial insurance products.	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.	OUTsurance Life is a start-up direct life insurer that offers basic and fully underwritten life insurance products to the South African market. The underwritten life product was launched in 2010.	Youi is the Group's direct short-term insurer in Australia. The business was launched in 2008 and provides personal lines products direct to the Australian public.

AWESOME PRODUCTS, AWESOME SERVICE

Car insurance

Home insurance

Business insurance

Life insurance

INTEGRATED HIGHLIGHTS

Financial
as at 30 June 2013

R8 288 million up by 23%

Normalised gross written premium

up by 0,3% to

R1 161 million

Normalised earnings

38%

Normalised ROE %

Non-financial
as at 30 June 2013

3 329 up by 6%

Total workforce

89%

Customer Satisfaction Index – OUTsurance

95%

Customer Satisfaction Index – Youi

1,35 million up by 18%

Number of policies

EXECUTIVE REVIEW

The Group delivered a pleasing financial performance for the year under review. In the prior year, the core South African personal lines business achieved record and unsustainably low claims ratios which we cautioned will not be maintained. As a result of low claims ratios, we were able to pass on below inflationary premium increases to our client base ensuring that we maintain our key business objective of providing value for money insurance products.

The South African business delivered a solid operational and financial performance for the year. New business volumes in the core personal lines business recovered and marginally grew its share of market in an intensely competitive insurance industry which is experiencing limited real growth. The commercial insurance operation continues to gain traction and has again achieved double digit premium growth.

A significant milestone was achieved this year when Youi reached the necessary scale to run profitably and produced a profit for the second half of the financial year.

Youi was launched in November 2008 as a direct personal lines insurer in the Australian market. Youi's establishment as a trusted insurance brand is attributed to an innovative product design, leading service standards and excellent operational execution.

The contribution that Youi is making to the scale of the Group's operation is evident by the 23% growth in normalised gross written premium for the year under review. The Group now serves over 1,3 million policyholders.

The Gauteng hailstorms experienced during the first half of the 2013 financial year were the most severe weather related natural catastrophes in OUTsurance's history. The gross loss experienced from these events equalled R269 million. After taking into account the reinsurance recoveries and additional premiums to reinstate cover, the net loss absorbed was R58,8 million. To manage earnings volatility, the Group has a low appetite for exposure to unpredictable natural catastrophes. This is supported by a conservative reinsurance programme, the success of which is evidenced by the significant difference between the gross and net losses incurred by OUTsurance.

Youi's net exposure to cyclone Oswald which hit Australia in February 2013 was R49 million. Overall the Group incurred a net loss of R107,9 million relating to natural catastrophes in 2013 compared to R21,3 million in the prior financial year.

Our direct life insurance business has disrupted the life insurance market with the launch of our OUTbonus product feature which allows our clients to receive all their premiums back after 15 claim-free years, a compelling value proposition evidenced by our experience since launch. We have also launched our Essential Life insurance offering which is a simple and affordable insurance offering for the lower income segments.

OUR STRATEGIC FOCUS

At OUTsurance we follow a simple client centric focus of providing value for money insurance products backed up by awesome client service. We deliver on this strategy by focusing on the following key operational drivers.

Accurate pricing and underwriting

We abide by the sound insurance principle of only underwriting insurance risk that we can accurately price for. We also ensure the premium charged is appropriate for the risk underwritten. This strategy together with sophisticated systems and data analytics have allowed our insurance businesses to run at comparatively lower and more stable claims ratios compared to the industries in which we operate.

Client service

When it comes to client service, awesome is the only option. We measure every possible aspect of our service with every client interaction. We have also extended our service measurements to allow our clients to measure the service quality of our panel of service providers. This year we introduced a client compliments and complaints "wall" on our OUTsurance and Youi websites. This is yet another medium by which our clients can compliment or criticise our service quality in a public forum. The "wall" gives us the opportunity to measure client satisfaction in real time as well as to ensure quick resolution in instances of sub-standard service.

Our CSI index shows that more than 89% of our clients are satisfied that they are receiving awesome service!

Although the natural catastrophes placed significant pressure on our operational infrastructure, it also gave us the opportunity to showcase our commitment to client service. We are very proud of what our employees delivered during this period!

Our reputation

Key to the success and the strength of our brand is our reputation for paying claims. Our claims payment reputation is centred around the principle of fairness.

This year the Ombudsman for short-term insurance published its statistics for the number of complaints it received per insurer as well as the number of claims where the insurer's original decision was overturned. On both counts, OUTsurance achieved a result which is significantly better than the industry average, a result which is underpinned by our claims philosophy.

Operational efficiency

Providing value for money insurance products requires us to manage every aspect of our cost base. We deliver on this strategy by continuously investing in our systems and processes to drive optimal execution. In the South African environment, we have experienced cost pressures in recent times as a result of the fact that the average premium inflation applied to our customer base has been below general inflation. Increased overheads associated with an evolving regulatory and compliance landscape also contributed to a higher expense base.

During the year under review, Youi opened a call centre in South Africa with the aim of complementing our large Australian call centre. This allows us to extend our service hours across the various time zones in Australia.

LOOKING AHEAD

The South African economy remains under significant pressure with high levels of household indebtedness, subdued consumer spending and expected weak economic growth painting a difficult operating landscape for the insurance market. Trading conditions for the South African short-term insurance business are expected to remain unchanged for the foreseeable future. We expect our simple and affordable life insurance offering to gain further traction in the next financial year.

We are excited about the growth prospects of Youi and expect the business to continue to grow market share profitably. Youi offers significant potential to grow and diversify the earnings base of the Group.

Willem Roos
Joint Chief Executive Officer

Laurie Dippenaar
Chairman

100% **The 100% OUTbonus.** All premiums back in cash after 15 claim-free years.

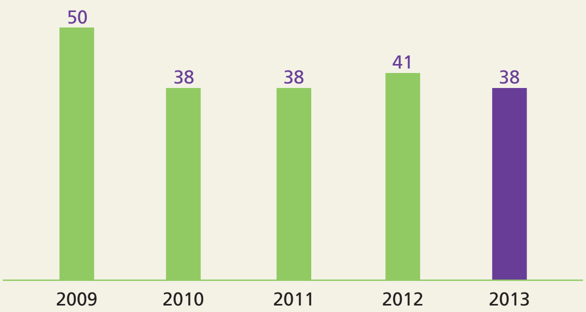
GET MORE OUT OF YOUR LIFE INSURANCE.

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

FINANCIAL REVIEW

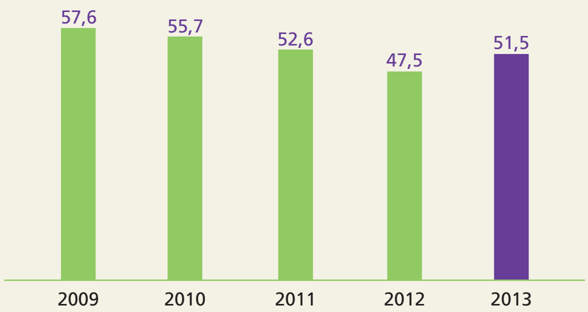
Key performance indicators

Normalised ROE
(%)



The Group achieved an ROE of 38% for the 2013 financial year. ROE is measured on an "attributable to ordinary shareholders" basis. The historic stability in the Group's ROE is supported by the operational steadiness of the Group's established businesses.

Claims ratio
(%)

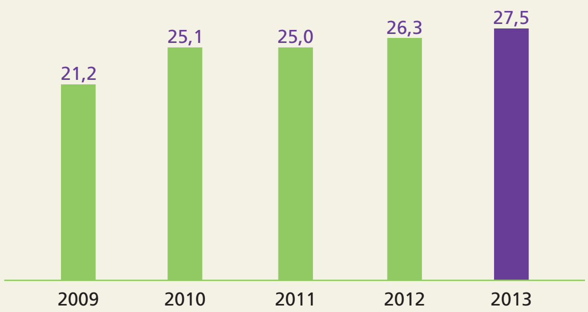


The claims ratio is the primary operational measure of a short-term insurance business. The Group has a history of stable and highly profitable claims ratios driven by our philosophy of charging accurate premiums that are commensurate with the risk underwritten. The Group's overall claims ratio increased from a record 47,5% in 2012 to 51,5% in the year under review.

Annualised new business written
(R'million)

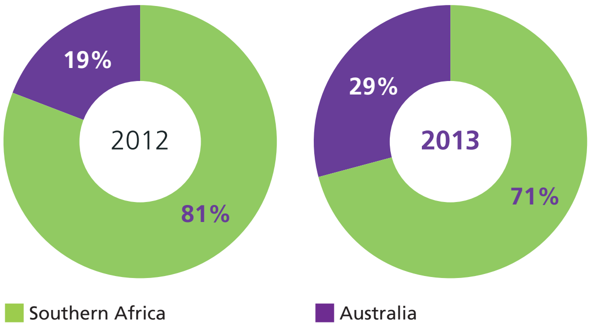
The Group experienced strong new business flows during 2013 driven by Youi's excellent sales growth. The annualised value of new business written increased by 27%. Youi's top line growth has improved the revenue diversification of the Group as indicated on the following page.

Cost-to-income ratio
(%)



Cost management is a critical component supporting the Group's primary objective of providing value for money insurance products. The Group's cost ratio increased to 27,5% in 2013 primarily as a result of below general inflation premium increases in the South African market as well as a higher Australian cost base.

Geographical diversification



Based on gross written premium

Normalised earnings

(R'million)

The Group's percentage of revenue earned from the Australasian market has increased to 29%.

OVERVIEW OF FINANCIAL RESULTS

The primary results and accompanying commentary are presented on a normalised basis as the Group believes this most accurately reflects its economic performance. Normalised earnings is specifically adjusted for the impact of the once-off recognition of a deferred tax asset relating to Youi's assessed loss in 2012. Adjustments are also made to exclude Momentum Short-Term Insurance's earnings contribution from the 2012 comparatives and the realised gain on disposal from the 2013 results.

The Group achieved 0,3% growth in normalised earnings for the financial year ending 30 June 2013. The earnings performance is pleasing considering the record and unsustainably low claims ratios experienced in 2012 and the impact of natural catastrophes in 2013.

The key performance ratios of the Group are indicated in the table below:

Group key financial ratios

	2013	2012	% change
Normalised earnings (R'million)	**1 161**	1 157	0,3%
Normalised ROE (%)[1]	**38%**	41%	
Normalised earnings per share (cents)	**33,8**	33,8	–
Diluted normalised earnings per share (cents)	**33,2**	33,4	(0,6%)
Dividend declared per share (cents)	**24,0**	22,0	9,1%
Special dividend per share (cents)	**2,5**	10,0	(75%)
Normalised gross written premium (R'million)	**8 288**	6 755	22,7%
Claims ratio (including non-claims bonuses) (%)	**51,5%**	47,5%	
Cost ratio (%)	**27,5%**	26,3%	
Combined ratio[2] (%)	**83,0%**	78,8%	

[1] *Attributable to ordinary shareholders.*

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

Sources of normalised earnings

(R'million)	2013	2012	% change
OUTsurance	1 213	1 381	(12,2%)
Youi	(33)	(85)	61,4%
OUTsurance Life	(9)	(19)	51,8%
OUTsurance Namibia (49%)	10	8	25,8%
Central (including consolidation adjustments)[1]	18	(71)	>100%
NCNR preference dividend	(38)	(57)	32,9%
Normalised earnings	1 161	1 157	0,3%

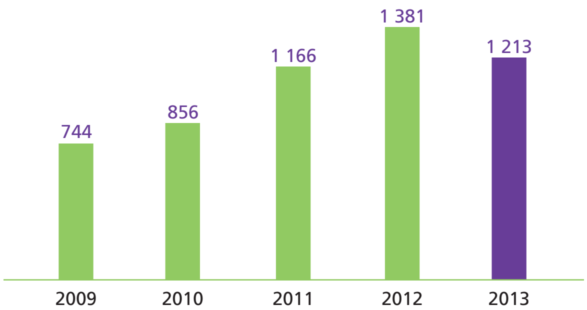
[1] *The 2012 number includes the Group's secondary tax on companies charge (STC). STC was replaced with dividend withholding tax on 1 April 2012 which is a tax on shareholders. STC was accounted for as a company tax.*

BUSINESS UNIT PERFORMANCE

OUTsurance

Against the backdrop of the record low claims ratios in the prior year and the catastrophe related losses in the current year, OUTsurance experienced a 12,2% decrease in normalised earnings to R1,21 billion.

Normalised earnings
(R'million)

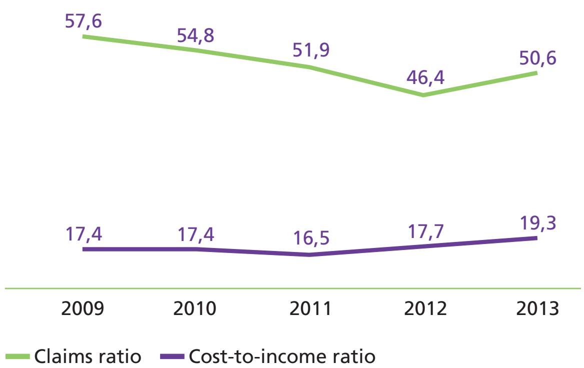


The claims ratio of OUTsurance increased from 46,4% to 50,6% as a result of low premium inflation increases, the impact of the weather related catastrophes and the weaker Rand. The catastrophe events resulted in a 1% increase in the claims ratio for the year.

New business volumes in the core personal lines business showed a pleasing improvement during the financial year with gross written premiums growing by 6% indicating marginal market share gains in a highly competitive market. The commercial insurance business grew premium income by 12% on the back of increased marketing and growth in our sales footprint.

The cost ratio came under pressure in the year under review, increasing from 17,7% to 19,3%. The higher cost ratio results from below inflation premium increases on the in-force book, increased costs associated with the expansion in the OUTsurance head office complex and higher regulatory and compliance related costs.

Key ratios
(%)



OUTsurance – key performance indicators

	2013	2012	% change
Gross written premium (R'million)	5 660	5 341	6,0%
Net earned premium (R'million)	5 608	5 336	5,1%
Normalised earnings (R'million)	1 213	1 381	(12,2%)
Headline earnings (R'million)	1 213	1 381	(12,2%)
Claims ratio (including bonuses) (%)	50,6%	46,4%	
Cost-to-income ratio (%)	19,3%	17,7%	
Combined ratio (%)[1]	74,9%	70,2%	

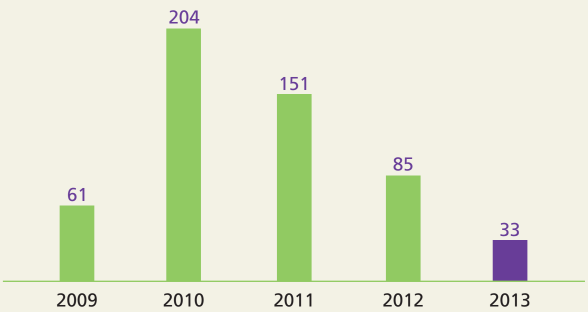
[1] *After profit share distributions paid to FirstRand Limited.*

Youi

For the 12 months under review, Youi decreased its normalised loss by 61,4% to R33 million. Youi generated a normalised profit of R15 million for the second half of the financial year as the business achieved the necessary scale to run profitably.

Normalised loss

(R'million)



Youi grew gross written premiums by 88,2% in Rand and 67,2% in Dollar terms during the year under review.

Gross written premium

R'million

The claims ratio of 55,6% was marginally lower than the prior year and remains well below the industry average.

Even though the operational staff complement grew significantly during the year under review, the cost-to-income ratio decreased from 63,9% to 50,6% due to the enhanced scale offered by the growing in-force book.

	2013	2012	% change
Rand (R'million)			
Gross written premium	2 466	1 310	88,2%
Net earned premium	1 797	893	>100%
Normalised loss	(33)	(85)	(61,4%)
Headline profit/(loss)	(33)	160	>(100%)
Australian Dollars ($'million)			
Gross written premium	270	162	67,2%
Net earned premium	197	110	79,5%
Normalised loss	(4)	(11)	(64,4%)
Headline profit/(loss)	(4)	18	>(100%)
Ratios			
Claims ratio (%)	55,6%	56,0%	
Cost-to-income ratio (%)	50,6%	63,9%	
Combined ratio (%)	106,2%	119,9%	

The difference between the headline and normalised earnings of the comparative period is explained by the once-off recognition of Youi's deferred tax asset during the financial year ended 30 June 2012. The deferred tax asset relates to the accumulated assessed tax losses incurred since inception of the business. The normalised earnings results assume that the deferred tax asset has been recognised since inception of the business. Refer to the normalised earnings reconciliation on page 16.

FINANCIAL REVIEW continued

OUTsurance Life

OUTsurance Life improved its start-up normalised loss by 51,8% to R9 million for the year under review. The decreased loss results from positive experience variances, strong premium growth and enhanced scale. The business continues to gain traction in the direct life insurance market by growing premium income by 56,8%.

R'000	2013	2012	% change
Gross written premium	163	104	56,8%
Normalised loss	(9)	(19)	51,8%
Headline loss	(9)	(19)	51,8%

The accounting policy for the life insurance business allows for all acquisition costs to be expensed up-front. Furthermore, negative policyholder reserves are eliminated which results in no up-front profit recognition on written polices.

OUTsurance Namibia

OUTsurance Namibia delivered an excellent operational and financial performance for the 2013 financial year. Normalised earnings increased by 25,8% to R20 million. Premium income grew by 19% as the business continues to gain market share. The claims ratio increased from 47% to 49,5% on the back of low premium inflation increases on the in-force book.

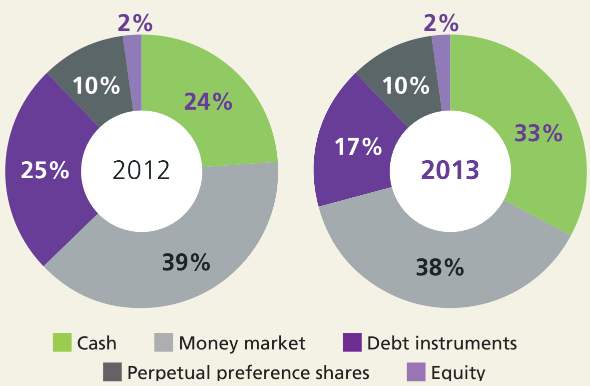
OUTsurance Namibia – key performance drivers

R'000	2013	2012	% change
Gross written premium	122	103	18,5%
Net earned premium	103	87	18,2%
Normalised earnings	20	16	25,8%
Headline earnings	20	16	25,8%
Claims ratio (%)	49,5%	47,0%	

Balance sheet management

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

Composition of investable assets



Capital position

At 30 June 2013, the regulated entities in the Group traded off strong capital positions as summarised in the table below:

Capital adequacy ratio[1]	2013	2012	Target CAR
Group	1,8	2,3	
Short-term insurance			
OUTsurance Insurance Company Limited	1,6	2,2	1,2
OUTsurance Insurance Company of Namibia Limited	1,7	1,6	1,2
Youi Pty Limited	2,2	2,8	1,8
Long-term insurance			
OUTsurance Life Insurance Company Limited	3,1	1,9	2,0

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

The Financial Services Board (FSB) is in the process of developing a new risk-based solvency regime for the South African short-term and long-term insurers, known as Solvency Assessment and Management (SAM). SAM 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. SAM will be based on the principles of the Solvency II Directive as adopted by the European parliament and adapted to specific South African circumstances where necessary. With the application of the current version of the standard capital calculation formula, indications are that the regulatory capital requirement of the South African operations will not materially alter from the current requirement.

The Australian Prudential Regulation Authority (APRA) implemented a revised capital framework for insurers effective from 1 January 2013 as part of its life and general insurance capital review (LAGIC). Like recent and current regulatory reforms by other regulators across the world, the LAGIC aims to move towards greater risk-sensitivity and to increase alignment of capital requirements across sectors.

Dividend strategy

The Group declared a final ordinary dividend of 12 cents per share resulting in full year ordinary dividend of 24 cents per share which represents 9,1% growth on the prior year. The growth in the dividend is underpinned by the capital generated by the South African business being in excess of current operational requirements.

In addition to the ordinary dividend, the Group also declared a special dividend of 2,5 cents per share. The special dividend represents the value of the increased regulatory admissible assets of OUTsurance following dispensation by the tax authorities to allow a full tax deduction for the non-claims bonus provision. This has resulted in a previously inadmissable deferred tax asset to be converted to admissible cash at year-end.

Dividend history
(cents per share)

The dividend strategy allows for the payment of ordinary dividends after taking into account the prescribed minimum capital including a determined margin above this requirement and expected capital commitments for strategic initiatives. The dividend cover for the Group may therefore vary from year to year.

JH Hofmeyr

Jan Hofmeyr
Chief Financial Officer

HEADLINE AND NORMALISED EARNINGS RECONCILIATION

R'million	2013	2012	% change
Earnings attributable to ordinary shareholders	1 201,6	1 400,9	(14,2%)
Adjusted for:			
Gain on sale of subsidiary	(51,2)	–	
Loss on disposal of property and equipment	0,7	0,5	
Impairment of available-for-sale reserve	–	7,7	
Realised loss on available-for-sale financial assets	–	4,7	
Tax effect of headline earnings adjustments	9,5	(0,1)	
Headline earnings	1 160,6	1 413,7	(17,9%)
Adjusted for:			
Recognition of deferred tax asset relating to Youi's assessed loss[1]	–	(245,4)	
Reversal of Momentum Short-Term Insurance earnings	–	(11,5)	
Normalised earnings	1 160,6	1 156,8	0,3%

[1] *The IFRS earnings number includes a deferred tax asset movement of R280 million for the financial year ending 30 June 2012. This movement represents the once-off recognition of a deferred tax asset relating to Youi's assessed loss which was not recognised prior to 2012 due to the business being in start-up phase and the uncertainty relating to the recoverability of the assessed loss against future profits. The normalised earnings adjustment assumes the deferred tax asset has been recognised since inception of the business.*

[2] *The Group disposed of its 50% interest in Momentum Short-Term Insurance with effect 1 July 2013.*

FIVE YEAR FINANCIAL REVIEW

R'million	2009	2010	2011	2012	**2013**
Statement of comprehensive income – IFRS					
Gross written premium	4 312	5 138	5 990	7 032	**8 288**
Underwriting result[1]	665	715	1 098	1 393	**1 309**
Profit before tax	1 046	1 086	1 456	1 852	**1 755**
Earnings attributable to ordinary shareholders	682	652	885	1 401	**1 202**
Earnings per share (cents)					
– Basic	20,1	19,2	25,9	40,9	**34,9**
– Diluted	19,5	18,7	25,3	39,1	**34,3**
Headline earnings per share (cents)					
– Basic	20,7	19,2	25,6	41,3	**33,8**
– Diluted	20,1	18,7	25,0	39,4	**33,2**
Dividend declared per share (cents)	11,8	10,8	16,5	22,0	**24,0**
Special dividend declared per share (cents)	–	–	–	10,0	**2,5**
Statement of financial position – IFRS					
Total assets	3 544	4 592	5 782	7 234	**7 615**
Total equity	1 763	2 590	3 388	4 158	**3 594**
Average equity attributable to ordinary shareholders	1 530	1 951	2 472	3 036	**3 224**
Key ratios					
Claims ratio (including non-claims bonuses) (%)	57,6%	55,7%	52,6%	47,5%	**51,5%**
Cost-to-income ratio (%)	21,2%	25,1%	25,0%	26,3%	**27,5%**
Combined ratio (%)	78,9%	84,4%	81,2%	78,9%	**83,0%**
Normalised results					
Normalised gross written premium[2]	4 119	4 917	5 738	6 755	**8 288**
Normalised earnings	682	670	871	1 157	**1 161**
Normalised earnings per share (cents)					
– Basic	20,1	19,7	25,5	33,8	**33,8**
– Diluted	19,5	19,2	24,9	33,4	**33,2**
Normalised return on equity (%)[3]	50%	38%	38%	41%	**38%**

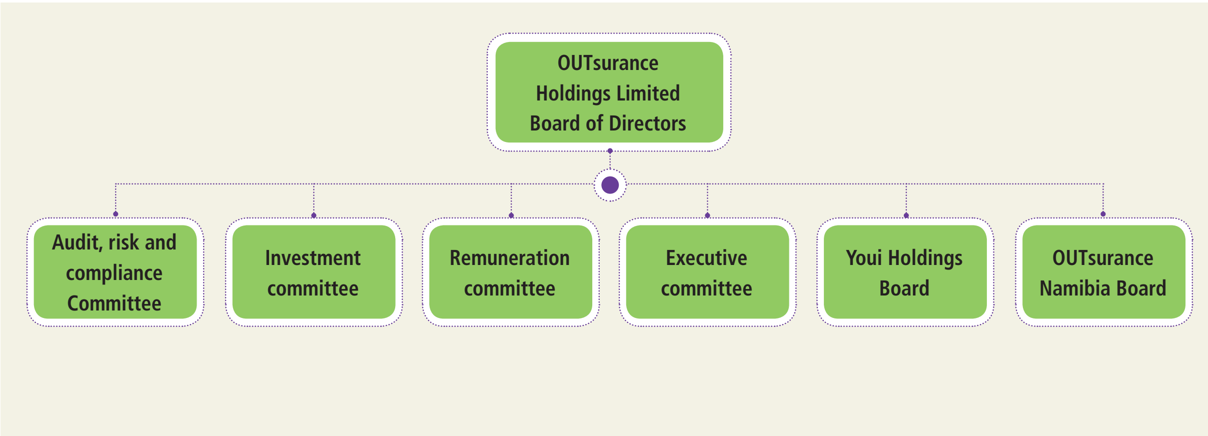
[1] *After taking into account profit share distributions.*

[2] Excludes premium written by Momentum Short-Term Insurance.

[3] Attributable to ordinary shareholders and calculated based on average normalised equity.

CORPORATE GOVERNANCE

Performance in respect of the Group's financial and non-financial objectives are overseen by the Board of Directors and its committees. The Group's governance structure is outlined below:



THE BOARD OF DIRECTORS

The Board's primary responsibility is to oversee the positive performance of the Group's operations and to drive the sustainable growth of shareholder interests. The Board has a fiduciary duty to act in good faith, with due care and diligence and in the best interests of the Group and its stakeholders. It is the primary body responsible for the corporate governance values of the Group. Board members have full and unrestricted access to management and all Group information and property. The Board is guided by a formal charter. Amongst others, the charter gives the Board the responsibilities to appoint executive officers, approve corporate strategy, risk management and governance, approval of the annual financial statements and regulatory submissions. The Board reviews and approves business plans, monitors financial performance and evaluates the successful implementation of strategic decisions.

The Boards of Youi Holdings and OUTsurance Namibia are similarly constituted with the necessary diversity of skills and experience. There is also an appropriate mix of executive and non-executive appointments. The activities of the subsidiary and associate boards are overseen by the OUTsurance Holdings Board.

The Board comprises of 12 members (excluding alternate members) of whom 10 are non-executive directors. The remuneration of directors is detailed on page 114. Formal procedures are followed for the appointment of new Board members. New directors is subject to a "fit and proper" evaluation and 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.

CORPORATE GOVERNANCE continued

PROCEEDINGS – 2013

	Aug 2012	Nov 2012	Feb 2013	May 2013
Mr G Marx	✓	✓	✓	✓
Mr G Roberts-Baxter	✓	✓	✓	✓
Mr J Kleynhans	A	✓	✓	A
Mr L Dippenaar	✓	✓	✓	✓
Mr H Aron	A	✓	✓	✓
Mr M Visser (alternate to H Aron)	✓	✓	✓	✓
Mr N Nightingale	✓	✓	✓	✓
Mr P Cooper	✓	✓	✓	✓
Mr PR Pretorius	✓	✓	✓	✓
Mr V Bartlett (resigned 28/05/2013)	✓	✓	✓	✓
Mr W Roos	✓	✓	✓	✓
Ms J Madavo	✓	✓	✓	✓
Mr AW Hedding (appointed 28/05/2013)	–	–	–	✓

A – Apologies noted.

SKILLS AND EXPERTISE

Laurie Dippenaar

Laurie is one of the founders and current chairman of the FirstRand Group which is one of the ten largest companies on the Johannesburg Stock Exchange (JSE). He is the non-executive chairman of OUTsurance and serves as a non-executive director on the Boards of two listed entities, Rand Merchant Bank Holdings (RMBH) and Rand Merchant Insurance Holdings (RMIH).

He is also on the governing bodies of several educational institutions, including the University of Pretoria and Michaelhouse School. He serves on the Executive Committee and Board of Governors of Business Leadership of South Africa, a business organisation representing the 60 largest domestic and multi-national corporations in South Africa. He is the serving chairman of Centre for Development and Enterprise, one of South Africa's best known think tanks.

Laurie holds a Bachelors and Masters' Degree in Accounting from the University of Pretoria and is a qualified chartered accountant.

Willem Roos

In March 1997, Willem joined a project team funded by RMB Holdings to set up a direct short-term insurer. OUTsurance was founded in February 1998, where Willem headed up the Underwriting Department. During May 2001, Willem was appointed Joint Managing Director of OUTsurance. In November 2009, Willem, together with Howard Aron, won the South African leg of the Ernst & Young World Best Entrepreneur Competition.

Willem is a fellow of the Institute of Actuaries and serves on the Board of Directors of the South African Insurance Association (SAIA).

Howard Aron

Howard was one of the founding members who set up and launched OUTsurance in February 1998. Howard has key skills around greenfield business with a focus on technology and processes and was appointed in 2001 as Joint Managing Director. Howard, together with Willem Roos, won the South African Chapter of the Ernst & Young Entrepreneur of the Year in 2009 representing South Africa in Monte Carlo the following year.

He is currently living in Australia where he was part of the team that set up and successfully launched Youi Insurance. Howard now balances his time with business demands in both South Africa and Australia where he is still responsible for the Group's technology.

Neville Nightingale

Neville has spent most of his life in the financial world. He started in the Actuarial Department of Old Mutual. He joined WesBank in 1973 and eventually became CEO in 1992. He went on to become COO of FNB and was part of the EXCO that arranged the merger with RMB to form the FirstRand Group.

He retired some years ago but still retains some business interests and sits on the Boards of Wesbank and OUTsurance.

Judy Madavo

Judy is currently the Executive Head: Human Resources at WesBank and is responsible for people management, strategies, policies and processes. Judy joined WesBank in February 2001 as Director of People and Customer Service. In 2004, she was appointed General Manager – Collection Solutions until 2007. Thereafter she became Executive Head of Operations until 2010 when she was appointed Executive Head of HR and Operations. Prior to joining WesBank, Judy worked in various organisations in the UK in an HR Manager capacity.

Judy has a post-graduate Diploma in People Management, BA (Hons) in Sociology and Social Administration and a Masters in Medical Sociology and Psychology.

Judy serves on other Boards such as Bankmed and CIDA.

Peter Cooper

Peter graduated from the University of Cape Town and after qualifying as a chartered accountant he worked in the financial services sector, first as a tax consultant and later specialising in structured finance with UAL Merchant Bank.

He joined RMB's Special Projects division in 1992 and transferred to RMBH in 1997. He represents RMIH on the Boards of its unlisted investments and is the CEO of RMBH. He has specialist expertise in corporate and structured finance and holds various financial degrees, including a BCom (Hons) and an HDipTax.

Rudolf Pretorius

After qualifying as a chartered accountant in 1985, Rudolf worked for a leading investment banking group in Johannesburg until 2000, after which he co-founded Treacle Private Equity.

In addition to being Chief Executive of Treacle Private Equity, he currently serves as a non-executive director for a number of listed and unlisted companies.

Gregory Roberts-Baxter

Gregory obtained his MSc in Engineering at the University of the Witwatersrand and his MBA from the University of Cape Town. He is currently an Investment Executive at Remgro Limited, and previously held the same position at VenFin Limited.

Prior to joining VenFin, he was Head of Special Initiatives at Standard Bank.

Jan Kleynhans

Jan qualified as a chartered accountant in 1989, and worked in various industries including, educational publishing where he got exposure to general management.

Jan was then appointed as the CEO of FNB's Credit Card division which he managed for six years after which he was appointed to his current position as CEO of the Homeloans division.

Alan Hedding

Alan is a chartered accountant. He spent 28 years at Arthur Andersen Co., the last 14 years of which he was a partner in the Andersen Worldwide Firm. During this time he also spent 18 months as Head of their Audit Practice in Bucharest, Romania.

He joined FNB in 2003 as Chief Financial Officer of their Retail and Africa businesses, and in 2004 when the Retail, Commercial and Corporate businesses were merged, became CFO of FNB.

In 2007, he was appointed Head of Finance for the FirstRand Group, responsible for Group financial reporting. He serves on all the FirstRand brand audit and risk committees and has extensive involvement in Investor Relations, meeting with Financial Analysts, Fund Managers and potential investors.

Alan previously served on the Finance Committee of St Stithians College (2006 – 2013), the last three years of which was Chairman. He also served as a member of St Stithians Council from 2010 – 2013. Alan will be retiring from the FirstRand Group in September 2013.

George Marx

A George, BSc (Econ), FASSA, FIRMSA, started his career in 1975 with Sanlam, working as an actuary in both the Individual and Employee Benefits divisions. In 1988, he was appointed professor to establish insurance and actuarial science at the University of Pretoria. There he pioneered actuarial application in short-term insurance and healthcare for South Africa. He left the academic environment in 2001 and presented the Health Monitor to the market as an industry leading risk management tool for medical schemes and expanded this context for the benefit of employer groups through his research in Thabisa and now operationally through Wellnicity.

He has been involved with a large number of industry and government bodies, including serving on professional actuarial and financial planning committees and was part of the advisory team that developed the Risk Equalisation Fund for the Council for Medical Schemes. George holds directorships in Wellnicity and AVBOB.

He now also serves on the FSB's Treating Customers Fairly (TCF) Steering Committee on behalf of the Actuarial Society.

CORPORATE GOVERNANCE continued

EXECUTIVE COMMITTEE

The executive committee is responsible for implementing the strategies approved by the Board and for managing the affairs of the Group. The committee is chaired by the joint chief executive officer and comprises the chief executive officers of subsidiaries, the chief actuary, chief financial officer, chief risk officer and the heads of Claims, Information Technology, Human Resources and Staff Training and Development. The executive committee oversees and guides the following internal committees:

REPORT OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE

COMPOSITION

The audit, risk and compliance committee is composed of four independent non-executive directors. 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 external auditors meet independently with non-executive members as and when required.

ROLE

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

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

ANNUAL REPORT

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

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

INTERNAL AUDIT

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

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

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

COMBINED ASSURANCE

The Combined Assurance Forum has the objective of overseeing the internal controls assessments performed by internal audit, risk management and external audit. The forum is composed of the audit executive as chairman, chief risk officer, external audit and the chief financial officer. The primary function of the combined assurance forum is to ensure that the effectiveness of all material internal 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 2012, shareholders approved the committee's nomination of PriceWaterhouseCoopers Inc. as the auditor of the Group 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 fees for the 2013 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 as set out in section 90(2) of the Companies Act, which includes the consideration of previous appointments of the auditors, the extent of other work undertaken by the auditors of the Group and compliance with the criteria relating to the independence conflicts of interest as prescribed by the Independent Regulatory Board of 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.

GOING CONCERN

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

PROCEEDINGS – 2013

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

	Aug 2012	Feb 2013	Jun 2013
Mr V Bartlett	✓	✓	✓
Mr N Nightingale	✓	✓	✓
Mr G Marx	✓	✓	✓
Mr AW Hedding[1]	–	–	✓

[1] *Appointed 28 May 2013.*

The committee proceedings are guided by a formal charter. The chairman is an independent, non-executive director.

Neville Nightingale
Chairman

RISK MANAGEMENT

OUTsurance operates in a transforming landscape where adaptability, resilience and an effective system of risk management is a business imperative. Risk management is embedded in our business operations, processes and strategies and is part of our culture.

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.

A documented Group Risk Management Strategy and Framework (GRMS) guide the risk management system and processes including, but not limited to:

- The risk management philosophy;
- The risk management framework and methodology;
- Governance, accountability, responsibility and authority;
- Policies and procedures; and
- Review and monitoring processes.

OUTsurance relies on an effective control environment to manage the significant risks to its operations. It includes but is not limited to the following components:

- Regular review of progress made in terms of the risk management framework by the risk management function, EXCO, the audit, risk & compliance committee, the risk committee and the Board;
- Clearly defined management roles, responsibilities and governance structures;
- Formally delegated limits of authority and mandates;
- Documented and communicated policies and procedures;
- Clear segregation of duties;
- Accounting controls and reconciliations;
- Strong management reporting systems;
- Disciplined budgeting processes;
- Appropriate personnel requirements for key positions;
- Physical and logical security over Company assets;
- Appropriate levels of corporate insurance to transfer risks; and
- Independent reviews of the control environment and control functions by the Internal Audit department.

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.

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

The assurance is provided by the Management Team, the Risk and Compliance department and on the third line by internal and external auditors.

THE RISKS WE FACE

In terms of our risk classification system our risks are broadly categorised into strategic, financial and operational risks.

The main risks are summarised below. Risks are monitored by the Board and other governance structures in line with the Board approved risk appetite.

Reputational risk

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

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

Compliance risk

Regulatory compliance describes the goal to ensure that our staff members are aware of and take reasonable steps to comply with the relevant laws and regulations. To this end, we provide continuous training and awareness programmes throughout the organisation. Our governance processes are pro-active in identifying and acting on legislative changes. There are significant regulatory changes underway in the insurance markets in which the Group operates which will affect the operations of the Group once enacted. These changes are detailed on page 70.

Counterparty default risk

Financial losses due to natural disasters and catastrophic claim volumes as a result of an increase in the frequency of extreme weather events are some of our top risks. As a result our reinsurance agreements are very important. Counterparty default risk refers to the risk of financial loss resulting from the default of a reinsurer where payments are due to us or the default of the issuer of an investment instrument held. We manage this risk by ensuring that we place reinsurance treaties with reputable reinsurers with a prescribed credit rating as well as to diversify our treaties amongst multiple reinsurers in compliance with our Reinsurance Policy.

The credit quality of our investment portfolio is managed in terms of the Board's Investment Mandate which prescribes credit quality thresholds.

Operational risks

This risk refers to the risk of loss caused by the failure or inadequacy of internal processes, people and control systems. This risk is managed with reference to the Group's Operational Risk Management Framework which sets out the procedures to identify, mitigate and report on operational risks. The internal control environment is subject to continuous review by the Internal Audit, Quality Assurance and Risk Management functions.

Fraud risk

Internal and external fraud, collusion with third parties and unauthorised activities will always be a key risk. The activities of our Fraud Risk unit are specifically focused on the prevention and detection of fraud and we collaborate closely with the South African Insurance Crime Bureau in this regard.

Information technology risks

Governing IT

Alignment of the OUTsurance Information Technology (IT) initiatives with our goals and strategic objectives is of paramount importance to the success of the business. To this end, great care is taken to govern IT in such a way that it complements the business strategy. Similarly, IT infrastructure project focus is optimised to concentrate on business value delivery. This maximises system availability and performance through risk-aware decision-making and innovative system improvements.

Metrics aligned with the Board and management's expectations of the IT function are measured and reported on continuously. The state of IT Governance, Risk, Compliance, Information Security and IT project investment is reported on and escalated through the Company's governance structures in a transparent manner.

IT risk and compliance

IT risk management occurs in accordance with the Group Risk Management Strategy and Framework and is overseen by the Board's audit, risk and compliance committee. A noteworthy investment of time and resources has been dedicated to improving the maturity of the IT risk management process. IT risk is routinely identified, analysed, treated, monitored and reported on in line with industry leading practice.

RISK MANAGEMENT (continued)

Compliance risk is identified in line with our industry and business practice-specific obligations. The technology components of these laws, regulations and standards are addressed in multi-disciplinary initiatives between the IT and Compliance departments.

Information Security

Due to the nature of our business, OUTsurance is the custodian of a vast amount of sensitive client and corporate information. Consequently, the security of our information is of paramount importance to enable us to preserve client confidence and business success. The global information threat landscape has evolved rapidly and significant investment has been made to adapt our intensity and focus on information security accordingly.

HOW COOL IS THIS?

"The 702 OUTsurance pointsmen and women have made a significant difference in the lives of Joburg's motorists," said 702 trafficologist, Aki Anastasiou. "Many of these pointsmen and women go beyond the call of duty …"

OUR VALUE ADD

ECONOMIC IMPACT STATEMENT

R'million	2009	2010	2011	2012	2013
Economic value created					
Premium income and reinsurance recoveries	4 072	4 800	5 789	6 693	7 740
Non-claims payments to outside service providers	(263)	(420)	(576)	(720)	(630)
Net investment and other operating income	327	318	300	343	368
Payments relating to profit sharing arrangements	(105)	(106)	(133)	(220)	(201)
Total economic value created	4 031	4 592	5 380	6 096	7 277
Total economic value distributed amongst stakeholders					
Employees					
Salaries and other benefits	529	671	804	942	1 346
Policyholders	2 420	2 781	3 057	3 229	4 078
Claims and policyholder claims and increase in reserves	2 214	2 558	2 787	2 949	3 807
Cash bonuses on insurance contracts	206	223	270	280	271
Government (in the form of taxes)	345	402	541	647	453
Providers of capital	445	438	453	806	1 208
Ordinary dividends paid to shareholders	410	401	393	737	1 170
Earnings attributable to preference shareholders	32	32	51	57	38
Earnings attributable to non-controlling interests	3	5	10	11	–
Reinvested to support future growth	292	300	525	472	192
Retained earnings[1]	256	247	462	400	93
Depreciation and impairments	36	53	63	72	99
Economic value distributed	4 031	4 592	5 380	6 096	7 277
Percentage of economic value distributed					
Employees (%)	13%	15%	15%	15%	18%
Policyholders (%)	60%	61%	57%	53%	56%
Government (%)	9%	9%	10%	11%	6%
Providers of capital (%)	18%	16%	18%	21%	19%
	100%	100%	100%	100%	100%

[1] *Net of deferred taxes.*

SUSTAINABILITY

The sustainability information provided from pages 32 to 41 covers the activities of the OUTsurance Holdings Limited Group entities. Prior year numbers are presented exclusive of Momentum Short-Term Insurance Limited which was disposed of with effect 1 July 2012. The information is presented based on internally determined measurement and reporting methodology. Information provided on the Group's number of policyholders relates to the number of in-force products.

INTERNAL AUDIT ASSURANCE STATEMENT

OUTsurance Holdings Internal Audit performed an agreed upon procedural review of the information outlined on pages 32 to 41 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 2012.
- The Audit report focuses on the sustainability reporting process and not the underlying areas reported on.

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

- Information which required improvement was identified and all suggested changes were corrected.
- Quantifiable material statements were verified against supporting documentation.
- OUTsurance shows continued improvement and refinement on its method of collecting data regarding its stakeholder engagement.

Nothing has come to our attention that suggests that the reported sustainability information has not been prepared correctly for all material quantifiable information.

Marius Bothma
Chief Audit Executive

27 August 2013

what DO our stakeholders get out?

	Who are they?	How do we communicate to them?
Our people	Permanent, temporary staff and contractors	Electronic communications, diversity forums, salary forums, social committees, weekly and monthly meetings, values surveys, wellness initiatives, Company and department functions, awards presentations, disability newsletters and "TalkOUT" forums.
Our clients	Clients, prospective clients, businesses and companies	Telecommunications centre, surveys, electronic media, social media, press releases, policy and contract documentation.
Our suppliers	Member and non-member claims service providers and financial creditors	Road shows, newsletters, electronic communications, telecommunications centre and formal contact departments.
Our community	Deserving institutes that strive to make a valid and lasting impact on the welfare of less privileged communities	Staff Helping SA OUT committee, staff volunteer involvement, electronic communications and face-to-face visits.
Regulators and industry bodies	The South African Insurance Association The Financial Services Board The Department of Trade and Industry The Financial Advisory and Intermediary Services Ombud The Short-Term Insurance Ombud The Long-Term Insurance Ombud The South African Insurance Crime Bureau Namibia Financial Institutions Supervisory Authority Association for Savings & Investment SA The National Treasury Australian Prudential Regulation Authority	Electronic communications, telecommunications, dedicated officers as direct contact for liaison, Board meetings and statutory returns as well as quarterly and monthly meetings.

AWARDS RECEIVED

OUTsurance walked away with the laurels of top Short-term insurer in the business-to-consumer category of the 13th annual Sunday Times Top Brands Awards.

Sunday Times TOPBRANDS

Our people

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

	2013	2012	% change
Total Group workforce	**3 329**	3 154	5,5%
South African ACI[1] ratio	**62,7%**	62,4%	0,6%
South African Female ratio	**45,2%**	44,7%	1,0%
Group disabled staff members	**37**	36	2,8%

[1] *Africans, Coloureds and Indians.*

The average age of our staff in our South African call centre is 31 years. Considering the number of employees on our payroll at the same time last year, it is evident that we have succeeded to improve our productivity as the number of people employed overall in the South African operations remained constant.

Over the years, a lot of focus and effort has gone into our people and creating careers for staff at OUTsurance. On average our existing staff members in South Africa have been in our employment for 39 months. 87% of our people are operational staff members in call centres with an average of 34 months' service. The other 13% of the staff complement consists of employees in support departments and they have on average 69 months' service in our employment.

Our Australian call centre grew almost 30% from 2012 to over 900 employees in 2013. The average employment period of staff in Australia has increased from 17 months in 2012 to 18 months in 2013.

OUR VALUES

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

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

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

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

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

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

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

STAFF HELPING SA OUT

OUTies are generous and we host several charity drives throughout the year and participate in various external projects like Movember and the CANSA Shavathon. Individual donations increased by 13,5% from the previous financial year and totalled R237 210. These funds are matched by the Company and donated to our Staff Helping SA OUT fund. Our winter blanket drive saw 780 blankets handed out to the homeless by our Street Knights from Centurion to Marabastad and the different staff members who participated in these events donated 579 hours of their time to help make our country a better place to live in.

PEOPLE DEVELOPMENT

We believe in developing our people by encouraging them to grow their knowledge and skills. The Group therefore provides study assistance for staff to develop themselves in their relevant fields.

	2013	2012	% change
Study assistance (R'000)	796	412	93,1%
Skills development[1] (out of a possible 15 points)	13,02	10,96	18,8%

[1] The score is out of a possible 15 points per our latest verified B-BBEE scorecard. The figure is externally calculated and confirmed by AQRate (B-BBEE verification agency). Our full B-BBEE certificate can be found on our website.

The funds we provide to our staff members for formal studies almost doubled from the previous financial year to almost R800 000.

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

HEALTH IS WEALTH

OUTlive is an internal campaign that encourages all our staff to live healthier. All activities are linked to a points system and staff can view their progress with the click of a button. This also ensures some healthy competition between our various departments.

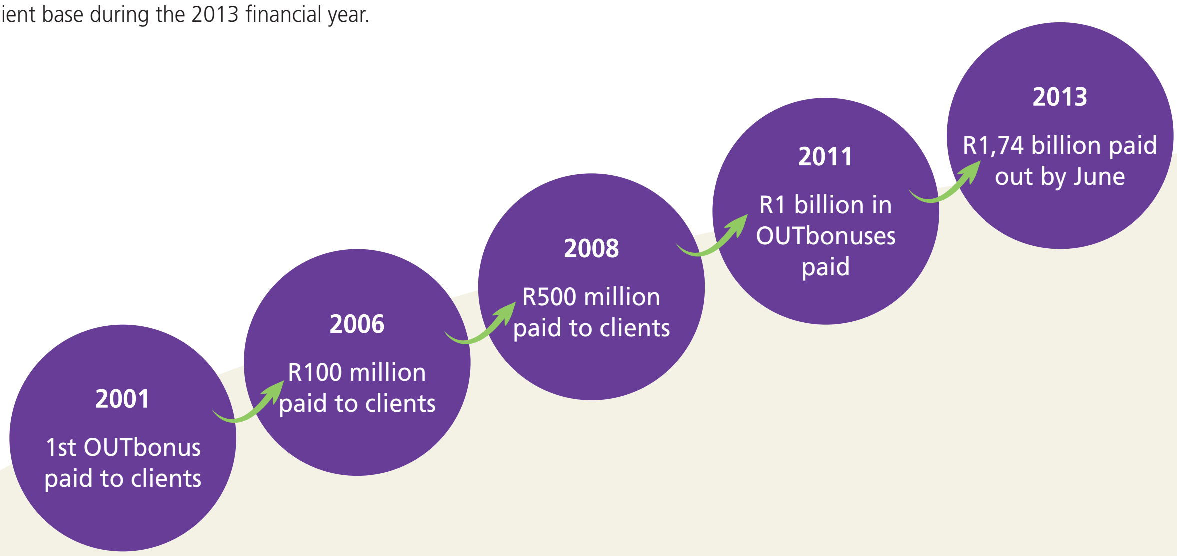
Our campus caters for a variety of sports activities such as action sports and volleyball with regular tournaments being held between the departments. The running track around the perimeter of the campus sees regular activity, be it members of our running club or staff stretching their legs and getting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

Exercise is not the only healthy habit we encourage, other events include donating blood, financial wellness sessions, quit smoking campaigns and making healthy meal choices in our canteen. This year we also opened an on-site medical facility which offers preventative testing and medical examinations. Since the launch of the campaign in February 2013 a total of 55 961 activities have been registered. This is an average of 22 activities per staff member.

Our clients

	2013	2012	% change
Number of live policies (R'000)	1 350	1 141	18,3%
OUTbonus value paid out per annum (R'000)	328 008	292 104	12,3%

The value of awesome service is instilled on all 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 R1,74 billion paid to loyal South African clients in OUTbonus pay-outs to date as well as the 62,3% growth in our Australian client base during the 2013 financial year.



R1,74 billion paid to loyal South African clients in OUTbonus pay-outs

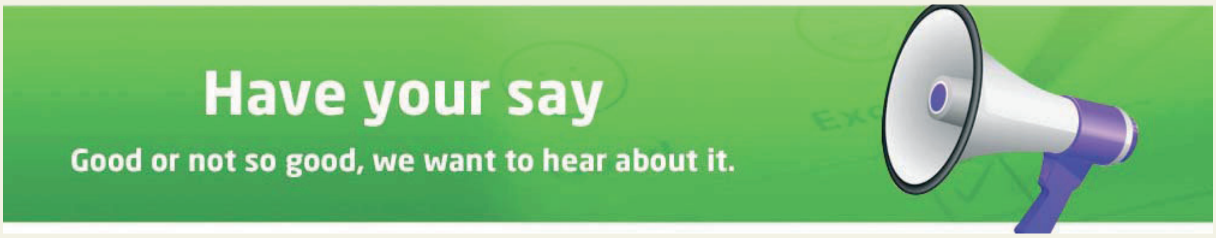
63% growth in our Australian brand's client base from 2012 to 2013

SERVICE FEEDBACK

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

	2013	2012	% change
OUTsurance Customer Satisfaction Index (CSI)	89,1%	89,3%	(0,2%)
Youi Customer Satisfaction Index (CSI)	94,8%	92,9%	2,0%

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



In 2013, both Youi and OUTsurance opened their websites to client feedback. Clients can discuss, share and tell on our **Talk@OUT and Youi walls** on our website. **Good or not so good, we want to hear what you think about us.** The feedback we receive and our response is posted for everyone to see.

87,8%
Compliment ratio.
OUTsurance
wall

86,6%
Compliment ratio.
Youi
wall

The Ombudsman for Short-Term Insurance (OSTI) published industry statistics for 51 insurers in their 2012 annual report. This is an independent body where clients can submit complaints if they feel that they have not been treated fairly or when a client feels that a decision made in respect of a claim was incorrect. The report shows that OUTsurance's clients complained less than the average complaint ratio for the short-term industry. The OSTI also overturned far less of OUTsurance's decisions compared to the average of the industry.

	OUTsurance	Industry
Claims received by insurers (FSB statistics)	284 576	2 686 032
Number of complaints received by OSTI per thousand claims received by insurer	2/1 000	3/1 d 000
Overturn rate	23%	33%

Industry figures are published on the website of the Ombudsman for Short-Term Insurance.

Our clients are saving the world one page at a time. To reduce carbon emissions, our clients are encouraged to choose the email option rather than hard copies. All documentation on your policy is also available on our website for download. Our electronic document ratio (EDR) is 80% if we exclude our welcome packs that include the towing stickers for vehicles.

	2013	2012	% change
Electronic Document Ratio (EDR)	74%	72%	2,8%
EDR excluding "sticker" letters	80%	79%	1,3%

Our service providers

OUTsurance is committed to Broad-Based Black Economic Empowerment (B-BBEE). As a Company we empower black people through, amongst others:

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

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

	2013	2012	% change
Preferential procurement[1] (out of a possible 20 points)	19,08	18,35	4,0%
South Africa service provider CSI ratio	85%	90%	(5,0%)
Australia service provider CSI ratio	83%	80%	4,0%

[1] *The score is out of a possible 20 points per our latest verified B-BBEE scorecard. The figure is externally calculated and confirmed by AQRate (B-BBEE verification agency). Our full B-BBEE certificate can be found on our website.*

The CSI score is calculated by subtracting the percentage negative scores from the positive scores. The CSI figure excludes social media feedbacks.

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

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


OUT SURANCE
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Our community

Leading by example, OUTsurance does not hold back when giving back to the community and caring about our environment. We increased the total number of traffic pointsmen by adding another 10 friendly faces on the busiest corners of our cities.

	2013	2012	% change
Total pointsmen programme spend (R'000)	22 373	20 747	7,8%
Total number of OUTsurance pointsmen	132	122	8,2%

We continuously endeavour to keep our carbon footprint as low as possible. While this is not always possible, various alternatives are considered in any project we take on, from our IT department to our Facilities department.

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

Nightwatchman Enterprise Solutions are used to power off our idle call centre computers outside business hours.

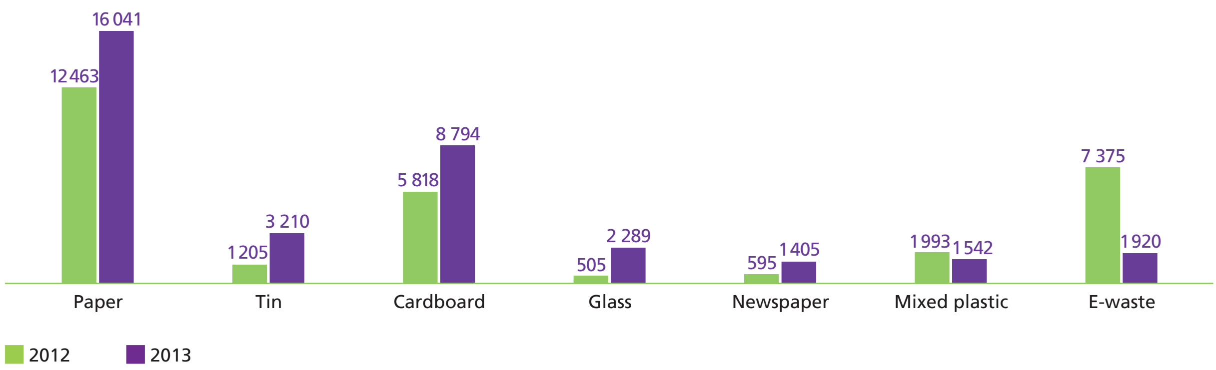
The total carbon emissions calculated for the Group appears below:

Group carbon footprint	2013	2012	% change
Business fleet travel and fuel use	2 177	2 124	2,5%
Refrigerants	99	162	(38,9%)
Electricity (owned buildings)	9 813	6 433	52,5%
Paper Use	3	6	(50%)
Business Air and Road Travel	2 804	2 690	(4,2%)
Total Carbon Emissions per annum (TCO_2e)	14 895	11 415	30,5%
Average Carbon Emissions per staff member	4,5	3,6	25,0%

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

During 2013, we recycled more paper (in kg) than what we bought due to staff also being more conscious about our environment and recycling personal waste. Our recycled paper figure increased year-on-year by more than 28% from 12 tons to 16 tons. We look forward to saving a lot more trees with our innovative strategies in giving our clients the best service, making OUTsurance a great Company to work for and making it easier for our service providers to do fast, reliable and secure online transactions that requires the least amount of paper possible.

Recycled waste (kg):



Our community (continued)

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

Our staff donated more than R237 000 from their salaries, over and above their other equally important donations for projects such as the CANSA Shavathon day where we collected R18 535 and gave a further R28 500 to children and teenagers living in children's homes in our "Christmas Adoption Drive" during the festive season.

	2013	2012	% change
Staffing Helping SA OUT (R'000)	973	1 219	(20,2%)
Employee payroll giving (R'000)	237	209	13,5%

In Australia, Youi selected four worthy projects and set aside $10,000 (R90 000) to use for these causes. The hands-on effort of the staff in these projects far outweighs the monetary contribution. Each project is selected based on whether or not our involvement can be sustained and that the benefit increases with the involvement of our staff by teaching the beneficiaries to be self-sustaining.

Every six weeks the South African National Blood Service brings their mobile units to the OUTsurance campus for staff to conveniently donate blood at work. This campaign is not only supported by regular donors but active recruitment is done. In 2013 137 new donors joined the cause to be a hero and save a life. In a project to help save lives, 80 Youi staff members donated 32 litres of blood.

	2013	2012	% change
Units blood donated	1 059	761	39,2%
New blood donors	137	117	17,1%

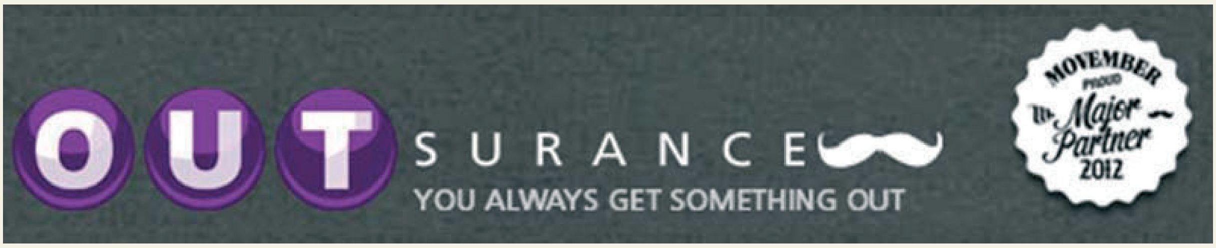
Movember

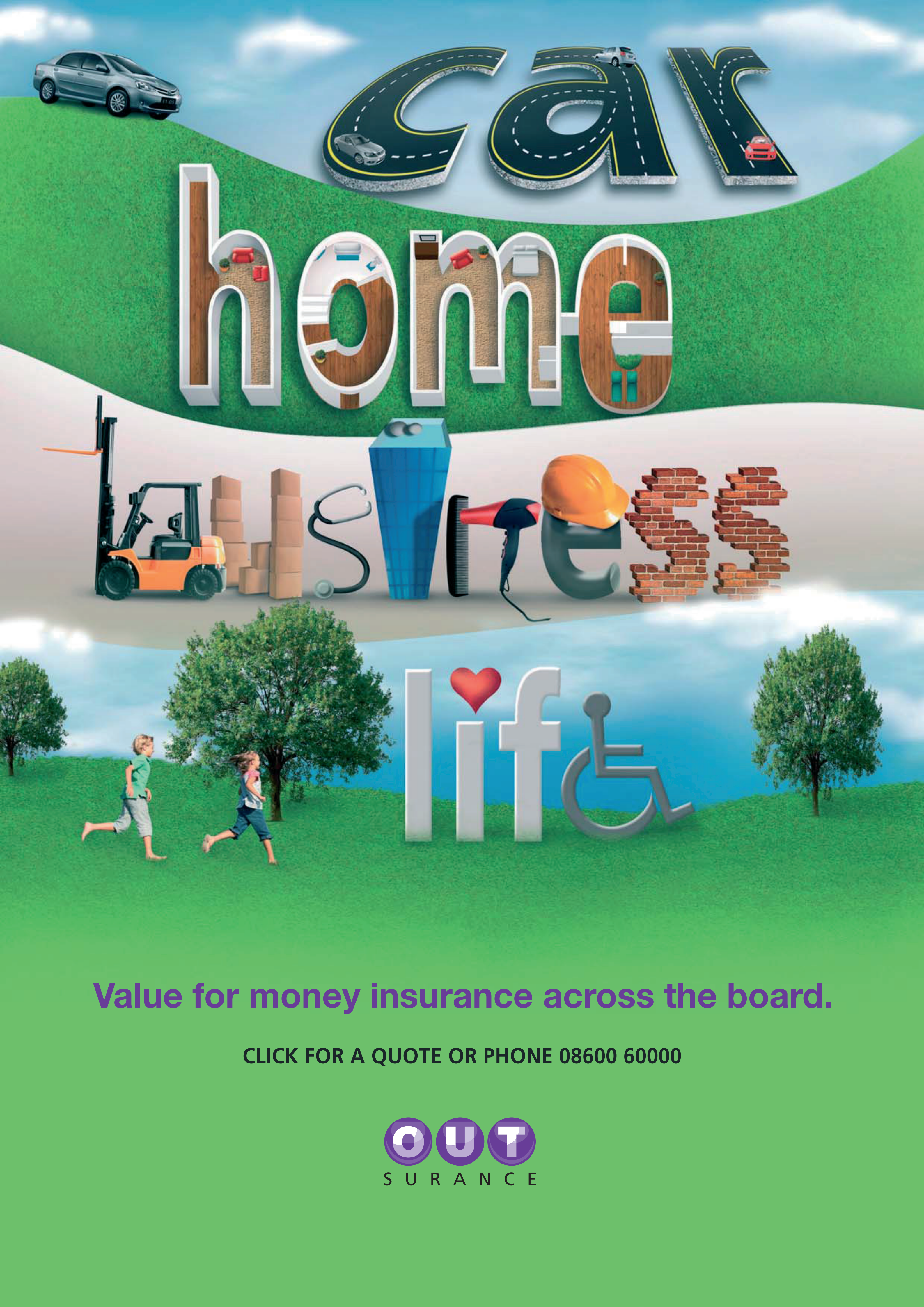
OUTsurance participated as the lead partner for the South African leg of the international Movember movement. Movember aims to improve awareness around men's health issues, specifically prostate and testicular cancer.

	2013
Total Movember contributions	299 742
Client donations (R200 campaign)	154 800
Donation to Mark Pilgrim	40 000
Staff & Other company donations	104 942

South Africa achieved a ninth place on the global leader board. OUTsurance support departments ended 10th on the team leader board with contributions amounting to R47 535! OUTsurance staff, clients and friends donated a total of R104 942 which secured a first place on the network leader board. We also supported the individual winner, Mark Pilgrim by donating R40 000 towards his individual campaign.

OUTsurance also pledged to donate R200 for every life insurance quote requested by the public during November and in doing so bestowed another R154 800 to this worthy cause.

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Value for money insurance across the board.
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OUT
SURANCE

GROUP ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2013

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

STATEMENT OF RESPONSIBILITY BY BOARD OF DIRECTORS

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

It is the responsibility of the Group's independent external auditors to report on the fair presentation of the financial statements. Their unqualified report appears on page 49.

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

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

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

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

The preparation of the financial statements for the year ended 30 June 2013 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 the Companies Act, 71 of 2008.

The consolidated annual financial statements of the Group, which appear on pages 46 to 48 and 50 to 116 and the separate annual financial statements of the Company, which appear on pages 118 to 136, were approved by the Board of directors on 27 August 2013 and are signed on its behalf by:

LL Dippenaar

LL DIPPENAAR
Chairman

Signed: Sandton
Date: 27 August 2013

P Cooper

P COOPER
Non-executive director

Signed: Sandton
Date: 27 August 2013

CERTIFICATE BY THE GROUP COMPANY SECRETARY

for the year ended 30 June 2013

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 2013, the Group and Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

AH WILSON
Company secretary

Signed: Centurion
Date: 27 August 2013

DIRECTORS' REPORT

NATURE OF THE BUSINESS

OUTsurance Holdings is a public company and the holding company of the OUTsurance Holdings group of companies. 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. The Group also provides a cell captive insurance facility to FirstRand Group divisions for specific cell captive needs. Long-term insurance is provided to individuals in the form of credit life policies, credit protection policies and fully underwritten life policies.

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

An organogram of the Group is provided on page 3 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 the operations of its major subsidiaries is provided in the executive review on page 6. The consolidated results are presented in the statement of comprehensive income on page 51. A segmental analysis is provided on page 84.

DIVIDENDS

Ordinary dividend

The following ordinary cash dividends were declared in respect of the 2013 financial year:

	Year ended 30 June	
Cents per share	**2013**	2012
Interim (declared 28 February 2013)	12,00	10,00
Final (declared 27 August 2013)	12,00	12,00
Special	2,5	10,00
	26,50	32,00

The final dividend is payable on 3 October 2013 to shareholders registered on 29 September 2013.

Preference dividend

Dividends on the "A" preference shares are calculated at a rate of 83,3% of the prime lending rate of First National Bank.

The following dividends have been declared and paid:

	Year ended 30 June	
Rand per share	**2013**	2012
Period 1 July 2011 to 31 December 2011		38 329
Period 1 January 2012 to 30 June 2012		42 123
Period November 2012	25 909	
Period December 2012	39 702	
Period May 2013	32 882	
Period June 2013	39 242	

ORDINARY SHARE CAPITAL

Details of the holding company's authorised and issued share capital is provided in note 11 to the financial statements.

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

PREFERENCE SHARE CAPITAL

Details of the holding company's authorised and issued share capital is provided in note 11 to the financial statements.

During the period under review, the Group repurchased NCNR preference shares to the value of R601,5 million from Rand Merchant Insurance Holdings Limited, the Group's parent company. No gain or loss arose from this transaction. The Group has a right to repurchase the remainder of the preference shares before 30 June 2014.

SHAREHOLDER ANALYSIS

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

	2013	2012
Firness International Limited[1]	45,0%	45,0%
RMI Holdings Limited	38,4%	38,4%
OUTsurance Investment Trust	6,5%	6,5%
WT Roos[2]	5,0%	5,0%

[1] *Firness International Limited is a wholly owned subsidiary of RMI Holdings Limited.*
[2] *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	Date resigned
Mr LL Dippenaar (Chairman)	27/01/1998	
Mr H Aron (CEO)	30/04/2001	
Mr WT Roos (CEO)	30/04/2001	
Mr MC Visser (alternate to H Aron)	20/08/2009	
Mr VW Bartlett	13/09/2000	28/05/2013
Mr P Cooper	11/05/2000	
Mr J Kleynhans	14/08/2007	
Mr PR Pretorius	27/01/1998	
Mr NL Nightingale	08/03/1999	
Ms J Madavo	08/11/2004	
Mr G Marx	20/08/2008	
Mr G Roberts-Baxter	26/05/2011	
Mr AW Hedding	28/05/2013	

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)
JH Hofmeyr	(Group CFO)

Please refer to page 20 for the register of Board meeting attendance.

DIRECTORS AND PRESCRIBED OFFICERS' EMOLUMENTS

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

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

The report of the audit, risk and compliance committee appears on page 24.

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 RMI Holdings Limited which has management control over OUTsurance Holdings Limited.

DIRECTORS' INTEREST IN CONTRACTS

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

DISPOSAL OF SUBSIDIARY

The Group completed the disposal of its 50% interest in Momentum STI Limited to MMI Holdings Limited with effect 1 July 2012. The sale resulted in a pre-tax gain of R51,2 million (net after-tax gain of R43 million).

PROPERTY AND EQUIPMENT

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

The construction of an additional building on Erf 1956, Zwartkop Extension 7, Gauteng, was completed on 1 July 2012. This property was included in property and equipment as property under development in the prior year. This property is owner-occupied and depreciation commenced from 1 July 2012.

INSURANCE

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

SUBSIDIARIES AND ASSOCIATES

Interests in subsidiaries and associates are disclosed in notes 6 and 7 of the financial statements.

COMPANY SECRETARY AND REGISTERED ADDRESS

The company secretary is Mr A 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 50 to 136, which comprise the consolidated and separate statements of financial position as at 30 June 2013 and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate 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 Group'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 misstatements, 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 2013, 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 in the manner required by 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 2013, 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 financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly, do not express an opinion on these reports.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: J Goncalves
Registered Auditor

Johannesburg
27 August 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2013

	Notes	**2013 R'000**	2012 R'000
ASSETS			
Property and equipment	5	**459 598**	412 768
Employee benefits	15	**39 685**	47 052
Investment in associates	7	**23 031**	17 916
Financial assets			
Fair value through profit and loss	8	**2 631 452**	2 689 343
Available-for-sale	8	**1 123 711**	1 498 066
Loans and receivables	9	**980 505**	539 597
Reinsurers' share of insurance contract provisions	13	**47 941**	50 786
Deferred acquisition costs	13	**2 952**	4 946
Deferred income tax	10	**371 130**	404 782
Tax receivable		**1 184**	1 318
Assets of disposal group classified as held for sale	6	**–**	211 105
Cash and cash equivalents	11	**1 933 587**	1 356 557
TOTAL ASSETS		**7 614 776**	7 234 236
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	12	**34 403**	34 270
Share premium	12	**309 296**	898 644
Other reserves			
Share based payment reserve	29	**–**	56 336
Foreign currency translation reserve		**187 333**	124 972
Available-for-sale reserve		**45 887**	26 676
Retained earnings		**3 016 499**	2 941 471
Total shareholders' equity		**3 593 418**	4 082 369
Non-controlling interest		**–**	75 295
TOTAL EQUITY		**3 593 418**	4 157 664
LIABILITIES			
Insurance contract liabilities	13	**3 312 254**	2 481 106
Employee benefits	15	**84 723**	77 033
Share based payment liability	29	**45 524**	–
Financial liabilities at fair value through profit and loss	16	**110 425**	115 369
Tax liabilities		**35 548**	7 992
Liabilities of disposal group classified as held for sale	6	**–**	59 104
Financial liabilities at amortised cost			
Insurance and other payables	14	**432 884**	335 968
TOTAL LIABILITIES		**4 021 358**	3 076 572
TOTAL EQUITY AND LIABILITIES		**7 614 776**	7 234 236

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2013

	Notes	**2013 R'000**	2012 R'000
Gross insurance premium written	17	8 288 477	7 032 047
Outward reinsurance premiums		(234 398)	(115 092)
Net premiums written		8 054 079	6 916 955
Change in provision for unearned premiums	13	(500 777)	(317 789)
Earned premiums, net of reinsurance		7 553 302	6 599 166
Other income	18	1 003	–
Investment income	19	306 517	346 738
Net gains/(losses) from fair value adjustments on financial assets	20	519	(10 658)
Income		7 861 341	6 935 246
Claims on insurance contracts net of reinsurance	21	(3 590 635)	(2 842 868)
Gross insurance contract claims incurred		(3 777 662)	(2 936 575)
Reinsurers' share of insurance contract claims		187 027	93 707
Non-claims bonuses on insurance contracts		(271 257)	(280 159)
Acquisition expenses	22	(33 445)	(98 120)
Marketing and administration expenses	23	(2 041 639)	(1 636 993)
Transfer to policyholder liabilities under insurance contracts	13	(29 384)	(11 949)
Fair value adjustment to financial liabilities		(200 758)	(219 651)
Result of operating activities		1 694 223	1 845 506
Finance charges	24	(722)	(1 128)
Equity accounted earnings from associate	7	10 015	7 958
Gain on sale of subsidiary	6	51 220	–
Profit before taxation		1 754 736	1 852 336
Taxation	25	(514 847)	(382 840)
Net profit for the year		1 239 889	1 469 496
Other comprehensive income			
Fair value gains and losses on available-for-sale financial instruments	20	19 211	6 410
Exchange differences on foreign operations		62 361	76 929
Total comprehensive income for the year		1 321 461	1 552 835
Net profit attributable to:			
Ordinary shareholders		1 201 576	1 400 893
Non cumulative non redeemable preference shareholders		38 313	57 133
Equity holders of the Group		1 239 889	1 458 026
Non-controlling interest		–	11 470
Net profit for the year		1 239 889	1 469 496
Total comprehensive income attributable to:			
Ordinary shareholders		1 283 148	1 484 232
Non cumulative non redeemable preference shareholders		38 313	57 133
Equity holders of the Group		1 321 461	1 541 365
Non-controlling interest		–	11 470
Total comprehensive income for the year		1 321 461	1 552 835

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2013

Group	Share capital R'000	Share premium R'000	Available-for-sale reserves R'000	Currency translation reserve R'000
Balance as at 30 June 2011	34 143	93 500	20 266	48 043
Total comprehensive income for the year	–	–	6 410	76 929
Profit attributable to minorities	–	–	–	–
Issue of share capital	127	3 144	–	–
Share based payment	–	–	–	–
Transfer from contingency reserve	–	–	–	–
Preference dividend paid	–	–	–	–
Ordinary dividend paid	–	–	–	–
Balance as at 30 June 2012	34 270	96 644	26 676	124 972
Total comprehensive income for the year	–	–	19 211	62 361
Issue of share capital	133	12 152	–	–
Repurchase of preference shares	–	–	–	–
Share option expense transferred to retained earnings	–	–	–	–
Transfer to share based payment liability	–	–	–	–
Share based payment expense	–	–	–	–
Sale of subsidiary	–	–	–	–
Preference dividend paid	–	–	–	–
Ordinary dividend paid	–	–	–	–
Balance as at 30 June 2013	34 403	108 796	45 887	187 333

Share based payments reserve R'000	Contingency 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
48 007	504 760	1 773 205	2 521 924	802 000	63 825	3 387 749
–	–	1 469 496	1 552 835	–	–	1 552 835
–	–	(11 470)	(11 470)	–	11 470	–
–	–	–	3 271	–	–	3 271
8 329	–	–	8 329	–	–	8 329
–	(504 760)	504 760	–	–	–	–
–	–	(57 133)	(57 133)	–	–	(57 133)
–	–	(737 387)	(737 387)	–	–	(737 387)
56 336	–	2 941 471	3 280 369	802 000	75 295	4 157 664
–	–	1 239 889	1 321 461	–	–	1 321 461
–	–	–	12 285	–	–	12 285
–	–	–	–	(601 500)	–	(601 500)
(38 227)	–	38 227	–	–	–	–
(17 412)	–	4 875	(12 537)	–	–	(12 537)
714	–	435	1 149	–	–	1 149
(1 411)	–	–	(1 411)	–	(75 295)	(76 706)
–	–	(38 313)	(38 313)	–	–	(38 313)
–	–	(1 170 085)	(1 170 085)	–	–	(1 170 085)
–	–	3 016 499	3 392 918	200 500	–	3 593 418

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2013

	Notes	2013 R'000	2012 R'000
OPERATING ACTIVITIES			
Cash generated by operations	30	2 562 567	2 493 332
Finance charges	31	(722)	(1 128)
Taxation paid	32	(425 458)	(663 906)
Ordinary dividends paid		(1 170 085)	(737 387)
Preference dividends paid	33	(244 015)	(234 032)
Cash inflow from operating activities		722 287	856 879
INVESTING ACTIVITIES			
Proceeds from disposal of investment in subsidiary	6	126 515	–
Intellectual property			
Payments		(48 826)	(48 525)
Settlements		11 048	23
Property and equipment acquired to maintain operations		(142 661)	(271 163)
Proceeds on disposal of property and equipment		810	400
Proceeds on disposal of financial assets		4 389 899	1 693 191
Purchase of financial assets		(3 937 923)	(2 635 391)
Cash inflow/(outflow) from investing activities		398 862	(1 261 465)
FINANCING ACTIVITIES			
Repurchase of preference shares		(601 500)	–
Purchase of treasury shares by share scheme participants		30 804	27 630
Loan advanced to share trust		(18 519)	(24 359)
Borrowings repaid		–	(153)
Cash (outflow)/inflow from financing activities		(589 215)	3 118
Effect of exchange rates on cash and cash equivalents		45 096	75 900
Increase/(decrease) in cash and cash equivalents		577 030	(325 568)
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents		1 356 557	1 689 234
Increase/(decrease) in cash and cash equivalents		577 030	(325 568)
Cash and cash equivalents of disposal group held for sale		–	(7 109)
Closing balance of cash and cash equivalents	11	1 933 587	1 356 557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2013

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 and Namibia.

OUTsurance Holdings Limited is an unlisted public company and a subsidiary of RMI Holdings Limited.

The financial statements were authorised for issue by the directors on 27 August 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. There were no changes to the accounting policies during the reporting period and all accounting policies have been consistently applied to all the years presented.

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 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 37.

2.1.1 Amendments to published standards effective in the current year:

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

- IAS 1: *Presentation of Financial Statements* (effective from 1 July 2012) was amended to require that companies group together items within other comprehensive income that may be reclassified to profit or loss. The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. The impact on the revised disclosure was not significant.
- IAS 12: *Income Taxes* (effective from 1 January 2012) was amended to introduce a rebuttable presumption that an investment property will be recovered in its entirety through sale. As a result of the amendments, SIC 21 *Income Taxes: Recovery of Revalued Non-depreciable Assets* would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. The amendment does not have an impact on the Group as the Group has no investment property carried at fair value.

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 1: *First-time Adoption of International Financial Reporting Standards* (effective from 1 January 2013) was amended to provide guidance on how entities would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also provides an exception to the retrospective application of IFRS, which provides first time adopters with the same relief as was granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. The amendment does not have an impact on the Group as the Group has already adopted IFRS.
- IFRS 7 (amended) *Financial instruments: Disclosures* (Annual period commencing on or after 1 January 2013) and IAS 32 (amended) *Financial Instruments: Presentation* (Annual period commencing on or after 1 January 2014) – The amendments to IFRS 7 requires additional disclosure of gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed and the related net credit exposure to enable investors to understand the extent to which an entity has set off in its statement of financial position and the effects of rights of set-off on the entity's rights and obligations. This amendment will result in additional disclosures in the annual financial statements and will not affect recognition and measurement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

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

- IFRS 9: *Financial Instruments* (The Standard has a mandatory effective date for all annual periods beginning on or after 1 January 2015, but earlier adoption is permitted) – The IFRS is the first phase in the IASB's three-part project to replace the current IAS 39: *Financial Instruments: Recognition and Measurement*. At this point in time the IFRS only deals with the classification and measurement of financial assets and includes guidance on financial liabilities and derecognition of financial instruments. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The accounting and presentation for financial liabilities and for derecognising a financial instrument has been relocated from IAS 39: *Financial Instruments: Recognition and Measurement* without change, except for financial liabilities that are designated at fair value through profit or loss. IFRS 9 is partially complete with impairment measurement on amortised cost designated assets and hedging considerations still to be finalised. The standard is not expected to result in material reclassifications for the Group.
- IFRS 10: *Consolidated Financial Statements* (The Standard has a mandatory effective date for all annual periods beginning on or after 1 January 2013, but earlier adoption is permitted) – this standard replaces the consolidation requirements in SIC 12: *Consolidation – Special Purpose Entities* and IAS 27: *Consolidated and Separate Financial Statements*. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that the Group consolidates as its subsidiaries.
- IFRS 11: *Joint Arrangements* (The Standard has a mandatory effective date for all annual periods beginning on or after 1 January 2013, but earlier adoption is permitted) – this standard provides for a more realistic reflection of joint arrangements by focusing more on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. There is no impact on the Group as the Group has no joint ventures.
- IFRS 12: *Disclosures of Interest in Other Entities* (The Standard has a mandatory effective date for all annual periods beginning on or after 1 January 2013, but earlier adoption is permitted) – this standard includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The impact on the revised disclosure is not expected to be significant on the Group.
- IFRS 13: *Fair Value Measurement* (The Standard has a mandatory effective date for all annual periods beginning on or after 1 January 2013, but earlier adoption is permitted) – this standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs' or US GAAP. The new standard is not expected to impact the Group's results significantly.
- IAS 27: *Separate Financial Statements* (revised 2011) (The Standard has a mandatory effective date for all annual periods beginning on or after 1 January 2013) – this standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The standard is not expected to have a significant impact on the Group.
- IAS 28: *Associates and joint ventures* (revised 2011) (The Standard has a mandatory effective date for all annual periods beginning on or after 1 January 2013) – this standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The standard is not expected to have a significant impact on the Group.

Annual Improvements Project:
The IASB has issued its 2011 annual improvement project. The annual improvement project's aim is to clarify and improve the accounting standards. The improvements include clarifications or removal of unintended inconsistencies between IFRSs. These improvements are effective for annual periods commencing on or after 1 January 2013 but early application is permitted, and must be applied retrospectively. There are no significant changes in the improvement projects that are expected to affect the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

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

- IAS 19: *Employee Benefits* (revised June 2011) (effective for all annual periods beginning on or after 1 January 2013) was amended to eliminate the corridor approach and recognise all gains and losses in other comprehensive income as they occur. Further amendments included recognising all past service costs immediately, replacing interest cost and expected return on plan assets with a net interest amount calculated by applying the discount rate to the net defined benefit liability (asset). The amendment does not have an impact on the Group as the Group has no defined benefit plans.
- IFRIC 20: *Stripping costs in the production phase of a surface mine* (annual periods commencing on or after 1 January 2013) – The interpretation clarifies that there can be two benefits accruing to an entity from stripping activity (removal of mine waste materials ("overburden") to gain access to mineral ore deposits) – usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods; and considers when and how to account separately for these two benefits as well as how to measure these benefits both initially and subsequently.

2.1.4 Other potential accounting developments

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

- Insurance contracts
- Revenue recognition on contracts with customers
- Leases

Both the insurance contracts and leases exposure drafts have been re-exposed in the first half of 2013. As these documents are still in exposure draft phase, there is still insufficient clarity to be able to report on the implications of the proposed standards.

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 special purpose entities ("SPE") controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. 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 consolidates an SPE when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

Gains and losses on disposal of subsidiaries are included in the statement of comprehensive income as investment gains and losses. 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.

The Group applies the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration transferred is measured at fair value of the assets transferred, equity instruments issued and liabilities incurred or 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, in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

2.2.2 Transactions eliminated on consolidation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidated financial statements (continued)

2.2.3 Non-controlling interest

Non-controlling interest can be measured at either:

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

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.

2.2.4 Associates

Associates are entities over which the Group has significant influence but not control over the financial and operational policies. Significant influence is determined based primarily on percentage voting rights (generally between 20% and 50%); together with other factors such as Board participation and participation in the policy-making process.

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

The Group's share of its associates' earnings is recognised in the statement of comprehensive income and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The Group discontinues equity accounting when the carrying amount of the investment in an associate or joint venture 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 risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable, that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

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

2. 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

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. 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.

Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders. Premiums ceded and claims reimbursed are presented in the statement of comprehensive income and statement of financial positions 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 in the amount of the expected recovery that will be made once the outstanding claim is finalised.

Deferred acquisition costs

Acquisition costs comprise all costs paid to third parties or intermediaries relating to the conclusion of insurance contracts and these are expensed as and when incurred. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds with the unearned premium provision. Deferred acquisition costs are therefore recognised using the same methodologies applied to unearned premiums so as to achieve matching of deferred acquisition costs and unearned premiums to which these acquisition costs relate. Deferred acquisition costs comprise commission paid for the acquisition of broker sourced business.

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. The estimate includes an amount of the direct claims expenses and assessment charges arising from the settlement of claims; 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 as well as claim handling and assessing costs. Estimates are adjusted for management's expectations of trends relating to the development of such claims.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Recognition and measurement of insurance contracts (continued)

2.4.1 Short-term insurance (continued)

Liabilities adequacy test for unexpired risk liabilities

At the end of the reporting period, the adequacy of the unearned premium liabilities, net of reinsurance, 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.

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.

Cash 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.

Contingency reserve

A reserve in equity is made for the full amount of the contingency reserve as required by the regulatory authorities in South Africa. Transfers to and from this reserve are treated as appropriations of retained income.

As of 1 January 2012, the contingency reserve was no longer required by the regulatory authorities in terms of the Solvency Assessment Management interim measures. As a result of this, the total balance of the reserve as at 1 January 2012 was transferred to retained income.

2.4.2 Long-term insurance

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

Policyholder liabilities

The actuarial value of policyholder liabilities is determined 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"). Where applicable, the SAP is referred to in the accounting policies and notes to the annual financial statements.

Provision is made in policyholder liabilities for the estimated cost at the end of the year for claims incurred but not reported ("IBNR") at that date. IBNR is calculated using run-off triangle techniques. Where sufficient history is not available, best estimates of expected claims are used.

Refer to note 13 for the calculation basis and the specific assumptions used to calculate the Policyholder Liabilities.

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 before the deduction of commission.

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

Reinsurance

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Recognition and measurement of insurance contracts (continued)

2.4.2 Long-term insurance (continued)

Insurance contract claims incurred

Claims on long-term insurance contracts, which include death, disability, critical illness and retrenchment payments are charged to the statement of comprehensive income when notified of a claim based on the estimated liability for compensation owed to policyholders. 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 for the estimated cost at the end of the year for claims incurred but not reported ("IBNR") 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.

2.5 Accounting for cell captive arrangements

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 respective dividend in the statement of comprehensive income is reflected as a fair value adjustment to the financial liability.

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

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

2.6 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.

2.7 Foreign currency

2.7.1 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.

2.7.2 Transactions and balances

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency (continued)

2.7.3 Group companies

The results and financial position of the Group entities are translated into South African Rand as follows:

- assets and liabilities for each reporting date presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at the average exchange rate for the year;
- all resulting exchange differences are recognised as a separate component of other comprehensive income (foreign currency translation reserve); and
- cash flow items are translated at the closing rate at the date of the statement of financial position.

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.

2.8 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 legal or constructive 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.

2.9 Property and equipment

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

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

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

Depreciation

The Group applies the following write-off periods for the various classes of property and equipment:

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.

Properties under development

Properties under development are owner-occupied properties not yet available for own use. Properties under development are carried at cost less any required impairment. This asset is impaired if the recoverable amount is less than the cost. The asset is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Once development is complete, the properties are transferred to owner-occupied properties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment review – Non-financial assets

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

Refer to 2.11.8 for the impairment policy relating to financial assets.

2.11 Financial instruments

2.11.1 General

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

The Group classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

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

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

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

The fair values of financial assets quoted in active markets are based on current bid 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial instruments (continued)

2.11.2 Financial instruments at fair value through profit and loss

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

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

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

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

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

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

2.11.3 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 comprehensive income as gains and losses from investment securities.

2.11.4 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 method.

Trade and other receivables originated by the Group are recognised at fair value and subsequently carried at anticipated realisable value. 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.

2.11.5 Financial liabilities at amortised cost

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

2.11.6 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 legally enforceable right to offset the two amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial instruments (continued)

2.11.7 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 rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset.

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Group recognises any income on the transferred asset and any expense incurred on the financial liability.

Where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset. In this case:

- » If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- » If the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial 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.

2.11.8 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 comprehensive income.

Available-for-sale financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 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.

2.13 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 gain or loss on the re-issue or cancellation of these shares is recognised directly in shareholder's equity.

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

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.

2.14 Income tax

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Employee benefits

Short-term employee benefits

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

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

Post-employment benefits

The Group's employees contribute to the OUTsurance Insurance Company defined contribution pension and provident funds. The pension plans are funded by payments from employees taking into account the recommendations of independent qualified actuaries. The amount paid in respect of defined contribution pension and provident fund plans during the year is charged to the statement of comprehensive income and is included in employment cost. The Group has no further payment obligations once contributions have been made.

Intellectual property bonuses

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

2.16 Share-based payments

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

Equity-settled share-based payment transactions

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

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

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

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

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

Cash-settled share-based payment transactions

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Share Trust

The OUTsurance Holdings share incentive scheme is operated through a share trust. The Share Trust is considered to be a special purpose entity ("SPE") 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.

2.18 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.

2.19 Leases

Leases in which the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge so as to achieve a constant rate of interest on the finance balance outstanding. The corresponding finance costs are charged to the statement of comprehensive income over the lease period. The asset acquired under a finance lease is depreciated over the shorter of the useful life of the asset or the lease term.

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

2.20 Revenue and investment income recognition

Interest

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

Dividends

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

Commission and insurance related fee income

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

2.21 Onerous contracts

The Group recognises a provision for an onerous contract when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Non-current assets and disposal groups held for sale

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

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

2.23 Government grants

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

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

3. MANAGEMENT OF RISK AND CAPITAL

3.1 Risk management framework

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

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

3.1.1 Changing regulatory and business landscape

There have been a number of changes in the Group's regulatory and compliance business landscape during the current financial year. These changes form part of larger 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 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 FSB is currently intending to implement both the standard formula and internal model approaches under the SAM regime by January 2016 for both long-term and short-term insurers, with all insurers required to do a parallel run on the standard formula in 2014 and 2015.

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

A new Insurance Act is being developed concurrently with the SAM programme which will combine the current Short-term and Long-term Insurance Acts into one act. The FSB will undertake further public consultation in respect of the existing draft bill in 2014 and will table this in Parliament in 2015.

The Insurance Laws Amendment Bill ("ILAB") will bring into effect the SAM governance, risk management, internal controls and insurance groups interim measures due for implementation in the first quarter of 2014.

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 Solvency Assessment and Management ("SAM")

The purpose of the ILAB is to address gaps in the insurance regulatory framework and enhance the powers of the Registrar, including providing for enhanced governance, risk management and internal control requirements for insurers as well as introducing insurance group regulatory requirements.

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

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

3.1.1.2 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 joint International Accounting Standards Board ("IASB") and United States' Financial Accounting Standards Board ("FASB") project on the accounting for insurance contracts. Although various decisions on principles regarding measurement have been tentatively agreed by the IASB and FASB, there is still significant debate and uncertainty around the classification of insurance contracts, the methodologies used to value them and transition arrangements on adoption of the IFRS. The IASB published a revised exposure draft on insurance contracts in June 2013. The earliest estimate of an implementation date is for years commencing 1 January 2018.

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.

3.1.1.3 Treating Customers Fairly ("TCF")

The FSB published their TCF discussion document in May 2010. The proposed TCF regulatory framework will create a more meaningful focus on customer outcomes at all levels of decision-making within financial institutions, and at all stages of the product life cycle. The FSB published 'TCF: The Roadmap' at the end of March 2011, where it outlined the steps it will take to implement the TCF approach in South Africa. The Group participated in the FSB's self-assessment pilot exercise in July 2011 as well as the baseline study conducted in February 2013. Most of the Group's business operations will be impacted by the TCF regulatory framework but we are satisfied that our business practices are aligned with the TCF principles.

3.1.1.4 Conversion of secondary taxation of companies ("STC") to dividend withholding taxation

Dividends Tax replaced STC on 1 April 2012 and is applicable to any dividend declared on or after 1 April 2012. If a dividend was declared before 1 April 2012 it will still be subject to STC. The main difference between Dividends Tax and STC is that the liability for paying the tax is moved from the company declaring the dividend (STC) to the shareholder receiving the dividend (Dividends Tax). South African resident companies are exempt from Dividends Tax. The general principle is that Dividends Tax is payable when a dividend is paid to the beneficial owner and must be withheld by the company distributing the dividend or certain withholding agents involved in the dividend distribution chain.

The conversion imposes additional administrative obligations on the Group and processes are in place to update shareholder information as well as business and system requirements.

3.1.1.5 Long-term tax legislation

The tax landscape for South African long-term insurance companies is in the midst of potential changes. National Treasury has commenced with tax policy research projects, which include investigations into the taxation of long-term insurers. To date there is insufficient clarity around certain decisions to be able to understand and provide guidance on the specific implications of the new legislation.

3.1.1.6 The Financial Services Laws General Amendment Bill ("FSLGAB")

The Bill aims to amend eleven financial sector laws to address legislative gaps highlighted after the 2008 financial crisis and to align these laws with the Companies Act, 2008. The Acts to be amended include the following that are relevant to us: Financial Services Board Act; Inspection of Financial Institutions Act; Short-term and Long-term Insurance Acts; Pension Funds Act; Financial Advisory and Intermediary Services Act.

The primary objective is to ensure that even during the transition to the twin peaks system, South Africa has a more sound and better regulated financial service industry which promotes financial stability by:

- strengthening the financial sector regulatory framework;
- enhancing the supervisory powers of the regulators; and
- enhancing the powers of the Minister of Finance and South African Reserve Bank to address potential risks to the financial system.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.1 Risk management framework (continued)

3.1.1 Changing regulatory and business landscape (continued)

3.1.1.6 The Financial Services Laws General Amendment Bill ("FSLGAB")

The Bill also facilitates the carving out of the financial sector from the ambit of the Consumer Protection Act ("CPA") in light of the fact that higher standards of consumer protection are being implemented in terms of financial sector legislation. The FSLGAB was tabled in Parliament on 25 September 2012 and is expected to be promulgated in 2013.

3.1.1.7 Outsourcing – FSB Directive 159 A.1

The purpose of Directive 159 A.1 on Outsourcing which was issued on 12 April 2012 is to set out the requirements with which long-term and short-term insurers have to comply if they outsource an aspect of their business. The rationale is that "outsourcing can materially increase risk to insurers or materially adversely affect their ability to manage risks and meet regulatory obligations."

Outsourcing refers to an arrangement of any form between an insurer and another person, in terms of which that person performs a function or an activity, whether directly or by sub-outsourcing, which would otherwise be performed by the insurer itself. The functions mentioned above include control, management and material functions. The latter is described as any function that has the potential to have a significant impact on the insurer's business operations or its ability to manage risks if it is disrupted.

Outsourcing arrangements exist between companies within the Group and all the required outsourcing policies and agreements are in place.

3.1.1.8 Protection of Personal Information ("PPI") Bill

The PPI Bill aims to regulate the processing and use of personal information, protecting persons both natural and juristic from the abuse of personal information and providing rights and remedies to victims of unlawful processing. It is expected to be enacted in 2013.

3.1.1.9 Life and General Insurance Capital Review ("LAGIC")

The Australian Prudential Regulation Authority ("APRA") implemented a revised capital framework for insurers effective from 1 January 2013 as part of its life and general insurance capital review ("LAGIC"). Like recent and current regulatory reforms by other regulators across the world, the LAGIC aims to move towards greater risk-sensitivity and to increase alignment of capital requirements across sectors.

The LAGIC also introduced the three pillar concept, being:

- Pillar 1 – quantitative requirements in relation to required capital, eligible capital and liability valuations;
- Pillar 2 – the supervisory review process which may include a supervisory adjustment to capital; and
- Pillar 3 – disclosure requirements designed to encourage market discipline.

The Individual Capital Adequacy Assessment Process ("ICAAP") was also introduced, which formalised the requirements around insurers' processes to assess their capital needs and manage their capital levels.

Youi Pty Ltd has complied with the requirements of the new capital framework and reported its capital position at 30 June 2013 in accordance with the new requirements.

3.2 Insurance risk management

3.2.1 Short-term insurance

3.2.1.1 Terms and conditions of insurance contracts

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

Types of insurance contracts written	Personal lines	Commercial	Cell captive
Personal accident	<1%	<1%	–
Liability	3,9%	7,1%	–
Miscellaneous	<1%	–	49,4%
Motor	71,9%	64,6%	–
Property	24,1%	26,2%	–
Transportation	<1%	1,9%	–
Guarantee	–	–	50,6%

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 Insurance risk management (continued)

3.2.1 Short-term insurance (continued)

3.2.1.1 Terms and conditions of insurance contracts (continued)

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

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

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.

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.

3.2 Insurance risk management (continued)

3.2.1 Short-term insurance (continued)

3.2.1.2 Insurance risks (continued)

Underwriting strategy

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 rewards clients for not claiming also form part of the Group's underwriting strategy.

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

Reinsurance strategy

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

Concentrations of risk and mitigating policies

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

The South African operation is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 50.96% 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 22.5% of the total sum insured is domiciled. In order to manage this concentration of insurance risk, the Group has entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the Group to pre-determined levels following the occurrence of a localised catastrophe in this area.

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.

Cell captives

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

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

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

3. 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)

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.

3.2.2 Long-term insurance

3.2.2.1 Terms and conditions of insurance contracts

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

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

The following gives a brief explanation of each product:

Life Insurance

The Life Insurance product covers the following insurance risks:

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

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

Essential Life

The Essential Life product covers the following insurance risks:

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

In the event of a valid death or disability (physical impairment) claim, OUTsurance Life pays the sum assured as a once-off lump sum. In the event of a valid critical illness claim, OUTsurance Life pays a specified percentage of the sum assured as a once-off lump sum. The product also contains a funeral advance of the death cover for the policyholder as well as funeral cover for the policyholder's spouse and covered dependents which consists of a once-off lump sum payment of a specified percentage of the sum assured.

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.

Credit Life

The Credit Life product covers the following insurance risks:

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

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

3.2.2.2 Insurance risks

The primary activity of OUTsurance Life relates to the assumption of loss arising from risks to which it is exposed through the sale of long-term insurance products. It is exposed to uncertainty regarding 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, 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 13.6 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; and
- 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.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 Insurance risk management (continued)

3.2.2 Long-term insurance (continued)

3.2.2.2 Insurance risks (continued)

- Underwriting
  Underwriting ensures that only insurable risks are accepted and that premiums accurately reflect the unique circumstances of each risk. The Group has developed an advanced medical underwriting system which captures detailed information regarding the clients' medical history and condition which is used for premium adjustments and to indicate where further underwriting is required by experienced medical underwriters. To verify the accuracy of client data, all new clients are subject to various medical tests. Quality audits are performed on the underwriting process to ensure underwriting rules are strictly followed.
- Reinsurance
  OUTsurance Life's quota share and excess of loss reinsurance programme mitigates claims volatility and risk accumulation. Reinsurers also assist with pricing and product design decisions.
- Experience monitoring

Experience investigations are conducted and corrective action is taken where adverse experience is noted.

Lapse risk

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

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

Modelling and data risk

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

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

Data risk is managed by using internal systems and warehouse technology which is used by all companies within the Group. Data reports are readily available and frequently used 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.

Tax risk

Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of interpretation or application of tax legislation or as a result of changes in the tax legislation. External tax advice is obtained where necessary.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3 Financial risk management

3.3.1 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 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.

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
30 June 2013				
Financial assets				
Equity securities				
Listed preference shares	545 168	–	–	545 168
Listed ordinary shares	130 394	–	–	130 394
Debt securities				
Unlisted preference shares	–	448 149	–	448 149
Collective investment scheme	–	540 342	–	540 342
Government, municipal and public utility securities	–	155 518	–	155 518
Money market securities <1 year	–	1 168 192	–	1 168 192
Money market securities >1 year	–	767 400	–	767 400
	675 562	3 079 601	–	3 755 163
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	–	–	110 425	110 425
	–	–	110 425	110 425
30 June 2012				
Financial assets				
Equity securities				
Listed preference shares	534 083	–	–	534 083
Listed ordinary shares	107 464	–	–	107 464
Debt securities				
Unlisted preference shares	–	856 519	–	856 519
Collective investment scheme	–	540 342	–	540 342
Government, municipal and public utility securities	–	118 629	–	118 629
Money market securities <1 year	–	1 674 975	–	1 674 975
Money market securities >1 year	–	355 397	–	355 397
	641 547	3 545 862	–	4 187 409
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	–	–	115 369	115 369
	–	–	115 369	115 369

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 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 70% of the prime overdraft rate. To mitigate credit risk, the unlisted preference share investments are secured by put options to the major South African banks. 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 and MMI Holdings Limited Groups. Refer to note 33 for a reconciliation of these amounts.

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

This is the risk that the price of an equity instrument will fluctuate due to market forces rather than as a direct result of some other market risk such as currency or interest rate risk. Equity price risk is the risk inherent in equity investments that cannot be removed by diversification.

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.

	2013 R'000	2012 R'000
Listed preference shares	**545 168**	534 083
Collective investment schemes	**540 342**	540 342
Listed ordinary shares	**130 394**	107 464
Unlisted preference shares	**448 149**	856 519
	1 664 053	2 038 408

The largest concentration of assets in one particular company comprises 13.18% (2012: 13.71%) of the total assets of the Group. 16.96% (2012:16.24%) of the listed asset portfolio of the Group is concentrated in one counterparty.

A hypothetical 10% decline or increase in the portfolio would decrease/increase comprehensive income before taxation by R166.4 million (2012: R203.8 million) for the Group.

The Group's internal investment committee actively monitors equity assets owned by the Group as well as the concentration of these holdings. The above mentioned concentrations were within acceptable limits for the financial year under review.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3 Financial risk management (continued)

3.3.2 Market risk (continued)

Interest rate risk

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

An increase or decrease of 1% in the market interest rate would result in the following changes in the profit before tax of the Group:

	2013 1% increase R'000	**2013 1% decrease R'000**	2012 1% increase R'000	2012 1% decrease R'000
Cash and cash equivalents	**19 336**	**(19 336)**	13 566	(13 566)
Unlisted preference shares	**4 481**	**(4 481)**	8 565	(8 565)
Government, municipal and public utility securities	**1 555**	**(1 555)**	1 186	(1 186)
Money market securities <1 year	**11 682**	**(11 682)**	16 750	(16 750)
Money market securities >1 year	**7 674**	**(7 674)**	3 554	(3 554)
	44 728	**(44 728)**	43 621	(43 621)

Currency risk

Currency risk is the risk that the value of a financial instrument denominated in a currency other than the reporting currency may fluctuate due to changes in the foreign currency exchange rate between the reporting currency and the currency in which such instrument is denominated.

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. The Group does not take cover on foreign currency transactions and balances.

The table below illustrates the Group's exposure to the Australian dollar:

	R'000
Assets	2 839 161
Liabilities	(2 010 170)
Equity	(828 991)

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

A hypothetical appreciation in the Rand of 10% against the Australian Dollar would have resulted in a 0.42% lower comprehensive income after tax for the Group and a 10% depreciation in the exchange rate would have resulted in a 0.14% increase in the comprehensive income for the Group.

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
30 June 2013							
Cash and cash equivalents	–	1 757 598	–	175 989	–	–	1 933 587
Government, municipal and public utility securities	–	301	61 717	90 466	3 034	–	155 518
Money market securities <1 year	5 056	–	22 694	997 214	132 101	11 127	1 168 192
Money market securities >1 year	49 423	54 401	82 421	462 449	118 706	–	767 400
Listed preference shares	–	57 070	4 731	357 428	5 981	119 958	545 168
Unlisted preference shares	–	–	–	448 149	–	–	448 149
Listed ordinary shares	–	–	–	–	–	130 394	130 394
Collective investment scheme	–	127 899	–	350 790	61 653	–	540 342
Reinsurers' share of insurance contract provisions	–	47 216	725	–	–	–	47 941
Tax receivable	–	–	–	–	–	1 184	1 184
Loans and receivables	–	23 982	56 667	1 612	20	898 224	980 505
Total	54 479	2 068 467	228 955	2 884 097	321 495	1 160 887	6 718 380
30 June 2012							
Cash and cash equivalents	–	1 351 471	5 086	–	–	–	1 356 557
Government, municipal and public utility securities	92 406	7 008	–	–	–	19 215	118 629
Money market securities <1 year	517	1 319 508	354 950	–	–	–	1 674 975
Money market securities >1 year	25 191	172 739	140 405	17 062	–	–	355 397
Listed preference shares	–	427 683	73 067	392	28 195	4 746	534 083
Unlisted preference shares	–	607 019	243 500	–	–	6 000	856 519
Listed ordinary shares	–	–	–	–	–	107 464	107 464
Collective investment scheme	–	482 796	57 546	–	–	–	540 342
Reinsurers' share of insurance contract provisions	–	29 623	21 163	–	–	–	50 786
Tax receivable	–	–	–	–	–	1 318	1 318
Loans and receivables	6	9 658	532	–	–	529 401	539 597
Total	118 120	4 407 505	896 249	17 454	28 195	668 144	6 135 667

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.3 Financial risk management (continued)

3.3.3 Credit risk (continued)

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

Long-term ratings

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

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

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

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

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

Short-term ratings

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

F2 Good intrinsic capacity for timely payment of financial commitments.

Reinsurance credit exposures

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

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 may encounter difficulty in raising funds to meet commitments associated with financial instruments. To mitigate this risk, the Group maintains prudent levels of liquid assets. The undiscounted liquidity profiles of the Group's assets and liabilities, grouped by expected maturity, are outlined below:

	0 – 6 months R'000	7 – 12 months R'000	13 – 60 months R'000	> 60 months R'000	No liquidity risk R'000	Total R'000
30 June 2013						
Assets						
Property and equipment	127 982	–	331 616	–	–	459 598
Employee benefits	–	–	–	–	39 685	39 685
Investment in associates	–	–	–	23 031	–	23 031
Financial assets						
Fair value through profit and loss	884 960	875 878	817 138	53 476	–	2 631 452
Available-for-sale	145 000	155 000	823 711	–	–	1 123 711
Loans and receivables	527 589	180 184	77 750	194 982	–	980 505
Reinsurers' share of insurance contract provisions	30 583	3 900	13 458	–	–	47 941
Deferred acquisition costs	2 441	511	–	–	–	2 952
Deferred income tax	–	–	–	–	371 130	371 130
Tax receivable	1 184	–	–	–	–	1 184
Assets of disposal group classified as held for sale	–	–	–	–	–	
Cash and cash equivalents	1 933 587	–	–	–	–	1 933 587
Total assets	3 653 326	1 215 473	2 063 673	271 489	410 815	7 614 776
Liabilities						
Insurance contract liabilities	2 672 523	271 925	367 806	–	–	3 312 254
Employee benefits	25 819	20 485	4 035	34 384	–	84 723
Share based payment liability	1 020	–	44 504	–	–	45 524
Financial liabilities at fair value through profit and loss	110 425	–	–	–	–	110 425
Tax liabilities	35 548	–	–	–	–	35 548
Financial liabilities at amortised cost						
Insurance and other payables	432 884	–	–	–	–	432 884
Total liabilities	3 278 219	292 410	416 345	34 384	–	4 021 358

3.3 Financial risk management (continued)

3.3.4 Liquidity risk (continued)

	0 – 6 months R'000	7 – 12 months R'000	13 – 60 months R'000	> 60 months R'000	No liquidity risk R'000	Total R'000
30 June 2012						
Assets						
Property and equipment	120 572	–	292 196	–	–	412 768
Employee benefits	–	–	–	–	47 052	47 052
Investment in associates	–	–	–	17 916	–	17 916
Financial assets						
Fair value through profit and loss	1 596 995	732 938	359 410	–	–	2 689 343
Available-for-sale	522 464	–	975 602	–	–	1 498 066
Loans and receivables	539 597	–	–	–	–	539 597
Reinsurers' share of insurance contract provisions	45 873	3 010	1 903	–	–	50 786
Deferred acquisition costs	4 007	575	364	–	–	4 946
Deferred income tax	–	–	–	–	404 782	404 782
Tax receivable	1 318	–	–	–	–	1 318
Assets of disposal group classified as held for sale	211 105	–	–	–	–	211 105
Cash and cash equivalents	1 356 557	–	–	–	–	1 356 557
Total assets	4 398 488	736 523	1 629 475	17 916	451 834	7 234 236
Liabilities						
Insurance contract liabilities	2 187 101	173 833	120 172	–	–	2 481 106
Employee benefits	74 098	2 854	81	–	–	77 033
Financial liabilities at fair value through profit and loss	115 369	–	–	–	–	115 369
Tax liabilities	7 992	–	–	–	–	7 992
Liabilities of disposal group classified as held for sale	59 104	–	–	–	–	59 104
Financial liabilities at amortised cost						
Insurance and other payables	335 968	–	–	–	–	335 968
Total liabilities	2 779 632	176 687	120 253	–	–	3 076 572

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; 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, contingency reserves and unrealised fair value movement reserves as capital for regulatory solvency purposes.

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

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

	Jurisdiction	Statutory Solvency Requirement	**Actual Solvency 2013**	Actual Solvency 2012
Short-term insurance				
OUTsurance Insurance Company Limited	South Africa	Minimum CAR* of 1	**1.6**	2.2
OUTsurance Insurance Company of Namibia Limited (Associate)	Namibia	Minimum CAR of 1	**1.7**	1.6
Youi Pty Limited	Australia	Minimum CAR of 2	**2.2**	2.8
Long-term insurance				
OUTsurance Life Insurance Company Limited	South Africa	Minimum CAR of 1	**3.1**	1.9

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

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;
- 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 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			Long-term insurance	Unallocated and consolidation adjustments	Group total
	OUTsurance		Youi	OUTsurance		
	Personal R'000	Commercial R'000	Personal R'000	Life R'000	R'000	R'000
Segment income statement information						
Year ended 30 June 2013						
Gross written premium	4 986 097	674 143	2 465 630	162 607	–	8 288 477
Outward reinsurance premiums	(53 802)	(8 518)	(157 176)	(14 902)	–	(234 398)
Change in provision for unearned premium	11 936	(1 479)	(511 234)	–	–	(500 777)
Earned premium, net of reinsurance	4 944 231	664 146	1 797 220	147 705	–	7 553 302
Other income					1 003	1 003
Claims on insurance contracts net of reinsurance	(2 313 325)	(255 278)	(999 637)	(22 395)	–	(3 590 635)
Cash bonuses on insurance contracts	(243 043)	(28 214)	–		–	(271 257)
Marketing, acquisition and administration expenses	(842 107)	(241 924)	(908 667)	(113 197)	30 811	(2 075 084)
Transfer to policyholder liabilities under insurance contracts	–	–	–	(29 384)	–	(29 384)
Fair value adjustment to financial liabilities	(200 758)	–	–	–	–	(200 758)
Underwriting result	1 344 998	138 730	(111 084)	(17 271)	31 814	1 387 187
Net investment income					306 314	306 314
Gain on sale of subsidiary					51 220	51 220
Share of profit of associate					10 015	10 015
Profit before tax					399 363	1 754 736

	Short-term insurance				Long-term insurance	Unallocated and consolidation adjustments	Group total
	OUTsurance			Youi	OUTsurance		
	Personal R'000	Commercial R'000	Momentum R'000	Personal R'000	Life R'000	R'000	R'000
Segment income statement information							
Year ended 30 June 2012							
Gross written premium	4 743 374	597 305	277 270	1 310 364	103 734	–	7 032 047
Outward reinsurance premiums	(35 480)	(4 728)	(2 202)	(63 157)	(9 525)	–	(115 092)
Change in provision for unearned premium	37 618	(1 791)	367	(353 983)	–	–	(317 789)
Earned premium, net of reinsurance	4 745 512	590 786	275 435	893 224	94 209	–	6 599 166
Claims on insurance contracts net of reinsurance	(1 965 328)	(233 084)	(131 220)	(500 147)	(13 089)	–	(2 842 868)
Cash bonuses on insurance contracts	(247 042)	(28 495)	(4 622)	–	–	–	(280 159)
Marketing, acquisition and administration expenses	(754 357)	(197 436)	(120 740)	(570 773)	(98 154)	6 347	(1 735 113)
Transfer to policyholder liabilities under insurance contracts	–	–	–	–	(11 949)	–	(11 949)
Fair value adjustment to financial liabilities	(219 651)	–	–	–	–	–	(219 651)
Underwriting result	1 559 134	131 771	18 853	(177 696)	(28 983)	6 347	1 509 426
Net investment income						334 952	334 952
Share of profit of associate						7 958	7 958
Profit before tax						349 257	1 852 336

4. SEGMENT INFORMATION (continued)

4.2 Geographical segmentation

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

	South Africa R'000	Australia R'000	Namibia R'000	Group total R'000
Segment information from geographical areas				
Year ended 30 June 2013				
Segmental underwriting income	6 114 619	1 797 220	10 015	7 921 854
Segmental underwriting expenses	(4 258 815)	(1 908 304)	–	(6 167 119)
Segmental assets	4 752 584	2 839 161	23 031	7 614 776
Segmental liabilities	2 011 188	2 010 170	–	4 021 358
Segment information from geographical areas				
Year ended 30 June 2012				
Segmental underwriting income	5 983 769	950 349	7 958	6 942 076
Segmental underwriting expenses	(4 018 820)	(1 070 920)	–	(5 089 740)
Segmental assets	5 157 633	2 058 687	17 916	7 234 236
Segmental liabilities	1 921 515	1 155 057	–	3 076 572

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

5. PROPERTY AND EQUIPMENT

	Land and buildings R'000	Computer equipment and software R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Property under development R'000	Total R'000
Year ended 30 June 2013						
Opening net book amount	80 779	75 476	19 335	857	236 321	412 768
Additions	57 443	71 840	12 998	380	–	142 661
Disposals	–	(512)	(951)	–	–	(1 463)
Foreign exchange adjustments	2 023	1 587	1 133	–	–	4 743
Transfer of completed building	236 321	–	–	–	(236 321)	–
Depreciation charge	(19 599)	(64 560)	(14 637)	(315)	–	(99 111)
Closing net book amount	356 967	83 831	17 878	922	–	459 598
At 30 June 2013						
Cost	381 295	441 779	65 322	1 515	–	889 911
Accumulated depreciation	(24 328)	(357 948)	(47 444)	(593)	–	(430 313)
Net book amount	356 967	83 831	17 878	922	–	459 598
Year ended 30 June 2012						
Opening net book amount	63 559	79 480	16 765	937	49 916	210 657
Additions	20 066	53 746	10 622	324	186 405	271 163
Disposals	–	(566)	(204)	(121)	–	(891)
Foreign exchange adjustments	847	1 503	1 382	–	–	3 732
Depreciation charge	(3 693)	(58 687)	(9 230)	(283)	–	(71 893)
Closing net book amount	80 779	75 476	19 335	857	236 321	412 768
At 30 June 2012						
Cost	98 188	378 821	53 610	1 135	236 321	768 075
Accumulated depreciation	(17 409)	(303 345)	(34 275)	(278)	–	(355 307)
Net book amount	80 779	75 476	19 335	857	236 321	412 768

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 was included in property and equipment as property under development in the prior year. 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.

The fair value of the land and buildings, at 30 June 2013 is R413 million, as derived per an independent valuation calculated using a value-in-use methodology.

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

6. SUBSIDIARIES

The details of subsidiary companies are as follows:

Subsidiary	Nature of business	Country of incorporation	Issued ordinary capital (R'000) 2013	Issued ordinary capital (R'000) 2012	Effective holding (%) 2013	Effective holding (%) 2012	Group carrying amount (R'000) 2013	Group carrying amount (R'000) 2012
OUTsurance Insurance Company Limited	Short-term insurer	South Africa	25 000	25 000	100	100	2 375 643	3 105 144
OUTsurance Life Insurance Company Limited	Long-term insurer	South Africa	205 002	80 002	100	100	155 581	39 997
Momentum STI Limited[1]	Short-term insurer	South Africa	–	148 005	0	50	–	152 001
Youi (Pty) Ltd (South Africa) (Formerly SIAS Administration (Pty) Ltd)	Administration company	South Africa	**	**	100	100	14 507	2 075
OUTsurance International Holdings (Pty) Ltd	Holding company	South Africa	1 169 086	1 169 086	100	100	1 179 317	1 179 317
Youi Holdings Pty Ltd	Holding company	Australia	1 188 792	1 188 792	100*	100*	1 580 455	1 463 302
Youi Pty Ltd (Australia)	Short-term insurer	Australia	1 188 792	1 188 792	100	100	828 786	903 629
Micawber 296 (Pty) Ltd	Property company	South Africa	16 105	16 105	100	100	103 304	42 726

** Refer to note 26 for the Group's potential future dilution of the percentage holding in Youi Holdings Pty Ltd.*
*** Denotes amounts less than R1 000.*
[1] Sold during the 2013 financial year.

There were no significant acquisitions during the 2013 financial year.

Momentum STI Limited

The Group finalised the disposal of its 50% shareholding in Momentum STI Limited to MMI Holdings Limited on 1 July 2012. As a result of this disposal, Momentum STI Limited is no longer consolidated in the financial statements of the Group. The Group will provide support services to Momentum STI up to September 2014.

	2013 Carrying amount at disposal date R'000
Identifiable assets and liabilities disposed of:	
Assets	
Financial assets	
Fair value through profit and loss	200 765
Loans and receivables	592
Deferred acquisition costs	262
Deferred income tax	1 755
Tax receivable	622
Cash and cash equivalents	7 109
Total assets disposed of	211 105
Liabilities	
Insurance contract liabilities	50 141
Insurance and other payables	8 963
Total liabilities disposed of	59 104
Net identifiable asset value as at date of disposal	152 001

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

Due to the fact that the disposal was not finalised by the 30 June 2012, Momentum STI was shown as a disposal group held for sale in the prior year. The carrying amounts of the assets and liabilities of the disposal group in the prior year were equal to the values of the identifiable assets and liabilities disposed of.

		2013 R'000	2012 R'000
7.	**INVESTMENT IN ASSOCIATES**		
	Outsurance Insurance Company of Namibia Limited		
	Investment in associate	23 031	17 916
		23 031	17 916
	Reconciliation of investment in associate		
	Opening balance	17 916	12 408
	Share of associate after tax profit attributable to the group	10 015	7 958
	Dividends received from associates	(4 900)	(2 450)
	Closing balance	23 031	17 916

The Group effectively owns a 49% share in OUTsurance Insurance Company of Namibia Limited, a company incorporated and domiciled in Namibia. As at 30 June 2013, the Group valued its investment in OUTsurance Insurance Company of Namibia Limited at R100 million (2012: R59 million). The total cost of the investment to date is R4,9 million.

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

	2013 R'000	2012 R'000
Statement of financial position		
Current assets	39 637	44 071
Non-current assets	72 910	54 689
Current liabilities	(14 027)	(16 110)
Technical provisions	(50 490)	(45 125)
Equity	48 030	37 525
Statement of comprehensive income		
Revenue	121 825	102 783
After tax comprehensive income attributable to the Group	10 015	7 958

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

8. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES

The Group financial assets are summarised below:

	2013 R'000	2012 R'000
Fair value designated through profit and loss		
Debt securities		
Collective investment scheme	540 342	540 342
Government, municipal and public utility securities	155 518	118 629
Money market securities <1 year	1 168 192	1 674 975
Money market securities >1 year	767 400	355 397
Available-for-sale		
Equity securities		
Listed preference shares	545 168	534 083
Listed ordinary shares	130 394	107 464
Debt securities		
Unlisted preference shares	448 149	856 519
Total financial assets	3 755 163	4 187 409

Accrued dividends on the unlisted preference share investments are disclosed as part of loans and receivables. Refer to note 9 for further details regarding loans and receivables.

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
2013			
Movement analysis			
Balance at 1 July 2012	2 689 343	1 498 066	4 187 409
Additions (purchases and issuings)	3 823 152	114 771	3 937 923
Disposals (sales and redemptions)	(3 890 474)	(508 337)	(4 398 811)
Fair value adjustments	9 431	19 211	28 642
Balance at 30 June 2013	2 631 452	1 123 711	3 755 163
2012			
Movement analysis			
Balance at 1 July 2011	2 163 345	1 286 877	3 450 222
Additions (purchases and issuings)	2 377 979	257 412	2 635 391
Disposals (sales and redemptions)	(1 648 440)	(49 422)	(1 697 862)
Fair value adjustments	(2 776)	3 199	423
Assets of disposal group held for sale	(200 765)	–	(200 765)
Balance at 30 June 2012	2 689 343	1 498 066	4 187 409

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

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

	2013 R'000	2012 R'000
9. FINANCIAL ASSETS – LOANS AND RECEIVABLES		
Receivables arising from insurance and reinsurance contracts		
Due from policyholders	756 970	409 903
Due from agents, brokers and intermediaries	7 459	13 752
Due from reinsurers	80 771	25 345
Other receivables		
Accrued dividend income	10 202	14 293
Other receivables and prepayments	125 103	76 304
Total receivables	980 505	539 597

Insurance receivables are recognised and carried at the contractual amount less any allowance for uncollectible amounts. Non-insurance receivables are carried at the amount which approximates the contractual cash flows due to the Group. Where the effects of discounting are deemed material, the receivables are reflected at the discounted amounts.

At 30 June 2013, none of the receivables listed above are considered to be past due or impaired.

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

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

10. DEFERRED TAXATION

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

	2013 R'000	2012 R'000
Deferred tax assets		
Provision for non-claims bonuses	–	85 985
Other provisions	122 999	10 368
Service costs on employee benefits	5 067	6 356
Operating lease charges	100	204
Payment received in advance	–	4 360
Accumulated loss	244 343	298 563
Total deferred tax assets	372 509	405 836
Deferred tax liabilities		
Operating lease charges	(21)	–
Prepayments	(1 358)	(1 054)
Total deferred tax liability	(1 379)	(1 054)
Net deferred tax assets	371 130	404 782
Reconciliation of movement in deferred tax asset		
Opening balance of deferred tax assets	405 836	143 493
Foreign exchange difference	23 172	–
Transfer to share based payment reserve	4 875	–
Deferred tax charge for the year	(61 374)	264 119
Disclosed as disposal group held for sale	–	(1 776)
Closing balance of deferred tax assets	372 509	405 836

	2013 R'000	2012 R'000

10. DEFERRED TAXATION (continued)

	2013 R'000	2012 R'000
Reconciliation of movement in deferred tax liability		
Opening balance of deferred tax liability	(1 054)	(689)
Deferred tax charge for the year	(325)	(386)
Disclosed as disposal group held for sale	–	21
Closing balance of deferred tax liability	(1 379)	(1 054)

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

The Group has recognised a deferred tax asset on the assessed losses in Youi of R703,7 million and OUTsurance Life Insurance Company Limited of R71.9 million (2012: R65.4 million) as it is expected that it will be recovered against future profits.

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

11. CASH AND CASH EQUIVALENTS

	2013 R'000	2012 R'000
Cash at bank and in hand	1 887 280	1 298 184
Money market investments	46 307	58 373
	1 933 587	1 356 557

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.

12. 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.

	2013 R	2012 R
Authorised share capital		
4 000 000 000 (2012: 4 000 000 000) ordinary shares at R0.01 each	40 000 000	40 000 000
1000 "A" variable rate non cumulative non redeemable preference shares of R0.01 each	10	10
Issued ordinary share capital		
Total shares in issue: 3 518 163 100 (2012: 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 77 815 578 (2012: 91 115 179)	(778 156)	(911 152)
Closing balance	34 403 475	34 270 479
Issued preference share capital		
Opening balance: 712 (2012:712) "A" variable rate non cumulative non redeemable preference shares at R0.01 each	7	7
Shares repurchased during the year: 534 (2012: 0) "A" variable rate non cumulative non redeemable preference shares of R0.01 each	(5)	–
Total shares in issue: 178 (2012:712) "A" variable rate non cumulative non redeemable preference shares of R0.01 each	2	7

12. SHARE CAPITAL (continued)

Share premium

	2013 R'000	2012 R'000
Ordinary shares		
Issued share premium	265 110	265 110
Treasury shares held by the OUTsurance Holdings Share Trust	(156 314)	(168 466)
	108 796	96 644
"A" Preference shares		
Opening balance	802 000	802 000
Repurchase of shares	(601 500)	–
Closing balance	200 500	802 000

13. INSURANCE CONTRACT LIABILITIES

	2013 R'000	2012 R'000
Gross insurance contracts		
Short-term insurance contracts		
Outstanding claims provision	786 818	592 105
Claims incurred but not reported	338 935	285 132
Unearned premium provision	1 764 235	1 206 284
Insurance contract non claims bonuses	373 056	384 031
Long-term insurance contracts		
Policyholder liabilities	49 210	13 554
Total gross insurance contract liabilities	3 312 254	2 481 106
Recoverable from reinsurers		
Short-term insurance contracts		
Outstanding claims provision	(41 669)	(50 786)
Long-term insurance contracts		
Policyholder liabilities	(6 272)	–
Total recoverable from reinsurers	(47 941)	(50 786)
Net		
Short-term insurance contracts		
Outstanding claims provision	745 149	541 319
Claims incurred but not reported	338 935	285 132
Unearned premium provision	1 764 235	1 206 284
Insurance contract non claims bonuses	373 056	384 031
Long-term insurance contracts		
Policyholder liabilities	42 938	13 554
Total net insurance contract liabilities	3 264 313	2 430 320

	2013 R'000	2012 R'000
13. INSURANCE CONTRACT LIABILITIES (continued)		
13.1 Analysis of movement in short-term insurance contract liabilities		
Analysis of movement in gross outstanding claims provision		
Opening balance	592 105	576 248
Current year claims incurred	3 688 277	2 915 925
Change in previous year claims estimates	8 587	(36 550)
Current year claims paid	(3 067 909)	(2 480 363)
Previous year claims paid	(447 689)	(378 195)
Foreign exchange difference	13 447	16 112
Disclosed as disposal group held for sale	–	(21 072)
Closing balance	786 818	592 105
Analysis of movement in reinsurance on outstanding claims		
Opening balance	(50 786)	(23 594)
Current year claims incurred	(182 972)	(68 897)
Change in previous year claims estimates	4 172	(15 006)
Current year recoveries received	159 827	40 764
Previous year recoveries received	29 402	16 912
Foreign exchange difference	(1 312)	(965)
Closing balance	(41 669)	(50 786)
Analysis of movement in net outstanding claims provision		
Opening balance	541 319	552 654
Current year claims incurred	3 505 305	2 847 028
Change in previous year claims estimates	12 759	(51 556)
Current year claims paid	(2 908 082)	(2 439 599)
Previous year claims paid	(418 287)	(361 283)
Foreign exchange difference	12 135	15 147
Disclosed as disposal group held for sale	–	(21 072)
Closing balance	745 149	541 319
Analysis of change in net IBNR provision		
Opening balance	285 132	263 853
Raised during the current year	93 340	78 822
Change in prior year estimates	(8 543)	(13 086)
Transfer to outstanding claims	(34 621)	(31 429)
Foreign exchange difference	3 627	760
Disclosed as disposal group held for sale	–	(13 788)
Closing balance	338 935	285 132
Analysis of movement in net unearned premium provision		
Opening balance	1 206 284	830 672
UPP raised	2 942 007	155 465
UPP earned	(2 441 230)	162 324
Foreign exchange difference	57 174	63 725
Disclosed as disposal group held for sale	–	(5 902)
Closing balance	1 764 235	1 206 284

		2013 R'000	2012 R'000
13.	**INSURANCE CONTRACT LIABILITIES** (continued)		
13.1	**Analysis of movement in short-term insurance contract liabilities**		
	Analysis of movement in insurance contract non claims bonuses		
	Opening balance	384 031	366 464
	Charge to the statement of comprehensive income	271 257	280 159
	Non claims bonuses paid during the year	(282 232)	(253 213)
	Disclosed as disposal group held for sale	–	(9 379)
	Closing balance	373 056	384 031
	Analysis of movement in deferred acquisition costs		
	Opening balance	4 946	10 416
	DAC raised	49 310	71 300
	DAC charged to the statement of comprehensive income	(51 304)	(76 508)
	Disclosed as disposal group held for sale	–	(262)
	Closing balance	2 952	4 946

13.2 Claims development tables

The tables below show the development pattern of the Groups 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).

13.2.1 Payment development

	Financial year in which claims were paid					
Net claims Accident year	Total R'000	2013 R'000	2012 R'000	2011 R'000	2010 R'000	Prior 2009 R'000
2013	2 908 082	2 908 082	–	–	–	–
2012	2 822 943	383 344	2 439 599	–	–	–
2011	2 604 864	18 060	327 493	2 259 311	–	–
2010	2 299 375	5 850	17 621	310 000	1 965 904	–
2009 and prior	8 329 684	11 033	16 169	23 678	215 858	8 062 946
Cumulative payments to date	18 964 948	3 326 369	2 800 882	2 592 989	2 181 762	8 062 946

13.2.2 Incurred development

	Financial year in which changes occurred in claims liability					
Net claims Accident year	Total R'000	2013 R'000	2012 R'000	2011 R'000	2010 R'000	Prior 2009 R'000
2013	3 505 305	3 505 305	–	–	–	–
2012	2 868 668	21 640	2 847 028	–	–	–
2011	2 649 120	2 972	(34 310)	2 680 458	–	–
2010	2 393 871	(7 690)	(8 210)	34 985	2 374 786	–
2009 and prior	8 231 128	(4 163)	(9 036)	(1 607)	(85 500)	8 331 434
Current estimate of cumulative claims incurred	19 648 092	3 518 064	2 795 472	2 713 836	2 289 286	8 331 434

13.2.3 Reporting development

	Financial year in which claims were reported					
Net claims Accident year	Total R'000	2013 R'000	2012 R'000	2011 R'000	2010 R'000	Prior 2009 R'000
2013	3 580 865	3 580 865	–	–	–	–
2012	2 859 169	15 552	2 843 617	–	–	–
2011	2 693 624	4 188	(5 496)	2 694 932	–	–
2010	2 378 760	500	1 444	7 699	2 369 117	–
2009 and prior	8 233 731	137	1 413	2 137	26 042	8 204 002
Current estimate of cumulative claims incurred	19 746 149	3 601 242	2 840 978	2 704 768	2 395 159	8 204 002

13. INSURANCE CONTRACT LIABILITIES (continued)

13.3 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.

	2013			2012
	Gross policyholder liabilities under insurance contracts R'000	Reinsurers' share of policyholder liabilities R'000	Net policyholder liabilities under insurance contracts R'000	Net policyholder liabilities under insurance contracts R'000
Analysis of change in policyholder liabilities				
Balance at beginning of year	13 554	–	13 554	1 605
Transfer to policyholder liabilities under insurance contracts	35 656	(6 272)	29 384	11 949
Increase in retrospective liabilities	201	(2 549)	(2 348)	1 343
Unwind of discount rate	6 373	(1 504)	4 869	1 875
New business	12 013	(1 973)	10 040	5 560
Policyholder cancellations	1 984	(467)	1 517	(387)
Change in economic assumptions	(14 022)	1 514	(12 508)	1 321
Change in non-economic assumptions	28 008	(1 293)	26 715	123
Incurred but not reported claims	1 099	–	1 099	2 114
Closing balance	49 210	(6 272)	42 938	13 554

Negative reserves are eliminated on a per policy basis with result that the gross policy liability (excluding IBNR) at 30 June 2013 was R44 832 745 (2012: R10 275 566). The policy liability would have been R216,6 million (2012: R97,6 million) lower without the discretionary margins.

In addition to the discounted cash flow liability, an Incurred But Not Reported ("IBNR") reserve was held amounting to R4 377 437 (2012: R3 278 564). The IBNR was set using a claims runoff model based on recent experience.

13.4 Critical accounting estimates and judgements in applying accounting policies relating to insurance contracts

Short-term insurance

Provision for outstanding claims (OCR)

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

Provision for claims incurred but not reported (IBNR)

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

Unearned premium provision (UPP)

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

Liability for non-claims bonuses on insurance contracts

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

13. INSURANCE CONTRACT LIABILITIES (continued)

13.5 Long-term insurance

Policyholder liabilities assumptions and estimates

Policyholder liabilities

The actuarial value of policyholder liabilities is determined based on the Financial Soundness Valuation (FSV) method as detailed in the Standards 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. In addition, compulsory margins are added to allow for risk and uncertainty based on the requirements of SAP 104.

As at 30 June 2013 the compulsory margins were as follows:

Assumption	Margin
Investment return	0,25% increase/decrease[1]
Mortality	7,5% increase
Morbidity	10% increase
Disability	10% increase
Retrenchment	10% increase
Expenses	10% increase
Expense inflation	10% increase of estimated escalation rate
Lapses	25% increase/decrease[1] on best estimate

[1] *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. Negative reserves are eliminated on a per policy basis. The results for the experience investigations are briefly described below:

Demographic assumptions

In light of insufficient experience emerging during the first two years of operation, the best estimate assumptions with regard to dread disease and 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

The assumed future investment return was set with reference to bond yields of appropriate duration at the valuation date. This resulted in an assumed investment return, gross of tax, of 8,1% (2012: 6,75%).

Inflation

The current assumed level of future expense inflation is 6,1% (2012: 6%) per annum and was derived by comparing the real yield on inflation linked bonds with the nominal yield on conventional gilts both of similar terms.

Taxation

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

Incurred but not reported claims

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

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

13. INSURANCE CONTRACT LIABILITIES (continued)

13.6 Sensitivity of policyholder liability

The following sensitivities are provided on insurance risk assumptions:

Assumption	Margin
Lapses	10% increase/decrease
Investment return	1% increase/decrease
Mortality/morbidity/disability/retrenchment	10% increase/decrease
Expenses	10% increase/decrease

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

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

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

No elimination of negative rand reserves	Change in variable	Increase/ (decrease) in policyholder liabilities R'000	Increase/ (decrease) in policyholder liabilities %
2013			
Lapses	+10%	(9 287)	(5%)
	–10%	15 963	9%
Investment return	+1%	(10 888)	(6%)
	–1%	15 747	9%
Mortality/morbidity/disability/retrenchment	+10%	42 415	24%
	–10%	(43 062)	(24%)
Expenses	+10%	22 534	13%
	–10%	(22 534)	(13%)

	2013 R'000	2012 R'000
14. INSURANCE AND OTHER PAYABLES		
Insurance related payables		
Outstanding long term insurance claims	15 577	11 680
Due to intermediaries	8 941	20 782
Due to reinsurers	16 635	10 835
Other payables	5 942	2 427
Non insurance related payables		
Trade creditors	29 737	27 849
Other payables	326 779	217 785
Onerous lease contract[1]	–	10 646
VAT liability	29 273	33 964
Total payables	432 884	335 968

[1] *Provision was made in full for lease payments due up to the end of the lease term in respect of premises which cease to be occupied by the Group by 30 September 2012. The lease term ended on 30 June 2013.*

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

15. 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 period of two years.

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

	2013 R'000	2012 R'000
Leave pay liability	62 093	57 242
Non discretionary bonuses liability	22 630	19 791
Total liability	84 723	77 033
Intellectual property bonuses asset	39 685	47 052
Total asset	39 685	47 052
Net employee benefits	45 038	29 981
Reconciliation of leave pay liability		
Opening balance	57 242	50 792
Charge for the year	7 727	7 262
Liability settled	(4 372)	(2 574)
Foreign translation difference	1 496	1 762
Closing balance	62 093	57 242
Reconciliation of non discretionary bonus liability		
Opening balance	19 791	18 532
Charge for the year	58 222	46 096
Liability utilised	(55 465)	(44 837)
Foreign translation difference	82	–
Closing balance	22 630	19 791
Reconciliation of intellectual property bonuses asset		
Opening balance	47 052	28 233
Additions	48 826	48 525
Settlements	(11 048)	(23)
Service cost for the year	(45 070)	(29 683)
Foreign translation difference	(75)	–
Closing balance	39 685	47 052

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

16. 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 and the MMI Holdings Limited Group's of companies for the various cell captive and profit sharing arrangements. Profits arising from these arrangements are distributed by way of bi-annual preference dividends payable in February and August each year. The preference dividend attributable to the profit share for the year is recognised in the statement of comprehensive income as a fair value adjustment to the liability. The portion of the unpaid preference dividend at 30 June is recognised as a financial liability at fair value through profit and loss.

	2013 R'000	2012 R'000
Shareholders for preference dividends on cell captives	13 324	25 197
Shareholders for preference dividends on profit shares	97 023	90 172
Shareholders for "A" preference dividends	78	–
	110 425	115 369

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

	2013 R'000	2012 R'000
17. GROSS INSURANCE PREMIUM WRITTEN		
Short term insurance	8 125 870	6 928 313
Premium written	8 026 154	6 831 960
Policyholder fees written	99 716	96 353
Long term insurance	162 607	103 734
Premium written	155 960	99 248
Policyholder fees written	6 647	4 486
	8 288 477	7 032 047

18. OTHER INCOME

During the current financial year, the Group qualified for a job-creation incentive offered by the Government. Call centre activities outsourced by Youi Australia to South Africa qualified for this incentive. The incentive is accounted for based on the actual incentive qualified for during the year under review.

	2013 R'000	2012 R'000
Government grant received	1 003	–
	1 003	–

		2013 R'000	2012 R'000
19.	**INVESTMENT INCOME**		
	Cash and cash equivalents		
	Interest received	211 666	222 239
	Dividends received from financial assets designated at fair value through profit and loss	20 941	38 349
	Available-for-sale financial assets		
	Interest – unlisted debt instruments	38 084	52 189
	Dividends – listed equities	35 826	33 961
		306 517	346 738

20. FAIR VALUE ADJUSTMENTS ON FINANCIAL ASSETS

	Available-for-sale R'000	Fair value designated through profit and loss R'000	Total R'000
2013			
Net realised losses on financial assets	–	(8 912)	(8 912)
Net unrealised fair value gains	19 211	9 431	28 642
	19 211	519	19 730
2012			
Net realised losses on financial assets	–	(4 671)	(4 671)
Net unrealised fair value (losses)/gains	(1 269)	1 692	423
Gains/(losses) in available-for-sale reserve released to statement of comprehensive income	7 679	(7 679)	–
	6 410	(10 658)	(4 248)

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.

	2013 R'000	2012 R'000
21. CLAIMS ON INSURANCE CONTRACTS NET OF REINSURANCE		
Short term insurance		
Gross	(3 747 040)	(2 913 682)
Gross claims paid	(4 120 948)	(3 392 725)
Salvage and recoveries	605 350	534 167
Change in provision for outstanding claims	(181 266)	(20 817)
Change in IBNR	(50 176)	(34 307)
Reinsurers share	178 800	83 903
Claims paid	189 229	57 676
Change in provision for outstanding claims	(10 429)	26 227
Net short term insurance claims incurred	(3 568 240)	(2 829 779)
Long term insurance		
Gross claims paid	(26 725)	(15 751)
Life claims	(19 660)	(8 899)
Disability claims	(4 673)	(3 459)
Retrenchment claims	(1 008)	(729)
Critical illness claims	(1 384)	(2 664)
Change in provision for outstanding claims	(3 897)	(7 142)
Gross claims incurred	(30 622)	(22 893)
Reinsurance recoveries received	9 018	2 214
Life claims	6 332	1 138
Disability claims	2 160	609
Retrenchment claims	189	61
Critical illness claims	337	406
Reinsurers share of the change in provision for outstanding claims	(791)	7 590
Reinsurers share of gross claims incurred	8 227	9 804
Net long term insurance claims incurred	(22 395)	(13 089)
Total net claims incurred	(3 590 635)	(2 842 868)

22. ACQUISITION EXPENSES

Acquisition expenses relate to payments for intermediary sourced business and certain Cell Captive and profit share arrangements.

	2013 R'000	2012 R'000
Acquisition expenses incurred	(31 451)	(92 912)
Change in deferred acquisition costs	(1 994)	(5 208)
	(33 445)	(98 120)

23. MARKETING AND ADMINISTRATION EXPENSES

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

	2013 R'000	2012 R'000
Depreciation		
Buildings	**19 599**	3 693
Computer equipment	**64 560**	58 687
Furniture and fittings	**14 637**	9 230
Motor vehicles	**315**	283
Total depreciation	**99 111**	71 893
Employee benefits		
Salaries excluding retirement funding	**1 115 500**	771 275
Medical aid contributions	**54 968**	51 283
Retirement funding	**100 565**	82 714
Service cost relating to employee benefits	**45 070**	29 683
Share based payments	**29 261**	8 329
Total employee benefits	**1 345 364**	943 284
Other disclosable items		
Audit fees	**5 844**	4 209
Statutory audit	**4 551**	3 844
Other expenses	**1 293**	365
Operating lease expenses	**32 105**	33 758
Operating lease expenses - onerous contract	**–**	10 646
Loss on sale of property, plant and equipment	**653**	491
Consulting and legal fees for professional services	**8 575**	4 875
Investment fees paid	**4 454**	6 828
Foreign exchange loss	**371**	1 152
Other marketing and management expenses	**545 162**	559 857
Total other disclosable expenses	**597 164**	621 816
Total marketing and administration expenses per the statement of comprehensive income	**2 041 639**	1 636 993

24. FINANCE CHARGES

	2013 R'000	2012 R'000
Interest paid – vehicle financing	**–**	3
Interest paid – operational financing	**722**	1 125
	722	1 128

	2013 R'000	2012 R'000

25. TAXATION

	2013 R'000	2012 R'000
South African normal taxation		
Current tax	(455 899)	(566 610)
Current year	(455 899)	(560 022)
Utilisation of assessed loss	–	(7 625)
Prior year over provision	–	1 037
Deferred tax	(61 699)	263 733
Total normal taxation	(517 598)	(302 877)
Secondary tax on companies	–	(77 212)
Withholding taxation incurred	2 751	(2 751)
Total taxation charge	(514 847)	(382 840)
Tax rate reconciliation		
Normal SA tax on companies	491 326	518 654
Non-temporary differences	26 272	(214 740)
Fair value adjustment	53 572	63 179
Other non deductible differences	(606)	(6 544)
Recognition of assessed loss	–	(240 996)
Other	1 545	–
Capital gains tax	9 547	–
Profit on sale of subsidiary	(14 704)	–
Foreign tax rate differential	(931)	–
Exempt dividends	(26 558)	(34 860)
Non allowable expenses	4 407	4 481
Prior year (over) provision	–	(1 037)
Withholding taxation incurred	(2 751)	2 751
Secondary tax on companies	–	77 212
Amount calculated at effective rate	514 847	382 840

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

26. EARNINGS PER SHARE

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

26.1 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.

	2013	2012
Earnings attributable to ordinary shareholders (R'000)	1 201 576	1 400 893
Weighted average number of shares in issue	3 438 406 315	3 424 375 462
Basic earnings per share (cents)	34,95	40,91

26. EARNINGS PER SHARE (continued)

26.2 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.

	2013	2012
Earnings attributable to ordinary shareholders (R'000)	1 201 576	1 400 893
Diluted earnings attributable to Youi (Pty) Limited	6 246	(29 270)
Total earnings attributable to ordinary shareholders (R'000)	1 207 822	1 371 623
Diluted weighted average number of shares in issue	3 517 969 562	3 511 766 512
Weighted average number of shares in issue	3 438 406 315	3 424 375 462
Dilution impact of share incentive scheme	79 563 247	87 391 050
Diluted earnings per share (cents)	34,33	39,06

27. 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:

	2013 R'000	2012 R'000
Earnings attributable to ordinary shareholders	1 201 576	1 400 893
Adjusted for:		
Loss on sale of available-for-sale instruments	–	4 675
Impairment of available-for-sale instruments	–	7 679
Gain on sale of subsidiary	(51 220)	
(Loss) on sale of property and equipment	653	491
Tax effect of adjustments	9 618	(147)
Headline earnings attributable to ordinary shareholders	1 160 627	1 413 591
Weighted average number of shares in issue	3 438 406 315	3 424 375 462
Headline earnings per share – basic (cents)	33,75	41,28
Headline earnings attributable to ordinary shareholders	1 160 627	1 413 591
Diluted headline earnings attributable to Youi (Pty) Limited	6 246	(29 328)
Diluted headline earnings attributable to ordinary shareholders	1 166 873	1 384 263
Diluted weighted average number of shares in issue	3 517 969 562	3 511 766 512
Headline earnings per share – diluted (cents)	33,17	39,42

28. DIVIDEND PER SHARE

	2013	2012
Total dividends paid during the year (R'000)	1 170 085	737 387
Total dividends declared during the year (R'000)	932 313	1 125 812
Number of ordinary shares in issue	3 518 163 100	3 518 163 100
Dividends declared per share (cents)	26,50	32,00
Dividends paid per share (cents)	33,26	20,96

	2013 R'000	2012 R'000
29. SHARE BASED PAYMENTS		
Cash-settled share based payment liability	45 524	–
Total liability	45 524	–
Reconciliation of cash-settled share based payment liability		
Transfer from share based payment reserve	17 412	–
Charge for the year	28 112	–
Closing balance	45 524	–

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

	2013 R'000	2012 R'000
OUTsurance Holdings equity-settled scheme	1 149	8 329
OUTsurance Holdings cash-settled scheme	28 112	–
Charge to the statement of comprehensive income	29 261	8 329

The various Group share schemes are as follows:

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

The purpose of these schemes is to attract, incentivise and retain managers within the Group by providing them with a facility to acquire shares. In terms of the current trust deed, 12% of the issued share capital of the company is available to the Trust for the granting of options to employees. The Trust currently holds 2.2% (2012: 2.6%) of the shares in OUTsurance Holdings Limited.

Some of the Group's employees qualified to participate in the FirstRand BEE share scheme. The Group has no responsibility to deliver gains on options as this falls under FirstRand. As such there is no impact on the results of the Group.

On the date of the disposal of the Group's 50% shareholding in Momentum STI Limited, the share based payment reserve relating to unvested share options held by employees of Momentum STI Limited was reclassified to retained earnings due to the agreed cancellation of these options.

Description and valuation methodology of the schemes

OUTsurance Holdings cash-settled share scheme

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

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

Valuation methodology

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

Market data consists of the following:

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

29. SHARE INCENTIVE SCHEMES (continued)

OUTsurance Holdings cash-settled share scheme (continued)

Valuation methodology (continued)

Dividend data consists of the following:

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

Employee statistic assumptions:

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

OUTsurance Holdings equity-settled share scheme

The OUTsurance Holdings Limited share scheme was established in 2000. The rules of the scheme are constituted in the OUTsurance Holdings Share Trust ("the Trust"). Share options are settled by the delivery of OUTsurance Holdings Limited shares.

Valuation methodology

This share scheme issued options with a term of five years and multiple vesting dates. The vesting period of the options granted is five years. The options vest in three equal tranches at the end of years three, four and five. Once vested, options may be exercised at any point during the five year period. These options are classified as Bermudan call options and are valued using a binomial tree share option pricing model.

The days on which the options can be exercised has been assumed to be the last day that the shares trade cum-dividend. 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 OUTsurance Holdings is not listed, "expected volatility" is derived with reference to an appropriate index of Johannesburg Securities Exchange ("JSE") listed financial institutions for an historic period matching the duration of the option.
- The "risk-free interest rate" input is derived from zero-coupon government bonds with a remaining term equal or approximate to the term of the option being valued.

Dividend data consists of the following:

- "Dividend growth" is based on the three or five year historic annual dividend paid on OUTsurance Holdings Limited ordinary shares.

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.

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. No share options were issued in the current year. 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, therefore, if the market value of the underlying shares is expected to rise above the strike price over the vesting period of the options.

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

Market data consists of the following:

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

Dividend data consists of the following:

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

Employee statistic assumptions:

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

29. SHARE INCENTIVE SCHEMES (continued)

Share options

	OUTsurance Holdings equity-settled scheme	OUTsurance Holdings cash-settled scheme	Youi Holdings equity-settled scheme
2013			
Number of options in force and exercised at the beginning of the year	87 391 050	–	392 656 250
Conversion of equity-settled options to cash-settled notional shares	(45 034 483)	45 034 483	–
Granted at prices ranging between	–	1,94 and 2,22	$0,10
Number of options granted during the year	–	16 500 000	17 500 000
Strike price of options granted during the year	–	1,94 and 2,80	$0,10
Fair value of options granted during the year	–	–	–
Number of options delivered during the year	(19 727 800)	–	–
Range of strike prices on date of delivery	134c to 184c	–	–
Number of options cancelled/forfeited during the year	(1 400 003)	(3 200 000)	(2 187 500)
Granted at prices ranging between	164c to 232c	–	$0,10
Number of options in force at the end of the year	21 228 764	58 334 483	407 968 750
Granted at prices ranging between	154c to 184c	–	–
Market value per share	3,10	3,10	$0,06
Number of scheme participants	68	–	25
2012			
Number of options in force and exercised at the beginning of the year	86 466 909	–	403 593 750
Granted at prices ranging between	74c and 232c	–	$0,10
Number of options granted during the year	24 900 000	–	10 937 500
Strike price of options granted during the year	232c	–	$0,10
Fair value of options granted during the year	35,88c	–	–
Number of options delivered during the year	(23 242 526)	–	–
Range of strike prices on date of delivery	74c – 164c	–	–
Number of options cancelled/forfeited during the year	(733 333)	–	(21 875 000)
Granted at prices ranging between	134c and 232c	–	$0,10
Number of options in force at the end of the year	87 391 050	–	392 656 250
Granted at prices ranging between	134c and 232c	–	$0,10
Market value per share	2,32	–	$0,04
Number of scheme participants	78	–	25

29. SHARE INCENTIVE SCHEMES (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 2013 was as follows:

	2013	2012
Number of shares in portfolio at the beginning of the year	91 115 179	103 858 292
Number of shares purchased during the year	6 428 199	10 499 413
Number of shares released during the year	(19 727 800)	(23 242 526)
Number of shares held in portfolio at the end of the year	77 815 578	91 115 179

	2013 R'000	2012 R'000
Cost price of shares held in portfolio at the beginning of the year	169 378	172 649
Cost price of shares purchased during the year	18 519	24 359
Cost price of shares released during the year	(30 804)	(27 630)
Cost price of shares held in portfolio at the end of the year	157 093	169 378

	2013	2012
Market value per share held in portfolio at year end	310c	232c
Value of loans made to the trust at the beginning of the year (R'000)	169 378	172 649
Value of loans made to the trust at the end of the year (R'000)	157 093	169 378

Share scheme expenditure

The inputs to the share option pricing model to determine the value of the grants and notional shares (share appreciation rights) for the current year were as follows:

	OUTsurance Holdings cash-settled share scheme	Youi Holdings equity-settled share scheme
Share price	R3,30	$0,75
Exercise price	R3,30	$0,10
Option duration	3 years	6 years
Expected volatility	30%	50%
Risk free interest rate	6,17%	3,50%
Dividend yield	6,50%	0%
Annual employee turnover	0%	0%

	2013 R'000	2012 R'000

30. RECONCILIATION OF CASH GENERATED BY OPERATIONS

	2013 R'000	2012 R'000
Comprehensive income for the year before tax	1 836 308	1 935 675
Adjusted for:		
Depreciation	99 111	71 893
Share of profit in associate	(10 015)	(7 958)
Dividends received from associates	4 900	2 450
Share based payments	1 149	8 329
Net gains and losses for fair value adjustments on financial assets	(19 730)	4 248
Gain on sale of subsidiary	(51 220)	–
Loss on disposal of fixed assets	653	491
Fair value adjustment on financial liabilities	200 758	219 651
Provision for non claims bonuses on insurance contracts for the year	271 257	280 159
Non claims bonuses on insurance contracts paid	(282 232)	(253 213)
Finance charges	722	1 128
Change in UPP net of unearned commission	500 777	317 789
Change on deferred acquisition costs	1 994	5 208
Change in IBNR	50 176	34 307
Change in policyholder liability under long term insurance contracts	29 384	11 949
Employee benefit service cost	45 070	29 683
Cash generated by operations before working capital changes	2 679 062	2 661 789
Changes in working capital	(116 495)	(168 457)
(Increase) in receivables	(440 908)	(326 461)
Increase in payables	96 916	147 334
Increase in share based payment liability	45 524	–
Transfer of share based payment reserve	(17 412)	–
Increase in employee benefits	7 690	7 709
Increase/(decrease) in outstanding claims	191 695	(5 410)
Movement of items related to assets held for sale	–	8 371
Cash generated by operations	2 562 567	2 493 332

31. FINANCE CHARGES

	2013 R'000	2012 R'000
Interest paid	(722)	(1 128)
	(722)	(1 128)

	2013 R'000	2012 R'000
32. TAXATION PAID		
Taxation payable – opening balance	(6 674)	(23 385)
Charge in statement of comprehensive income	(514 847)	(382 840)
Adjustment for deferred tax charge	61 699	(263 733)
Taxation payable – closing balance	34 364	6 674
Disposal asset held for sale	–	(622)
Taxation paid	(425 458)	(663 906)

	2013 R'000	2012 R'000
33. PREFERENCE DIVIDENDS PAID		
Preference dividends unpaid at the beginning of the year	(115 369)	(72 617)
Preference dividend charged to the statement of comprehensive income in respect of cell captive arrangements and profit shares	(200 758)	(219 651)
Preference dividend in respect of "A" variable rate non cumulative preference shares	(38 313)	(57 133)
Preference dividend unpaid at the end of the year	110 425	115 369
Preference dividend paid	(244 015)	(234 032)

	2013 R'000	2012 R'000
34. COMMITMENTS		
Up to 1 year	2 076	14 993
Between 1 and 5 years	1 959	8 135
Total operating lease commitments[1]	4 035	23 128
Up to 1 year	23 902	18 176
Between 1 and 5 years	93 795	80 271
Between 5 and 10 years	–	12 691
Total operating lease commitments for Youi Pty Ltd[2]	117 697	111 138

[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 six years. The lease is renewable for a further period of five years.*

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

	Carrying Amount R'000	Current R'000	Non current R'000
2013			
ASSETS			
Property and equipment	459 598	127 982	331 616
Employee benefits	39 685	38 900	785
Investment in associates	23 031	–	23 031
Financial assets			
Fair value through profit and loss	2 631 452	1 760 838	870 614
Available-for-sale	1 123 711	300 000	823 711
Loans and receivables	980 505	707 773	272 732
Reinsurers' share of insurance contract provisions	47 941	34 483	13 458
Deferred acquisition costs	2 952	2 952	
Deferred income tax	371 130	4 498	366 632
Tax receivable	1 184	1 184	–
Cash and cash equivalents	1 933 587	1 933 587	–
TOTAL ASSETS	7 614 776	4 912 197	2 702 579
LIABILITIES AND EQUITY			
Total shareholders' equity	3 593 418	–	3 593 418
Insurance contract liabilities	3 312 254	2 944 448	367 806
Employee benefits	84 723	46 304	38 419
Share based payment liability	45 524	1 020	44 504
Financial liabilities at fair value through profit and loss	110 425	110 425	–
Tax liabilities	35 548	35 548	–
Financial liabilities held at amortised cost			
Insurance and other payables	432 884	432 884	–
TOTAL EQUITY AND LIABILITIES	7 614 776	3 555 344	4 059 432

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

	Carrying amount R'000	Current R'000	Non current R'000
2012			
ASSETS			
Property and equipment	412 768	120 572	292 196
Employee benefits	47 052	24 069	22 983
Investment in subsidiaries	–	–	–
Investment in associates	17 916	–	17 916
Financial assets			
Fair value through profit and loss	2 689 343	2 329 933	359 410
Available-for-sale	1 498 066	522 464	975 602
Loans and receivables	539 597	539 597	–
Reinsurers' share of insurance contract provisions	50 786	48 883	1 903
Deferred acquisition costs	4 946	4 582	364
Deferred income tax	404 782	16 414	388 368
Tax receivable	1 318	1 318	–
Assets of disposal group classified as held for sale	211 105	211 105	–
Cash and cash equivalents	1 356 557	1 356 557	–
TOTAL ASSETS	7 234 236	5 175 494	2 058 742
LIABILITIES AND EQUITY			
Total shareholders' equity	4 082 369	–	4 082 369
Non-controlling interest	75 295	–	75 295
Insurance contract liabilities	2 481 106	2 360 934	120 172
Employee benefits	77 033	76 952	81
Financial liabilities at fair value through profit and loss	115 369	115 369	–
Tax liabilities	7 992	7 992	–
Assets of disposal group classified as held for sale	59 104	59 104	–
Financial liabilities held at amortised cost			
Insurance and other payables	335 968	335 968	–
TOTAL EQUITY AND LIABILITIES	7 234 236	2 956 319	4 277 917

36. RELATED PARTY TRANSACTIONS

The Group defines related parties as:

- The parent company
- Associate companies
- Key management personnel such as the OUTsurance Holdings Limited Board of directors and the OUTsurance Holdings executive committee as well as the Youi Pty Ltd executive committee.

Principal shareholders

The Group is ultimately controlled by RMI Holdings Limited. At the reporting date, RMI Holdings owned 83.4% (2012: 83.4%) of OUTsurance Holdings Limited, with the OUTsurance Holdings Share Trust owning 2.2% (2012: 2.6%), OUTsurance Investment Trust owning 6.5% (2012: 6.5%) and management 7.9% (2012: 7.5%) of the issued share capital.

Subsidiaries

Details of investment in subsidiaries are disclosed in note 6.

Transactions between 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 7.

36. 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):

	2013 R'000	2012 R'000
Transactions with related parties		
Momentum Asset Management		
– Asset management fee paid	3 564	4 361
FNB Life (a division of MMI Holdings Limited)		
– Claims paid	8 003	7 777
– Administration fee paid	6 760	6 568
Discovery Health		
– Medical aid premiums paid	49 536	41 702
MMI Holdings Limited		
– Medical aid premiums paid	6 447	9 581
– Pension fund contribution	62 813	58 953
– Group Life premiums paid	12 692	13 213
– Disability fees paid	1 613	
– Marketing and administration expenses paid	–	3 132
– Administration fees received	(52 971)	
– Acquisition expenses paid	–	14 058
Firness International (Pty) Ltd		
– Ordinary dividends paid	538 637	340 608
RMI Holdings Limited		
– "A" Preference dividend paid	38 235	57 133
– Ordinary dividends paid	458 693	339 223
Investment income (received)/paid		
Momentum Unit Trusts Limited	–	(784)
Discovery Holdings Limited	(4 230)	(1 446)
Year end balances with related parties		
RMI Holdings Limited		
– "A" Preference shares	200 500	802 000
– Preference dividend payable	78	–
MMI Holdings Limited		
– Insurance and other payables	–	3 859
– Loans and receivables	3 522	–
Discovery Holdings Limited		
– Preference share investment	57 070	56 255

	2013 R'000	2012 R'000
Key management personnel		
Remuneration		
Salaries and bonuses	76 745	41 723
Non-executive directors fees	3 274	2 822
Other short term employee benefits	1 273	1 004
Share based payments	27 979	8 329
Total compensation of key management personnel	109 271	53 878
Insurance related		
Premiums received	847	520
Claims paid	(270)	(304)

Insurance transactions are conducted at arm's length.

36. RELATED PARTY TRANSACTIONS (continued)

Remuneration

Prescribed officers' and directors' emoluments for the year ended 30 June 2013 is as follows:

	Services as directors R'000	Cash package R'000	Performance related[1] R'000	Other benefits[7] R'000	Total R'000
2013					
Non-executive directors					
LL Dippenaar[8]	286	–	–	–	286
VW Bartlett[2]	117[5]	–	–	–	117
P Cooper	117[5]	4 611[6]	–	843[6]	5 571
J Kleynhans	45	–	–	–	45
PR Pretorius	91	–	–	–	91
NL Nightingale	175	–	–	–	175
J Madavo	91	–	–	–	91
G Marx	130	–	–	–	130
G Roberts-Baxter	91[5]	–	–	–	91
AW Hedding[3]	13	–	–	–	13
Executive directors and prescribed officers					
Executive					
WT Roos	–	3 267	3 267	–	6 534
H Aron	–	7 018	7 018	–	14 036
MC Visser	–	2 720	2 500	–	5 220
Prescribed officers					
E Gouws	–	2 720	2 500	–	5 220
JH Hofmeyr	–	1 620	1 500	–	3 120
2012					
Non-executive directors					
LL Dippenaar[8]	210	–	–	–	210
VW Bartlett	76	–	–	–	76
P Cooper	109[5]	2 316[6]	2 725[6]	856[6]	6 006
J Kleynhans	64[5]	–	–	–	64
PR Pretorius	64	–	–	–	64
NL Nightingale	164	–	–	–	164
J Madavo	85	–	–	–	85
AM Nzimande[4]	–	–	–	–	–
G Marx	121	–	–	–	121
G Roberts-Baxter	85[5]	–	–	–	85
Executive directors and prescribed officers					
Executive					
WT Roos	–	3 025	–	–	3 025
H Aron	–	5 977	–	–	5 977
MC Visser	–	2 464	–	–	2 464
Prescribed officers					
E Gouws	–	2 464	–	–	2 464
JH Hofmeyr	–	1 350	–	–	1 350

[1] Performance related bonuses are paid on a two-year cycle.
[2] Resigned May 2013.
[3] Appointed May 2013.
[4] Resigned during the 2012 financial year.
[5] Directors fees are paid to representative companies.
[6] Paid by RMI Holdings Limited for services as an Executive Director of RMI Holdings Limited.
[7] Other benefits comprise pension fund, provident fund and medical aid contributions.
[8] Includes fees for serving on the RMI Holdings Board (2013: R104 000) (2012: R83 000).

36. RELATED PARTY TRANSACTIONS (continued)

Directors' and prescribed officers' participation in group share incentive schemes

OUTsurance Holdings share incentive scheme

Executive	Strike price Rands	Vesting date From	To	Share scheme settlement	Opening balance 1 July 2012 '000	Taken up this year '000	Granted in current year '000	**Closing balance 30 June 2013 '000**	Benefit derived R'000
WT Roos	1,94	01/07/2010	01/07/2013	Cash	2 188	–	–	2 188	–
	2,22	01/07/2011	01/07/2014	Cash	1 750	–	–	1 750	–
	2,80	01/07/2012	01/07/2015	Cash	–	–	1 500	1 500	–
H Aron	1,94	01/07/2010	01/07/2013	Cash	2 188	–	–	2 188	–
	2,22	01/07/2011	01/07/2014	Cash	1 750	–	–	1 750	–
	2,80	01/07/2012	01/07/2015	Cash	–	–	1 500	1 500	–
MC Visser	1,34	01/07/2007	01/07/2012	Equity	667	667	–		1 040
	1,54	01/07/2008	01/07/2013	Equity	1 333	667	–	666	907
	1,74	01/07/2009	01/07/2014	Equity	1 750	583	–	1 167	677
	1,94	01/07/2010	01/07/2013	Cash	1 750	–	–	1 750	–
	2,22	01/07/2011	01/07/2014	Cash	1 500	–	–	1 500	–
	2,80	01/07/2012	01/07/2015	Cash	–	–	1 250	1 250	–
E Gouws	1,34	01/07/2007	01/07/2012	Equity	1 167	1 167	–	–	1 820
	1,54	01/07/2008	01/07/2013	Equity	2 000	–	–	2 000	–
	1,74	01/07/2009	01/07/2014	Equity	1 750	–	–	1 750	–
	1,94	01/07/2010	01/07/2013	Cash	1 750	–	–	1 750	–
	2,22	01/07/2011	01/07/2014	Cash	1 500	–	–	1 500	–
	2,80	01/07/2012	01/07/2015	Cash	–	–	1 250	1 250	–
JH Hofmeyr	1,54	01/07/2008	01/07/2013	Equity	267	133	–	134	181
	1,74	01/07/2009	01/07/2014	Equity	900	300	–	600	348
	1,94	01/07/2010	01/07/2013	Cash	1 000	–	–	1 000	–
	2,22	01/07/2011	01/07/2014	Cash	800	–	–	800	–
	2,80	01/07/2012	01/07/2015	Cash	–	–	900	900	–

Youi Holdings share incentive scheme

Executive	Strike price Aus$	Vesting date From	To	Opening balance 1 July 2012 '000	Taken up this year '000	**Closing balance 30 June 2013 '000**	Benefit derived $'000
WT Roos	0,10	31/08/2010	30/06/2018	109 375	–	109 375	–
H Aron	0,10	31/08/2010	30/06/2018	109 375	–	109 375	–
MC Visser	0,10	31/08/2010	30/06/2018	21 875	–	21 875	–

36. RELATED PARTY TRANSACTIONS (continued)

Rand Merchant Insurance Holdings Share schemes

Executive	Strike price Rands	Vesting date From	To	Scheme type	Opening balance 1 July 2012 R'000	Taken up this year R'000	Granted in current year R'000	**Closing balance 30 June 2013 R'000**	Benefit derived $'000
P Cooper[1]	13,09	2011/09/14	2014/09/14	Share appreciation rights	439	–	–	439	–
	20,28	2012/09/14	2015/09/14	Share appreciation rights	–	–	275	275	–
	20,28	2012/09/14	2016/09/14	Share appreciation rights	–	–	275	275	–
	20,28	2012/09/14	2017/09/14	Share appreciation rights	–	–	275	275	–
	None	2011/09/14	2013/09/14	Deferred bonus plan[2]	47	–	–	47	–
	None	2012/09/14	2014/09/14	Deferred bonus plan[2]	–	–	37 253	37	–

[1] *The benefits derived are paid by RMI Holdings Limited.*
[2] *The deferred bonus plan is settled in RMI Holdings Limited ordinary shares.*

37. RECLASSIFICATION OF COMPARATIVES

2012	Amount as previously reported	Amount as restated	Difference	Explanation
Reconciliation of cash generated by operations				
Investment income	(346 738)	2 450	(349 188)	Transfer of interest and dividends received to cash generated by operations
(Increase)/decrease in receivables	(321 920)	(326 461)	4 541	Transfer of interest and dividends received to cash generated by operations
Cash generated by operations	(2 148 685)	(2 493 332)	344 647	Transfer of interest and dividends received to cash generated by operations
Total	(2 817 343)	(2 817 343)	–	
Cash flow statement				
Operating activities				
Cash generated by operations	2 148 685	2 493 332	(344 647)	Transfer of interest and dividends received to cash generated by operations
Interest received	274 428	–	274 428	Transfer of interest and dividends received to cash generated by operations
Dividends received	70 219	–	70 219	Transfer of interest and dividends received to cash generated by operations
Total	2 493 332	2 493 332	–	
Taxation				
Tax rate reconciliation				
Fair value adjustment	1 677	63 179	(61 502)	Transfer of fair value adjustment to financial liability from non allowable expenses to fair value adjustment
Other non deductible differences	2 981	(6 544)	9 525	Combining other non deductible differences and other permanent differences
Other permanent differences	(9 525)	–	(9 525)	Combining other non deductible differences and other permanent differences
Non allowable expenses	65 983	4 481	61 502	Transfer of fair value adjustment to financial liability from non allowable expenses to fair value adjustment
Total	61 116	61 116	–	

38. 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 ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2013

The statements set out below comprise the separate financial statements presented to the shareholders:

STATEMENT OF FINANCIAL POSITION

at 30 June 2013

	Notes	2013 R'000	2012 R'000
ASSETS			
Investment in subsidiaries	4	1 538 651	1 537 196
Investment in associate	6	4 900	4 900
Financial assets			
Fair value through profit and loss	7	60 000	–
Loans and receivables	8	157 315	169 514
Tax receivable		–	12
Cash and cash equivalents	10	99 315	7 594
TOTAL ASSETS		1 860 181	1 719 216
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	11	35 182	35 182
Share premium	11	465 610	1 067 110
Other reserves			
Share based payment reserve		–	56 336
Retained earnings		1 359 297	560 288
TOTAL EQUITY		1 860 089	1 718 916
LIABILITIES			
Financial liabilities at fair value through profit and loss	12	78	–
Tax liabilities		14	–
Payables	13	–	300
TOTAL LIABILITIES		92	300
TOTAL EQUITY AND LIABILITIES		1 860 181	1 719 216

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2013

	Notes	2013 R'000	2012 R'000
Investment income	14	1 958 575	879 786
Marketing and administration expenses	15	(61)	(2)
Result of operating activities		1 958 514	879 784
Gain on disposal of subsidiary	5	52 513	–
Profit before taxation		2 011 027	879 784
Taxation	16	(10 413)	(74 011)
Net profit for the year		2 000 614	805 773
Net profit attributable to:			
Ordinary shareholders		1 962 301	748 640
Non cumulative non redeemable preference shareholders		38 313	57 133
Net profit for the year		2 000 614	805 773
Total comprehensive income attributable to:			
Ordinary shareholders		1 962 301	748 640
Non cumulative non redeemable preference shareholders		38 313	57 133
Total comprehensive income for the year		2 000 614	805 773

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2013

	Share capital R'000	Share premium R'000	Share based payments reserve R'000	Retained earnings R'000	Total ordinary shareholders' interest R'000	Total preference shareholders' interest R'000	Total R'000
Balance as at 30 June 2011	35 182	265 110	48 007	568 053	916 352	802 000	1 718 352
Total comprehensive income for the year	–	–	–	805 773	805 773	–	805 773
Share based payment	–	–	8 329	–	8 329	–	8 329
Preference dividend paid	–	–	–	(57 133)	(57 133)	–	(57 133)
Ordinary dividend paid	–	–	–	(756 405)	(756 405)	–	(756 405)
Balance as at 30 June 2012	35 182	265 110	56 336	560 288	916 916	802 000	1 718 916
Total comprehensive income for the year	–	–	–	2 000 614	2 000 614	–	2 000 614
Share based payments expense	–	–	714	435	1 149	–	1 149
Transfer from investment in subsidiaries	–	–	(49 281)	–	(49 281)	–	(49 281)
Share option expenses transferred to retained earnings	–	–	(6 358)	6 358	–	–	–
Disposal of subsidiary	–	–	(1 411)	–	(1 411)	–	(1 411)
Repurchase of preference shares	–	–	–	–	–	(601 500)	(601 500)
Preference dividend paid	–	–	–	(38 313)	(38 313)	–	(38 313)
Ordinary dividend paid	–	–	–	(1 170 085)	(1 170 085)	–	(1 170 085)
Balance as at 30 June 2013	35 182	265 110	–	1 359 297	1 659 589	200 500	1 860 089

STATEMENT OF CASH FLOWS

for the year ended 30 June 2013

	Notes	2013 R'000	2012 R'000
OPERATING ACTIVITIES			
Cash generated by operations	21	1 958 128	896 222
Taxation paid	22	(10 387)	(76 726)
Ordinary dividends paid		(1 170 085)	(756 405)
Preference dividends paid	23	(38 235)	(57 281)
Cash inflow from operating activities		739 421	5 810
INVESTING ACTIVITIES			
Investment in subsidiaries			
Acquisitions		(125 000)	(16 105)
Disposal		126 515	–
Proceeds on disposal of financial assets		–	8 662
Purchase of financial assets		(60 000)	–
Cash outflow from investing activities		(58 485)	(7 443)
FINANCING ACTIVITIES			
Repurchase of preference shares		(601 500)	–
Repayment of loan to share scheme participants		30 804	27 630
Loan advanced to share trust		(18 519)	(24 359)
Cash outflow from financing activities		(589 215)	(3 271)
Increase in cash and cash equivalents		91 721	1 638
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents		7 594	5 956
Increase in cash and cash equivalents		91 721	1 638
Closing balance of cash and cash equivalents	10	99 315	7 594

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013

1. GENERAL INFORMATION

OUTsurance Holdings Limited is an unlisted public company incorporated and domiciled in South Africa and a subsidiary of RMI Holdings Limited.

The financial statements were authorised for issue by the directors on 27 August 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual 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 Limited Board, OUTsurance Holdings Limited Audit, Risk and Compliance Committee, OUTsurance Holdings Limited Internal Investment Committee and the OUTsurance Holdings Limited Risk Committee, the latter two of which are internal management committees.

3.2 Financial risk management

3.2.1 Financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that quoted prices are used in the calculation of the fair value of the financial instruments. These levels are defined as follows:

- Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments as measured on reporting date.
- Level 2 – fair value is determined through 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.

At 30 June 2013

	Level 2 R'000	Level 3 R'000	Total R'000
Financial assets			
Financial assets at fair value through profit and loss	60 000	–	60 000
	60 000	–	60 000
Financial liabilities			
Financial liabilities at fair value through profit and loss	–	78	78
	–	78	78

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

Level 2

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

Level 3

The financial liabilities at fair value through profit and loss represent profit arising out of profit sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends on a six monthly basis to MMI Holdings Limited Groups.

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 Financial risk management (continued)

3.2.2 Market risk

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

Equity price risk

This is the risk that the price of an equity instrument will fluctuate due to market forces rather than as a direct result of some other market risk such as currency or interest rate risk. Equity price risk is the risk inherent in equity investments that cannot be removed by diversification.

	2013 R'000	2012 R'000
Collective investment schemes	60 000	–
	60 000	–

Interest rate risk

Interest rate risk is the risk that the value or future cash flow of a financial instrument will fluctuate as a result of a change in market interest rates. The Company's financial assets are exposed to interest rate risk. Risk exposure to movements in yields is specified as a maximum value per interest rate point move per million rand invested. These levels are approved annually by the Board of directors and the Investment Committee.

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:

	2013 1% increase R'000	**2013 1% increase R'000**	2012 1% increase R'000	2012 1% increase R'000
Cash and cash equivalents	993	(993)	76	(76)
	993	(993)	76	(76)

Currency risk

Currency risk is the risk that the value of a financial instrument denominated in a currency other than the reporting currency may fluctuate due to changes in the foreign currency exchange rate between the reporting currency and the currency in which such instrument is denominated.

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

3. MANAGEMENT OF RISK AND CAPITAL (continued)

3.2 Financial risk management (continued)

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:

	AAA R'000	AA R'000	A R'000	BBB R'000	BB R'000	Not rated R'000	Total R'000
At 30 June 2013							
Cash and cash equivalents	–	99 315	–	–	–	–	99 315
Collective investment scheme	–	14 202	–	38 952	6 846	–	60 000
Loans and receivables	–	41	–	112	20	157 142	157 315
Total	–	113 558	–	39 064	6 866	157 142	316 630
At 30 June 2012							
Cash and cash equivalents	–	7 594	–	–	–	–	7 594
Loans and receivables	6	14	3	–	–	169 491	169 514
Total	6	7 608	3	–	–	169 491	177 108

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

Long-term ratings

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

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

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

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

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

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 may encounter difficulty in raising funds to meet commitments associated with financial instruments. To mitigate this risk, the Company maintains prudent levels of liquid assets. The undiscounted liquidity profile of the Company's assets and liabilities, grouped by expected maturity, is outlined below:

	0 – 6 months R'000	> 60 months R'000	Total R'000
At 30 June 2013			
Assets			
Investment in subsidiary	–	1 538 651	1 538 651
Investment in associates	–	4 900	4 900
Financial assets			
Fair value through profit and loss	60 000	–	60 000
Loans and receivables	157 315	–	157 315
Cash and cash equivalents	99 315	–	99 315
Total assets	316 630	1 543 551	1 860 181
Liabilities			
Tax liability	14	–	14
Financial liabilities held at fair value through profit and loss	78	–	78
Total liabilities	92	–	92
At 30 June 2012			
Assets			
Investment in subsidiary	–	1 537 196	1 537 196
Investment in associates	–	4 900	4 900
Financial assets			
Loans and receivables	169 514	–	169 514
Tax receiveable	12	–	12
Cash and cash equivalents	7 594	–	7 594
Total assets	177 120	1 542 096	1 719 216
Liabilities			
Financial liabilities at amortised cost			
Payables	300	–	300
Total liabilities	300	–	300

	2013 R'000	2012 R'000
4. INVESTMENT IN SUBSIDIARIES		
OUTsurance Insurance Company Limited		
Ordinary shares at cost	141 900	141 900
Capitalised share based payments	6 340	54 167
	148 240	196 067
Momentum Short-term Insurance Company Limited		
Ordinary shares at cost	–	74 002
Capitalised share based payments	–	1 411
	–	75 413
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 Limited		
Ordinary shares at cost	205 002	80 002
Capitalised share based payments	218	523
	205 220	80 525
Micawber 296 (Pty) Ltd		
Ordinary shares at cost	16 105	16 105
	16 105	16 105
Total investment in subsidiary companies	1 538 691	1 537 196
Reconciliation of investment in subsidiary – OUTsurance Insurance Company Limited		
Opening balance	196 067	188 560
Capitalised share based payments	1 106	7 507
Share option expenses transferred	(48 933)	–
Closing balance	148 240	196 067
Reconciliation of investment in subsidiary – Momentum Short-term Insurance Company Limited		
Opening balance	75 413	74 894
Capitalised share based payments	–	519
Sale of shares in subsidiary	(75 413)	–
Closing balance	–	75 413
Reconciliation of investment in subsidiary – OUTsurance International Holdings (Pty) Ltd		
Opening balance	1 169 086	1 169 086
Closing balance	1 169 086	1 169 086
Reconciliation of investment in subsidiary – OUTsurance Life Insurance Company Limited		
Opening balance	80 525	80 222
Ordinary shares at cost	125 000	–
Capitalised share based payments	44	303
Share option expenses transferred	(349)	–
Closing balance	205 220	80 525
Reconciliation of investment in subsidiary – Micawber 296 (Pty) Ltd		
Opening balance	16 105	–
Capitalised loan	–	16 105
Closing balance	16 105	16 105

4. INVESTMENT IN SUBSIDIARIES (continued)

Not disclosed above is an investment in Youi (Pty) Ltd, formerly SIAS Administration (Pty) Ltd. This wholly-owned subsidiary was incorporated in 2005 with a share capital of R100. The subsidiary performs common administration functions for the licensed underwriters in the Group which are invoiced to those companies on a cost recovery basis. This investment has not been disclosed individually in the numbers above due to the immateriality thereof and the effects of rounding.

Subsidiary companies only distribute dividends if management is of the opinion that the target solvency margin in the subsidiary will be maintained.

The OUTsurance Holdings Share Trust is controlled by OUTsurance Holdings Limited. The details of subsidiary companies are as follows:

Subsidiary	Nature of business	Country of Incorporation	Effective holding 2013	2012
OUTsurance Insurance Company Limited	Short-term insurer	South Africa	100%	100%
OUTsurance Life Insurance Company Limited	Long-term insurer	South Africa	100%	100%
Momentum STI Limited*	Short-term insurer	South Africa	0%	50%
Youi (Pty) Ltd – (formerly SIAS Administration (Pty) Ltd	Administration company	South Africa	100%	100%
OUTsurance International Holdings (Pty) Ltd	Holding company	South Africa	100%	100%
Micawber 296 (Pty) Ltd	Property company	South Africa	100%	100%

**Sold during the 2013 financial year.*

Refer to note 24 for the current and non-current analysis of investments in subsidiaries.

5. DISPOSAL OF SUBSIDIARY

The gain on disposal of Momentum STI (Pty) Ltd is calculated as follows:

	2013 R'000	2012 R'000
Consideration received in cash and cash equivalents	126 515	–
Less: Total ordinary shares held	74 002	–
Gain on disposal of subsidiary	52 513	–

	2013 R'000	2012 R'000
6. INVESTMENT IN ASSOCIATES		
OUTsurance Insurance Company of Namibia Limited		
Investment in associate	4 900	4 900
	4 900	4 900

Refer to note 24 for the current and non-current analysis of investments in associates.

	2013 R'000	2012 R'000
7. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES		
The Company's financial assets are summarised below:		
Fair value designated through profit and loss		
Debt securities		
Collective investment scheme	60 000	–
Total financial assets	60 000	–

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

	Fair value designated through profit and loss R'000	Total R'000
At 30 June 2013		
Movement analysis		
Balance at 1 July 2012	–	–
Additions (purchases and issuings)	60 000	60 000
Balance at 30 June 2013	60 000	60 000
At 30 June 2012		
Movement analysis		
Balance at 1 July 2011	8 662	8 662
Disposals (sales and redemptions)	(8 662)	(8 662)
Balance at 30 June 2012	–	–

8. FINANCIAL ASSETS – LOANS AND RECEIVABLES

	2013 R'000	2012 R'000
Other receivables		
Accrued dividend income	173	22
Loan to share trust	157 093	169 378
Other receivables and prepayments	49	114
Total receivables	157 315	169 514

Other receivables are carried at the amount which approximates the contractual cash flows due to the Company. Where the effects of discounting are deemed material, the receivables are reflected at the discounted amounts.

At 30 June 2013, 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 25 for further details thereof.

The carrying amount of loans and receivables approximates the fair value. Refer to note 24 for the current and non-current analysis of loans and receivables.

9. LOAN TO SHARE TRUST

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.

	2013 R'000	2012 R'000
Opening balance	169 378	172 649
Repayment of loan	(30 804)	(27 630)
Cash advanced to trust	18 519	24 359
Closing balance	157 093	169 378

		2013 R'000	2012 R'000
10.	**CASH AND CASH EQUIVALENTS**		
	Cash at bank and in hand	99 315	7 594
		99 315	7 594

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

		2013 R	2012 R
11.	**SHARE CAPITAL**		
	Share premium		
	Authorised share capital		
	4 000 000 000 (2012: 4 000 000 000) ordinary shares at R0.01 each	40 000 000	40 000 000
	1000 "A" variable rate non cumulative non redeemable preference shares of R0.01 each	10	10
	Issued ordinary share capital		
	Total shares in issue: 3 518 163 100 (2012: 3 518 163 100) ordinary shares at R0.01 each	35 181 631	35 181 631
	Closing balance	35 181 631	35 181 631
	Issued preference share capital		
	Opening balance: 712 (2012:712) "A" variable rate non cumulative non redeemable preference shares at R0.01 each	7	7
	Shares repurchased during the year: 534 (2012: 0) "A" variable rate non cumulative non redeemable preference shares of R0.01 each	(5)	–
	Total shares in issue: 178 (2012:712) "A" variable rate non cumulative non redeemable preference shares of R0.01 each	2	7

	2013 R'000	2012 R'000
Share premium		
Ordinary shares		
Issued share premium	265 110	265 110
	265 110	265 110
"A" Preference shares		
Opening balance	802 000	802 000
Share premium on redemption of shares	(601 500)	–
Closing balance	200 500	802 000

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

12. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss relate to the preference shares issued by OUTsurance Holdings Limited to RMI Holdings Limited. The portion of the unpaid preference dividend at 30 June 2013 is recognised as a financial liability at fair value through profit and loss.

	2013 R'000	2012 R'000
Shareholders for "A" preference dividends	78	–
	78	–

Refer to note 24 for the current and non-current analysis of shareholders for preference dividends.

	2013 R'000	2012 R'000
13. PAYABLES		
Other payables	–	300
Total payables	–	300

The carrying amount of payable approximates the fair value. Refer to note 24 for the current and non-current analysis of payables.

	2013 R'000	2012 R'000
14. INVESTMENT INCOME		
Cash and cash equivalents		
Interest received	3 094	1 069
Dividends received from financial assets designated at fair value through profit and loss	581	332
Dividends from subsidiaries	1 954 900	878 385
	1 958 575	879 786

15. MARKETING AND ADMINISTRATION EXPENSES

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

	2013 R'000	2012 R'000
Other disclosable items		
Consulting and legal fees for professional services	57	–
Other marketing and management expenses	4	2
Total marketing and administration expenses per the statement of comprehensive income	61	2

	2013 R'000	2012 R'000

16. TAXATION

	2013 R'000	2012 R'000
South African normal taxation		
Current tax	(10 413)	(298)
Current year	(10 413)	(298)
Total normal taxation	(10 413)	(298)
Secondary tax on companies	–	(73 713)
Total taxation charge	(10 413)	(74 011)
Tax rate reconciliation		
Normal SA tax on companies	563 088	246 340
Non-temporary differences	(552 675)	(246 042)
Capital gains tax	9 547	–
Profit on sale of subsidiary	(14 704)	–
Exempt dividends	(547 534)	(246 042)
Non allowable expenses	16	–
Secondary tax on companies	–	73 713
Amount calculated at effective rate	10 413	74 011

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

17. BASIC EARNINGS PER SHARE

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

Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. 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.

	2013 R	2012 R
Earnings attributable to ordinary shareholders (R'000)	1 962 301	748 640
Weighted average number of shares in issue	3 518 163 100	3 518 163 100
Basic earnings per share (cents)	55,78	21,28

17.2 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 Company.

	2013 R	2012 R
Total earnings attributable to ordinary shareholders (R'000)	1 962 301	748 640
Diluted weighted average number of shares in issue	3 597 726 347	3 604 630 009
Weighted average number of shares in issue	3 518 163 100	3 518 163 100
Dilution impact of share incentive scheme	79 563 247	87 391 050
Diluted earnings per share (cents)	54,54	20,76

18. 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

	2013	2012
Earnings attributable to ordinary shareholders (R'000)	1 962 301	748 640
Adjusted for:		
(Gain) on disposal of subsidiary (R'000)	(52 513)	–
Headline earnings attributable to ordinary shareholders (R'000)	1 909 788	748 640
Weighted average number of shares in issue	3 518 163 100	3 518 163 100
Headline earnings per share – basic (cents)	54,28	21,28
Diluted weighted average number of shares in issue	3 597 726 347	3 518 163 100
Headline earnings per share – diluted (cents)	53,00	20,76

	2013	2012
19. DIVIDEND PER SHARE		
Total dividends paid during the year (R'000)	1 170 085	756 405
Total dividends declared during the year (R'000)	932 313	1 125 812
Number of ordinary shares in issue	3 518 163 100	3 518 163 100
Dividends declared per share (cents)	26,50	32,00
Dividends paid per share (cents)	33,26	21,50

20. SHARE INCENTIVE SCHEMES

The share incentive scheme is prepared on the same basis as that of the OUTsurance Holdings Limited Group.

	2013 R'000	2012 R'000

21. RECONCILIATION OF CASH GENERATED BY OPERATIONS

	2013 R'000	2012 R'000
Comprehensive income for the year before tax	2 011 027	879 784
Adjusted for:		
Disposal of subsidiary	(52 513)	–
Cash generated by operations before working capital changes	1 958 514	879 784
Changes in working capital	(386)	16 438
(Increase)/decrease in receivables	(86)	16 138
(Decrease)/increase in payables	(300)	300
Cash generated by operations	1 958 128	896 222

22. TAXATION PAID

	2013 R'000	2012 R'000
Taxation payable/(receivable) – opening balance	12	(2 703)
Charge in statement of comprehensive income	(10 413)	(74 011)
Taxation payable/(receivable) – closing balance	14	(12)
Taxation paid	(10 387)	(76 726)

23. PREFERENCE DIVIDEND PAID

	2013 R'000	2012 R'000
Preference dividends unpaid at the beginning of the year	–	(148)
Preference dividend in respect of "A" variable rate non cumulative preference shares	(38 313)	(57 133)
Preference dividend unpaid at the end of the year	78	–
Preference dividend paid	(38 235)	(57 281)

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

	Carrying amount R'000	Current R'000	Non current R'000
2013			
ASSETS			
Investment in subsidiaries	1 538 651	–	1 538 651
Investment in associates	4 900	–	4 900
Financial assets			
Fair value through profit and loss	60 000	60 000	–
Loans and receivables	157 315	157 315	–
Cash and cash equivalents	99 315	99 315	–
TOTAL ASSETS	1 860 181	316 630	1 543 551
LIABILITIES AND EQUITY			
Total shareholders' equity	1 860 089	–	1 860 089
Financial liabilities at fair value through profit and loss	78	78	–
Tax liabilities	14	14	–
TOTAL EQUITY AND LIABILITIES	1 860 181	92	1 860 089
2012			
ASSETS			
Investment in subsidiaries	1 537 196	–	1 537 196
Investment in associates	4 900	–	4 900
Financial assets			
Loans and receivables	169 514	135	169 379
Tax receivable	12	12	–
Cash and cash equivalents	7 594	7 594	–
TOTAL ASSETS	1 719 216	7 741	1 711 475
LIABILITIES AND EQUITY			
Total shareholders' equity	1 718 916	–	1 718 916
Payables	300	300	–
TOTAL EQUITY AND LIABILITIES	1 719 216	300	1 718 916

25. RELATED PARTY TRANSACTIONS

The Company defines related parties as:

- Subsidiary companies
- Associate companies
- Key management personnel such as the Company's Board of directors and executive committee as well as the Youi Pty Ltd executive committee.

Principal shareholders

The Company is ultimately controlled by RMI Holdings Limited. At the reporting date, RMI Holdings Group owned 83,4% (2012: 83,4%) of OUTsurance Holdings Limited, with the OUTsurance Holdings Share Trust owning 2,2% (2012: 2,6%), OUTsurance Investment Trust owning 6,5% (2012: 6,5%) and management 7,9% (2012: 7,5%) of the issued share capital.

Subsidiaries

Details of investment in subsidiaries are disclosed in note 4.

Associates

Details of investment in associates are disclosed in note 6.

Key management personnel

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

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

	2013 R'000	2012 R'000
Transactions with related parties		
RMI Holdings Limited		
– "A" Preference dividends paid	(38 235)	(57 133)
– Ordinary dividends paid	(458 693)	(339 223)
Year end balances with related parties		
RMI Holdings Limited		
– "A" Preference dividends payable	78	–

26. RECLASSIFICATION OF PRIOR YEAR NUMBERS

The following changes to the classification of items were made to the cash flow statement and related notes.

30 June 2012	Amount as previously reported R'000	Amount as Restated R'000	Difference R'000
Reconciliation of cash generated by operations			
Investment income	879 786	–	(879 786)
(Increase) in receivables	(16 085)	(16 138)	(53)
Cash generated by operations	16 383	896 222	879 839
	880 084	880 084	–
Cash flow statement			
Operating activities			
Cash generated by operations	16 383	896 222	879 839
Interest received	1 069	–	(1 069)
Dividends received	878 770	–	(878 770)
Ordinary dividends paid	(756 405)	–	756 405
Preference dividends paid	(57 281)	–	57 281
Financing activities			
Ordinary dividends paid	–	(756 405)	(756 405)
Preference dividends paid	–	(57 281)	(57 281)
Total	82 536	82 536	–

27. 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.

CONTACT INFORMATION

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OUT
SURANCE
Holdings Limited

YOU
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SOMETHING
OUT