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OUT**

2013

**UNAUDITED INTERIM RESULTS CIRCULAR
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013**

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

This analysis is available on our website www.outsurance.co.za

INTRODUCTION

This report covers the financial results and operating review of OUTsurance Holdings Limited (“the Group”) for the six months ended 31 December 2013. The financial results are prepared based on International Financial Reporting Standards (“IFRS”) and are unaudited.

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

FINANCIAL HIGHLIGHTS

Headline earnings
20,5% up to
R594 million

Gross written premium
24,4% up to
R4 916 million

34% Headline ROE

OVERVIEW OF RESULTS

The Group delivered strong headline earnings growth of 20,5% for the six months under review.

The headline earnings growth was driven by significant improvement in Youi's loss position together with a satisfactory performance in the South African short-term insurance operations.

The key highlight of the Group's performance during the six months under review was the 24,4% growth in gross written premium income. The growth resulted from the 70,3% increase in the premiums written by Youi. Youi's contribution to the Group's insurance revenue increased to 37% during the period under review.

New business volumes in the South African personal lines business continued to improve on the back of low premium inflation. OUTsurance Life recorded a 46,7% lift in premium income following the launch of innovative products during the prior financial year. Overall, the Group recorded a 33% increase in the annualised value of new business written during the reporting period.

Annualised new business written (R'million)



Geographical diversification



Based on gross written premium

The group endured large natural catastrophe events in both the South African and Australian businesses during the six months under review. In total the Group recorded R329 million in gross claims relating to natural catastrophes with a net financial impact of R174 million after taking into account reinsurance recoveries and reinstatement premiums. This compares to a net natural catastrophe loss of R59 million recorded in the comparative six months. Despite the impact of these events, the claims ratios of the operating entities were satisfactory and below the respective market averages.

The cost-to-income ratio of the Group decreased from 27,9% to 27,4%. The decrease resulted from economies of scale realised in Youi together with cost containment and the realisation of operational efficiencies in the South African operation.

OVERVIEW OF RESULTS continued

Group key performance indicators

| | Six months ended 31 December | | | Year ended 30 June |
|---|---------------------------------|-------|----------|-----------------------|
| | 2013 | 2012 | % change | 2013 |
| Headline earnings ¹ (R'million) | 594 | 493 | 20,5 | 1 161 |
| Headline ROE (%) ¹ | 34,0 | 31,4 | | 36,0 |
| Headline earnings per share (cents) | 17,2 | 14,4 | 19,4 | 33,8 |
| Diluted headline earnings per share (cents) | 16,8 | 14,3 | 17,5 | 33,2 |
| Dividend declared per share (cents) | 12,0 | 12,0 | – | 24,0* |
| Gross written premium (R'million) | 4 916 | 3 953 | 24,4 | 8 288 |
| Claims ratio (including non-claims bonuses) (%) | 54,8 | 54,0 | | 51,5 |
| Cost-to-income ratio (%) | 27,4 | 27,9 | | 27,5 |
| Combined ratio ² (%) | 84,9 | 85,1 | | 83,0 |

¹ Attributable to ordinary shareholders.

² After profit share distributions paid to FirstRand Limited.

* Excludes a special dividend of 2.5 cents per share.

Sources of headline earnings

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

| R'million | Six months ended 31 December | | | Year ended 30 June |
|---|---------------------------------|------------|-------------|-----------------------|
| | 2013 | 2012 | % change | 2013 |
| OUTsurance | 610 | 568 | 7,4 | 1 213 |
| Youi | (2) | (49) | 95,9 | (33) |
| OUTsurance Life | (15) | (6) | >(100) | (9) |
| OUTsurance Namibia (49%) | 4 | 6 | (33,3) | 10 |
| Central (including consolidation adjustments) | 5 | (1) | >100 | 18 |
| NCNR preference dividend | (6) | (25) | 76,0 | (38) |
| Non-controlling interest | (2) | – | (100) | – |
| Headline earnings | 594 | 493 | 20,5 | 1 161 |

BUSINESS UNIT PERFORMANCE

OUTsurance

OUTsurance grew headline earnings by 7,4% to R610 million for the six months under review. OUTsurance incurred R239 million in gross claims from weather related catastrophes during this period. After taking into account premium to reinstate reinsurance cover, the net exposure amounted to R84 million compared to R59 million in the comparative period.

Key ratios (%)



OVERVIEW OF RESULTS continued

OUTsurance delivered a satisfactory 6,0% growth in gross written premiums which was well above the average premium inflation for the period, signalling volume growth. The personal lines business grew gross premiums by 5,5% in a market which remains highly competitive. Business OUTsurance expanded premium income by 9,9%, a satisfactory result given the curtailment in the footprint of the in-house agency force.

The cost ratio improved to 18,0% from 19,1%. Notwithstanding various once-off costs incurred in the comparative period, the core cost ratio improved as a result of various efforts to enhance operational efficiency and restrain cost inflation.

OUTsurance key – performance indicators

| R'million | Six months ended 31 December | | | Year ended 30 June |
|--------------------------------------|---------------------------------|-------|----------|-----------------------|
| | 2013 | 2012 | % change | 2013 |
| Gross written premium | 2 965 | 2 797 | 6,0 | 5 660 |
| Net earned premium | 2 893 | 2 773 | 4,3 | 5 608 |
| Headline earnings | 610 | 568 | 7,4 | 1 213 |
| Claims ratio (including bonuses) (%) | 53,5 | 53,3 | | 50,6 |
| Cost-to-income ratio (%) | 18,0 | 19,1 | | 19,3 |
| Combined ratio (%) ¹ | 75,6 | 76,7 | | 74,9 |

¹ After profit share distributions paid to FirstRand Limited.

Youi

Youi's headline loss decreased from R49 million in the comparative period to R2 million for the reported six months. The significant improvement was driven by strong top-line growth over the last year.

Youi delivered another excellent operational performance for the six months under review. Most notably, Youi grew gross written premiums by 70,3% in Rand and 63,1% in Australian Dollar terms.

Youi incurred aggregate claims of R90 million resulting from natural catastrophes which included hail, flood and fire events. Individually none of the claim events were large enough to trigger reinsurance claims. This compares to a benign comparative period where no significant events occurred. Excluding the above events, Youi's core claim ratio was a satisfactory 52,7%. Youi's claims ratio continues to trend below the industry average.

Youi extracted significant scale benefits over the interim period with the cost-to-income ratio decreasing from 55,4% in the comparative period to 43,7%. The improvement was driven by the significant growth in the size of the in-force book together with operational efficiency gains.

Gross written premium (R'million)



OVERVIEW OF RESULTS continued

Youi – key performance indicators

| | Six months ended 31 December | | | Year ended 30 June |
|---|---------------------------------|-------|----------|-----------------------|
| | 2013 | 2012 | % change | 2013 |
| Rand (R'million) | | | | |
| Gross written premium | 1 841 | 1 081 | 70,3 | 2 466 |
| Net earned premium | 1 345 | 764 | 76,0 | 1 797 |
| Headline loss | (2) | (49) | 95,9 | (33) |
| Headline loss attributable to the Group | (4) | (49) | 91,8 | (33) |
| Australian Dollars (\$'million) | | | | |
| Gross written premium | 199 | 122 | 63,1 | 270 |
| Net earned premium | 145 | 86 | 68,6 | 197 |
| Headline loss | (0,2) | (5) | 96,0 | (4) |
| Ratios | | | | |
| Claims ratio (%) | 59,2 | 57,8 | | 55,6 |
| Cost-to-income ratio (%) | 43,7 | 55,4 | | 50,6 |
| Combined ratio (%) | 102,9 | 113,2 | | 106,2 |
| AUD/ZAR exchange rate | | | | |
| – Closing | 9,36 | 8,79 | 6,5 | 9,03 |
| – Average | 9,25 | 8,84 | 4,6 | 9,09 |

The Group's interest in Youi decreased from 100% to 93,6% during the six month period as a result of the exercise of share options by Youi staff members. Based on the number of Youi options in issue and currently exercisable, the Group's interest can dilute to 80,8%.

OUTsurance Life

OUTsurance Life experienced strong top-line growth of 46,7% during the six months under review. Premium growth benefitted from the launch of an innovative product whereby claim-free clients can receive all their premiums back in cash after fifteen years.

The increase in the interim headline loss from R6 million to R15 million was driven by increased operational and acquisition costs to market new products and service higher sales volumes.

OUTsurance Life – key performance indicators

| R'million | Six months ended 31 December | | | Year ended 30 June |
|-----------------------|---------------------------------|------|----------|-----------------------|
| | 2013 | 2012 | % change | 2013 |
| Gross written premium | 110 | 75 | 46,7 | 163 |
| Headline loss | (15) | (6) | >(100) | (9) |

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

OVERVIEW OF RESULTS continued

OUTsurance Namibia

OUTsurance Namibia decreased headline earnings by 18,2% to R9 million. The decrease is associated with an increase in the claims ratio from 51,0% in the comparative period to 54,4%.

OUTsurance Namibia delivered strong new business growth with gross written premiums increasing by 33,3% for the period under review.

OUTsurance Namibia – key performance indicators

| R'million | Six months ended 31 December | | | Year ended 30 June |
|-----------------------|---------------------------------|------|----------|-----------------------|
| | 2013 | 2012 | % change | 2013 |
| Gross written premium | 68 | 51 | 33,3 | 122 |
| Net earned premium | 61 | 49 | 24,5 | 103 |
| Headline earnings | 9 | 11 | (18,2) | 20 |
| Claims ratio (%) | 54,4 | 51,0 | | 49,5 |

CAPITAL POSITION

The table below summarises the capital positions of the regulated entities of the Group at 31 December 2013:

| Capital adequacy ratio ¹ | Six months ended 31 December | | | Year ended 30 June |
|---|---------------------------------|------------|---------------|-----------------------|
| | 2013 | 2012 | Target CAR | 2013 |
| Group | 1,7 | 1,8 | | 1,8 |
| Short-term insurance | | | | |
| OUTsurance Insurance Company Limited | 1,6 | 1,8 | 1,2 | 1,6 |
| OUTsurance Insurance Company of Namibia Limited | 1,3 | 1,5 | 1,2 | 1,7 |
| Youi Pty Limited | 1,8 | 2,2 | 1,5 | 2,2 |
| Long-term insurance | | | | |
| OUTsurance Life Insurance Company Limited | 1,9 | 1,3 | 1,8 | 3,1 |

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

The Group maintains a conservative approach in managing its capital resources. Our strategic focus is to generate underwriting returns which are commensurate with the risk assumed in running an insurance operation. Our investment philosophy supports this approach as investible funds are largely invested in investment grade cash and near cash instruments.

DIVIDENDS

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

During the period under review, the Group repurchased the remainder of the outstanding perpetual preference shares issued by Rand Merchant Insurance Holdings for R201 million.

The repurchase programme was completed sooner than planned and was funded from retained profits.

The Group has earmarked R450 million to grow the Youi business. The additional capital will be utilised to support the rapid growth of the Australian business as well as to facilitate the planned expansion of Youi into the New Zealand market in the next financial year. Additional capital has also been set aside to support the growth of OUTsurance Life.

As a result of the above factors the Group's interim dividend of 12 cents per ordinary share is unchanged from the prior interim dividend.

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

OVERVIEW OF RESULTS continued

LOOKING AHEAD

Trading conditions in the South African business are expected to remain largely unchanged. The risk of a weakening local economy is believed to be increased due to the recent depreciation of the Rand, slowing consumer spending and the expectation of rising inflation.

The Australian business is expected to continue to penetrate the Australian market and show strong top line growth together with enhanced economies of scale. Ignoring the impact of natural catastrophes, it is expected that Youi's claims ratio will remain within the target range.

BASIS OF PRESENTATION

OUTsurance Holdings prepares its consolidated financial results in accordance with the Companies Act (71 of 2008) and IFRS, including IAS 34 Interim Financial Reporting. This circular should be read in conjunction with the Group's annual report for the financial year ending 30 June 2013.

The accounting policies applied are consistent with those applied in previous financial year, except as described below.

IFRS 10: Consolidated Financial Statements. Under IFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10. The adoption of IFRS 10 has had no impact on the Group.

IFRS 11: Joint Arrangements. Under IFRS 11, investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. The adoption of IFRS 11 has had no impact on the Group as the Group has no joint arrangements.

IFRS 13: Fair value measurement. IFRS 13 measurement and disclosure requirements are applicable for the June 2014 year end. The Group has included the disclosures required by IAS 34.16A(j) per the financial risk management note on page 14.

EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any material events, as defined in IAS 10, occurring between 31 December 2013 and the date of the authorisation of the interim results announcement.



Willem Roos
Joint Chief Executive Officer



Laurie Dippenaar
Chairman

HEADLINE EARNINGS RECONCILIATION

| R'million | Six months ended 31 December | | | Year ended 30 June |
|--|---------------------------------|------|----------|-----------------------|
| | 2013 | 2012 | % change | 2013 |
| Earnings attributable to ordinary shareholders | 591 | 536 | 10,3 | 1 202 |
| <i>Adjusted for:</i> | | | | |
| Gain on sale of subsidiary ¹ | – | (53) | | (51) |
| Loss on disposal of property and equipment | 4 | – | | 1 |
| Tax effect of headline earnings adjustments | (1) | 10 | | 9 |
| Headline earnings | 594 | 493 | 20,5 | 1 161 |

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ending 31 December 2013

| R'000 | Six months ended 31 December | | | Year ended 30 June |
|--|---------------------------------|-------------|----------|-----------------------|
| | 2013 | 2012 | % change | 2013 |
| Gross insurance premium written | 4 916 368 | 3 953 198 | 24,4 | 8 288 477 |
| Outward reinsurance premiums | (171 037) | (116 870) | (46,3) | (234 398) |
| Net premiums written | 4 745 331 | 3 836 328 | 23,7 | 8 054 079 |
| Change in provision for unearned premiums | (406 926) | (230 921) | (76,2) | (500 777) |
| Earned premiums, net of reinsurance | 4 338 405 | 3 605 407 | 20,3 | 7 553 302 |
| Other income | 2 670 | – | – | 1 003 |
| Investment income | 160 853 | 157 525 | 2,1 | 306 517 |
| Net (losses)/gains on fair value adjustments on financial assets | (4 055) | (787) | (>100) | 519 |
| Income | 4 497 873 | 3 762 145 | 19,6 | 7 861 341 |
| Claims on insurance contracts net of reinsurance | (2 198 076) | (1 789 433) | (22,8) | (3 590 635) |
| Gross insurance contract claims incurred | (2 472 108) | (1 932 626) | (27,9) | (3 777 662) |
| Reinsurers' share of insurance contract claims | 274 032 | 143 193 | 91,4 | 187 027 |
| Cash bonuses on insurance contracts | (153 437) | (143 712) | (6,8) | (271 257) |
| Acquisition expenses | (9 522) | (22 646) | 58,0 | (33 445) |
| Marketing and administration expenses | (1 182 377) | (985 140) | (20,0) | (2 041 639) |
| Transfer to policyholder liabilities under insurance contracts | (25 917) | (12 673) | >100 | (29 384) |
| Fair value adjustment to financial liabilities | (85 323) | (84 528) | (0,9) | (200 758) |
| Result of operating activities | 843 221 | 724 013 | 16,5 | 1 694 223 |
| Finance charges | (205) | (431) | 52,4 | (722) |
| Equity accounted earnings from associate | 4 295 | 5 505 | (22,0) | 10 015 |
| Gain on sale of subsidiary | – | 52 513 | (100) | 51 220 |
| Profit before taxation | 847 311 | 781 600 | 8,4 | 1 754 736 |
| Taxation | (248 305) | (219 690) | (13,0) | (514 847) |
| Net profit for the period | 599 006 | 561 910 | 6,6 | 1 239 889 |
| Other comprehensive income | | | | |
| Fair value gains and losses on financial instruments | 41 519 | 25 589 | 62,3 | 19 211 |
| Exchange differences on foreign operations | 30 403 | 41 677 | (27,1) | 62 361 |
| Total comprehensive income for the period | 670 928 | 629 176 | 6,6 | 1 321 461 |
| Net profit attributable to: | | | | |
| Ordinary shareholders | 591 431 | 536 435 | 10,3 | 1 201 576 |
| Non cumulative non redeemable preference shareholders | 5 824 | 25 475 | (77,1) | 38 313 |
| Equity holders of the Group | 597 255 | 561 910 | 6,3 | 1 239 889 |
| Non-controlling interest | 1 751 | – | >100 | – |
| Net profit for the period | 599 006 | 561 910 | 6,6 | 1 239 889 |
| Total comprehensive income attributable to: | | | | |
| Ordinary shareholders | 663 353 | 603 701 | 9,9 | 1 283 148 |
| Non cumulative non redeemable preference shareholders | 5 824 | 25 475 | (77,1) | 38 313 |
| Equity holders of the Group | 669 177 | 629 176 | 6,4 | 1 321 461 |
| Non-controlling interest | 1 751 | – | >100 | – |
| Total comprehensive income for the period | 670 928 | 629 176 | 6,6 | 1 321 461 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

| R'000 | Six months ended 31 December | | Year ended 30 June |
|---|---------------------------------|------------------|-----------------------|
| | 2013 | 2012 | 2013 |
| ASSETS | | | |
| Property and equipment | 522 135 | 441 541 | 459 598 |
| Employee benefits | 24 968 | 51 278 | 39 685 |
| Investment in associates | 19 486 | 18 521 | 23 031 |
| Financial assets | | | |
| Fair value through profit and loss | 2 434 562 | 2 279 299 | 2 631 452 |
| Available-for-sale | 1 257 534 | 1 273 763 | 1 123 711 |
| Loans and receivables | 1 179 116 | 703 068 | 980 505 |
| Reinsurers' share of insurance contract provisions | 226 137 | 120 071 | 47 941 |
| Deferred acquisition costs | – | 3 493 | 2 952 |
| Deferred income tax | 383 003 | 443 731 | 371 130 |
| Tax receivable | 12 814 | 6 957 | 1 184 |
| Cash and cash equivalents | 2 367 593 | 1 703 014 | 1 933 587 |
| TOTAL ASSETS | 8 427 348 | 7 044 736 | 7 614 776 |
| EQUITY | | | |
| Capital and reserves attributable to equity holders | | | |
| Share capital | 34 636 | 34 404 | 34 403 |
| Share premium | 162 772 | 510 850 | 309 296 |
| Other reserves | | | |
| Foreign currency translation reserve | 217 736 | 166 649 | 187 333 |
| Available-for-sale reserve | 87 406 | 52 265 | 45 887 |
| Retained earnings | 3 105 243 | 2 762 485 | 3 016 499 |
| Total shareholders' equity | 3 607 793 | 3 526 653 | 3 593 418 |
| Non-controlling interest | 113 646 | – | – |
| TOTAL EQUITY | 3 721 439 | 3 526 653 | 3 593 418 |
| LIABILITIES | | | |
| Insurance contract liabilities | 4 029 867 | 2 987 717 | 3 312 254 |
| Employee benefits | 66 501 | 61 067 | 84 723 |
| Share based payment liability | 36 945 | 27 554 | 45 524 |
| Financial liabilities at fair value through profit and loss | 85 323 | 86 123 | 110 425 |
| Tax liabilities | 4 008 | 15 349 | 35 548 |
| Financial liabilities held at amortised cost | | | |
| Insurance and other payables | 483 265 | 340 273 | 432 884 |
| TOTAL LIABILITIES | 4 705 909 | 3 518 083 | 4 021 358 |
| TOTAL EQUITY AND LIABILITIES | 8 427 348 | 7 044 736 | 7 614 776 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ending 31 December 2013

| R'000 | Share capital | Share premium | Available-for-sale reserves | Currency translation reserve | Share based payments reserve | Retained earnings | Total ordinary shareholders' interest | Non-controlling interest | Total |
|--|---------------|----------------|-----------------------------|------------------------------|------------------------------|-------------------|---------------------------------------|--------------------------|------------------|
| Opening balance as at 1 July 2012 | 34 270 | 96 644 | 26 676 | 124 972 | 56 336 | 2 941 471 | 3 280 369 | 75 295 | 4 157 664 |
| Total comprehensive income for the period | - | - | 25 589 | 41 677 | - | 561 910 | 629 176 | - | 629 176 |
| Issue of share capital | 134 | 13 206 | - | - | - | 13 340 | 13 340 | - | 13 340 |
| Repurchase of preference shares | - | - | - | - | - | - | - | - | (401 000) |
| Share option expenses transferred to retained earnings | - | - | - | - | (38 227) | 38 227 | - | - | - |
| Share based payment expense | - | - | - | - | 713 | - | 713 | - | 713 |
| Transfer to share based payment liability | - | - | - | - | (17 412) | 4 875 | (12 537) | - | (12 537) |
| Sale of subsidiary | - | - | - | - | (1 410) | (1 293) | (2 703) | - | (77 998) |
| Preference dividend paid | - | - | - | - | - | (25 475) | (25 475) | - | (25 475) |
| Ordinary dividend paid | - | - | - | - | - | (757 230) | (757 230) | - | (757 230) |
| Balance as at 31 December 2012 | 34 404 | 109 850 | 52 265 | 166 649 | - | 2 762 485 | 3 125 653 | - | 3 526 653 |
| Opening balance as at 1 July 2013 | 34 403 | 108 796 | 45 887 | 187 333 | - | 3 016 499 | 3 392 918 | 200 500 | 3 593 418 |
| Total comprehensive income for the period | - | - | 41 519 | 30 403 | - | 599 006 | 670 928 | - | 670 928 |
| Issue of share capital | 233 | 53 976 | - | - | - | - | 54 209 | - | 166 104 |
| Repurchase of preference shares | - | - | - | - | - | - | - | 111 895 | 166 104 |
| Profit attributable to minorities | - | - | - | - | - | (1 751) | (1 751) | 1 751 | - |
| Preference dividend paid | - | - | - | - | - | (5 823) | (5 823) | - | (5 823) |
| Ordinary dividend paid | - | - | - | - | - | (502 688) | (502 688) | - | (502 688) |
| Balance as at 31 December 2013 | 34 636 | 162 772 | 87 406 | 217 736 | - | 3 105 243 | 3 607 793 | 113 646 | 3 721 439 |

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ending 31 December 2013

| R'000 | Six months ended 31 December | | Year ended 30 June |
|---|---------------------------------|------------------|-----------------------|
| | 2013 | 2012 | 2013 |
| OPERATING ACTIVITIES | | | |
| Cash generated by operations | 1 351 420 | 1 160 387 | 2 562 567 |
| Finance charges | (205) | (431) | (722) |
| Taxation paid | (291 757) | (237 727) | (425 458) |
| Ordinary dividends paid | (502 688) | (757 230) | (1 170 085) |
| Preference dividends paid | (116 247) | (139 250) | (244 015) |
| Cash inflow from operating activities | 440 523 | 25 749 | 722 287 |
| INVESTING ACTIVITIES | | | |
| Proceeds on sale of subsidiary Intellectual property | – | 126 516 | 126 515 |
| Payments | (11 911) | (19 605) | (48 826) |
| Settlement | – | – | 11 048 |
| Property and equipment acquired to maintain operations | (103 043) | (74 323) | (142 661) |
| Proceeds on sale of property and equipment | 304 | 287 | 810 |
| Proceeds on sale of financial assets | 2 605 066 | 1 370 215 | 4 389 899 |
| Purchase of financial assets | (2 504 536) | (721 479) | (3 937 923) |
| Cash (outflow)/inflow from investing activities | (14 120) | 681 611 | 398 862 |
| FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | 111 895 | – | – |
| Repurchase of preference shares | (200 500) | (401 000) | (601 500) |
| Repayment of loan to share scheme participants | 69 835 | 30 425 | 30 804 |
| Cash advanced to share trust | (15 626) | (17 084) | (18 519) |
| Cash outflow from financing activities | (34 396) | (387 659) | (589 215) |
| Effect of exchange rates on cash and cash equivalents | 41 999 | 26 756 | 45 096 |
| Increase in cash and cash equivalents | 434 006 | 346 457 | 577 030 |
| CHANGE IN CASH AND CASH EQUIVALENTS | | | |
| Opening balance of cash and cash equivalents | 1 933 587 | 1 356 557 | 1 356 557 |
| Increase in cash and cash equivalents | 434 006 | 346 457 | 577 030 |
| Closing balance of cash and cash equivalents | 2 367 593 | 1 703 014 | 1 933 587 |

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks. The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's Annual Financial Statements as at 30 June 2013.

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

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

Level 2 – fair value is determined through valuation techniques based on observable market inputs. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Level 3 – fair value is determined through valuation techniques which use significant unobservable inputs.

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

Group at 31 December 2013

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

NOTES TO THE FINANCIAL STATEMENTS continued

Group at 31 December 2012

| R'000 | Level 1 | Level 2 | Level 3 | Total |
|---|---------|-----------|---------|-----------|
| Financial assets | | | | |
| Equity securities | | | | |
| Listed preference shares | 488 921 | – | – | 488 921 |
| Listed ordinary shares | 128 323 | – | – | 128 323 |
| Debt securities | | | | |
| Unlisted preference shares | – | 656 519 | – | 656 519 |
| Collective investment scheme | – | 540 342 | – | 540 342 |
| Government, municipal and public utility securities | – | 148 004 | – | 148 004 |
| Money market securities <1 year | – | 1 147 361 | – | 1 147 361 |
| Money market securities >1 year | – | 443 592 | – | 443 592 |
| Total financial assets | 617 244 | 2 935 818 | – | 3 553 062 |
| Financial liabilities | | | | |
| Debt securities | | | | |
| Financial liabilities at fair value through profit and loss | – | – | 86 123 | 86 123 |
| Total financial liabilities | – | – | 86 123 | 86 123 |

There were no transfers between categories during the six months ended 31 December 2013.

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. The fair value of the preference shares which are redeemable within one year from the reporting date is deemed to equal the redemption value. The fair value of the preference shares with a maturity date of longer than one year, is calculated on a discounted cash flow basis with the discount rate adjusted for changes in credit risk of the ultimate counterparty, being one of the large South African banks. Due to the redeemable nature, the preference shares are deemed to be debt securities. The fair values of collective investment scheme investments are determined by the closing unit price as quoted by the collective investment scheme. The collective investment scheme is not listed. The fair value of money market instruments is determined based on observable market inputs.

Level 3

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

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

Reconciliation of level 3 financial instruments

| R'000 | Six months ended 31 December 2013 | Six months ended 31 December 2012 |
|--|--------------------------------------|--------------------------------------|
| Opening balance at July | 110 425 | 115 369 |
| Preference dividend paid | (110 425) | (113 774) |
| Preference dividend charged to statement of comprehensive income | 85 323 | 84 528 |
| Closing balance at December | 85 323 | 86 123 |

NOTES TO THE FINANCIAL STATEMENTS continued

SEGMENTAL REPORTING

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

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

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

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

| R'000 | Short term insurance | | Youi Personal | Long term insurance | Unallocated and consolidation adjustments | Group total |
|--|----------------------|------------|---------------|---------------------|---|-------------|
| | OUTsurace | | | OUTsurace Life | | |
| | Personal | Commercial | | | | |
| Segment income statement information | | | | | | |
| Six months ended 31 December 2013 | | | | | | |
| Gross written premium | 2 599 083 | 366 226 | 1 841 275 | 109 784 | – | 4 916 368 |
| Outward reinsurance premiums | (56 894) | (6 391) | (98 558) | (9 194) | – | (171 037) |
| Change in provision for unearned premium | (5 680) | (3 768) | (397 478) | – | – | (406 926) |
| Earned premium, net of reinsurance | 2 536 509 | 356 067 | 1 345 239 | 100 590 | – | 4 338 405 |
| Other income | – | – | – | – | 2 670 | 2 670 |
| Claims on insurance contracts net of reinsurance | (1 246 522) | (148 221) | (796 145) | (7 188) | – | (2 198 076) |
| Cash bonuses on insurance contracts | (136 169) | (17 268) | – | – | – | (153 437) |
| Marketing, acquisition and administration expenses | (412 322) | (110 646) | (587 312) | (93 439) | 11 820 | (1 191 899) |
| Transfer to policyholder liabilities under insurance contracts | – | – | – | (25 917) | – | (25 917) |
| Fair value adjustment to financial liabilities | (85 323) | – | – | – | – | (85 323) |
| Underwriting result | 656 173 | 79 932 | (38 218) | (25 954) | 14 490 | 686 423 |
| Net investment income | – | – | – | – | 156 593 | 156 593 |
| Share of profit of associate | – | – | – | – | 4 295 | 4 295 |
| Profit before tax | 656 173 | 79 932 | (38 218) | (25 954) | 175 378 | 847 311 |

NOTES TO THE FINANCIAL STATEMENTS continued

| R'000 | Short term insurance | | Youi Personal | Long term insurance | Unallocated and consoli- dation adjust- ments | Group total |
|--|----------------------|------------|------------------|------------------------|---|----------------|
| | OUTsurace | | | OUTsurace | | |
| | Personal | Commercial | Life | | | |
| Segment income statement information | | | | | | |
| Six months ended 31 December 2012 | | | | | | |
| Gross written premium | 2 463 555 | 333 329 | 1 080 859 | 75 455 | – | 3 953 198 |
| Outward reinsurance premiums | (30 909) | (4 712) | (74 280) | (6 969) | – | (116 870) |
| Change in provision for unearned premium | 15 703 | (3 682) | (242 942) | – | – | (230 921) |
| Earned premium, net of reinsurance | 2 448 349 | 324 935 | 763 637 | 68 486 | – | 3 605 407 |
| Claims on insurance contracts net of reinsurance | (1 207 464) | (126 986) | (441 740) | (13 243) | – | (1 789 433) |
| Cash bonuses on insurance contracts | (129 027) | (14 685) | – | – | – | (143 712) |
| Marketing, acquisition and administration expenses | (409 397) | (123 766) | (422 745) | (52 324) | 446 | (1 007 786) |
| Transfer to policyholder liabilities under insurance contracts | – | – | – | (12 673) | – | (12 673) |
| Fair value adjustment to financial liabilities | (84 528) | – | – | – | – | (84 528) |
| Underwriting result | 617 933 | 59 498 | (100 848) | (9 754) | 446 | 567 275 |
| Net investment income | – | – | – | – | 156 307 | 156 307 |
| Share of profit of associate | – | – | – | – | 5 505 | 5 505 |
| Gain on sale of subsidiary | – | – | – | – | 52 513 | 52 513 |
| Profit before tax | 617 933 | 59 498 | (100 848) | (9 754) | 214 771 | 781 600 |

NOTES TO THE FINANCIAL STATEMENTS continued

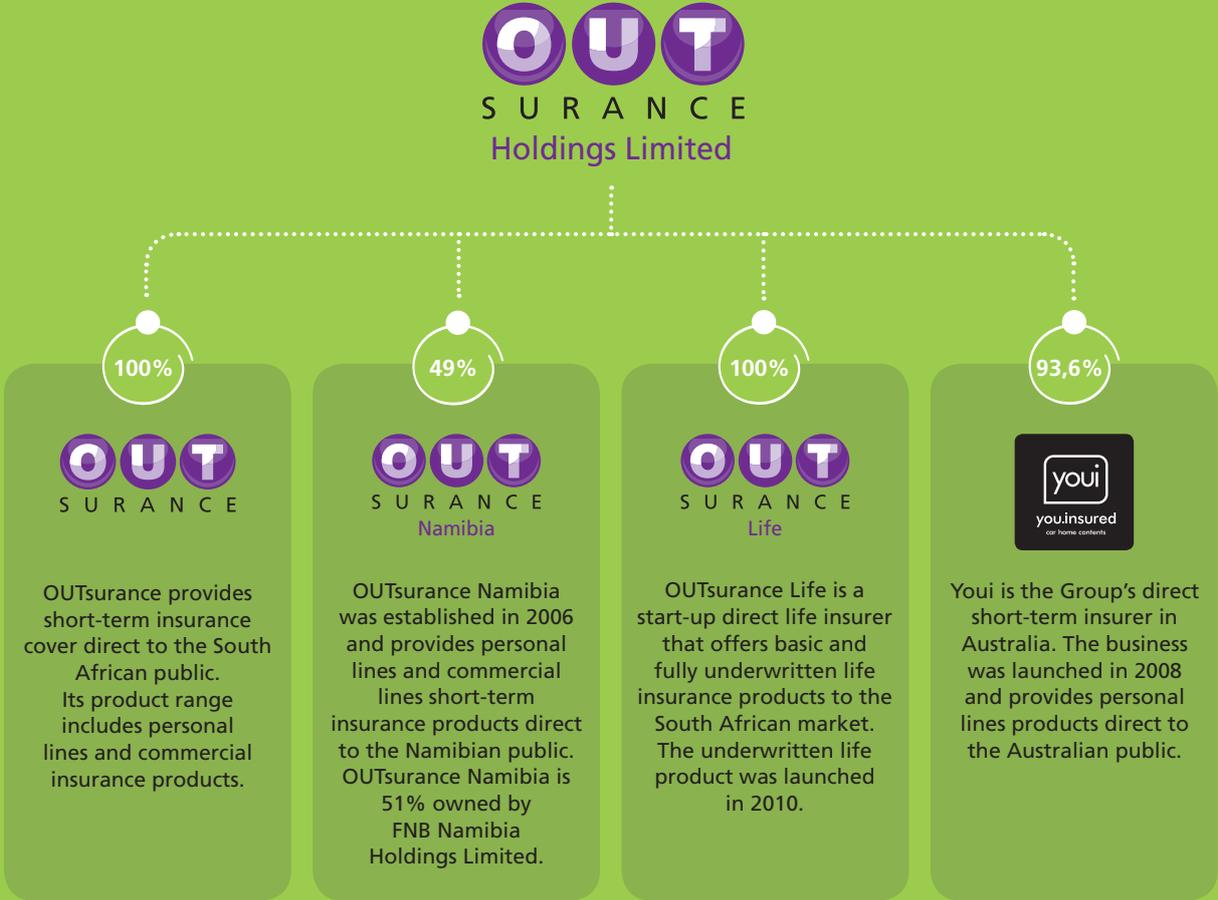
CALCULATION OF EARNINGS PER SHARE

| | Six months ended 31 December | | Year ended 30 June |
|---|---------------------------------|---------------|-----------------------|
| | 2013 | 2012 | 2013 |
| Basic headline earnings per share | | | |
| Headline earnings attributable to ordinary shareholders (R'000) | 593 776 | 493 470 | 1 160 627 |
| Weighted average number of shares in issue | 3 456 485 945 | 3 436 384 250 | 3 438 406 315 |
| Headline earnings per share – basic (cents) | 17.18 | 14.36 | 33.75 |
| Diluted headline earnings per share | | | |
| Headline earnings attributable to ordinary shareholders (R'000) | 593 776 | 493 470 | 1 160 627 |
| Diluted headline earnings attributable to Youi (Pty) Limited (R'000) | 301 | 9 108 | 6 246 |
| Diluted headline earnings attributable to ordinary shareholders (R'000) | 594 077 | 502 578 | 1 166 873 |
| Weighted average number of shares in issue | 3 456 485 945 | 3 436 384 250 | 3 438 406 315 |
| Dilution impact of share incentive scheme | 77 217 155 | 80 407 647 | 79 563 247 |
| Diluted weighted average number of shares in issue | 3 533 703 100 | 3 516 791 897 | 3 517 969 562 |
| Headline earnings per share – diluted (cents) | 16.81 | 14.30 | 33.17 |
| Total number of shares in issue | 3 518 163 100 | 3 518 163 100 | 3 518 163 100 |

RECLASSIFICATION OF COMPARATIVES

| R'000 | Amount as previously reported | Amount as restated | Difference | Explanation |
|------------------------------|-------------------------------------|-----------------------|------------|---|
| 31 December 2012 | | | | |
| Cash flow statement | | | | |
| Operating activities | | | | |
| Cash generated by operations | 1 001 952 | 1 160 387 | 158 435 | Transfer of interest and dividends received to cash generated by operations |
| Interest received | 128 325 | – | (128 325) | Transfer of interest and dividends received to cash generated by operations |
| Dividends received | 30 110 | – | (30 110) | Transfer of interest and dividends received to cash generated by operations |
| Total | 1 160 387 | 1 160 387 | – | |

SIMPLIFIED GROUP STRUCTURE



The OUTsurance Holdings Limited Group is 83,4% owned by Rand Merchant Insurance Holdings Limited which is listed on the Johannesburg Securities Exchange.

COMPANY INFORMATION

Directors

LL Dippenaar (Chairman), WT Roos (Joint Chief Executive Officer), H Aron (Joint Chief Executive Officer), MC Visser (alternate to H Aron), P Cooper, PR Pretorius, NL Nightingale, J Madavo, G Marx, AW Hedding

Company secretary and registered office

AH Wilson
1241 Embankment Road, Zwartkop Ext 7, Centurion
PO Box 8443, Centurion, 0046

Contact details

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YOU
ALWAYS
GET
SOMETHING
OUT