

CONDUIT CAPITAL LIMITED

Incorporated in the Republic of South Africa
(Registration number: 1998/017351/06)
Share code: CND ISIN: ZAE000073128
("Conduit" or "Conduit Capital" or "the Group")

CONDENSED CONSOLIDATED UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

GENERAL COMMENTARY

Conduit Capital is a holding company owning subsidiaries involved in the insurance industry in South Africa. Conduit's ambition is to develop a high quality, diversified insurance group complemented by a non-insurance value-oriented investment programme. We aim to create an environment where exceptional people can thrive in the building of a quality business over the long term.

The six months to 31 December 2015 is the first complete reporting period under present management. During the six months, we took steps toward building the intrinsic value of Conduit. Our stated intention is to pursue organic and inorganic insurance related opportunities and this process is ongoing. The insurance subsidiaries showed excellent progress in this respect having entered into various new business opportunities, some of which will be launched in the second half of the fiscal year.

FINANCIAL RESULTS

The JSE Listings Requirements require that we compare these results to the previously reported comparative results for 28 February 2015 and 30 June 2015. However, as management assessed the performance of the business against the six-month period ended 31 December 2014, we have also included the condensed consolidated unaudited results for the six months ended 31 December 2014 for comparative purposes. Unless specifically stated otherwise, comparative numbers in this commentary relate to the six months ended 31 December 2014.

Gross written premium decreased 4.2% to R481.3 million, but net premium income increased 34.3% to R228.5 million. Over time, our intention is to increase net premium income (as opposed to gross written premium, where we do not necessarily retain all of the risk) at suitable underwriting profitability levels. Increased retention allows us to build our capital base, which in turn allows us to write more premium for own account. Higher retention also decreases insurance assets, which understandably were down to R316 million.

The combined ratio for the six-month period was 98.6%. The combined ratio is a measure of an insurance company's ability to generate profits from underwriting activities. Generally, the lower the ratio the better, as it means our insurance book is profitable. If we can grow our insurance book at a below 100% combined ratio, we will generate investable assets. The cost to us of this increased capital base is measured by the combined ratio (we were effectively paid 1.4% to hold this capital). Investable assets in the Insurance and Risk segment increased 22.7% during the six months under review, despite an expected contraction in our levels of technical float (insurance liabilities less insurance assets).

Net asset value per share increased 9.1% to 184.9 cents, based on 331.4 million fully diluted shares in issue (net of treasury shares). The fully diluted share count increased 29.3% due to the successful rights offer

which took place in December 2015 and raised R150 million. The capital that was raised has been earmarked for a number of insurance opportunities.

During the previous 12 months cash and cash equivalents increased significantly due to a move out of bonds and into cash, as well as from the issue of shares in the rights offer. The Group's annualised return on equity for the six months under review dropped to 4.0%. However, during the same period, the insurance businesses produced a respectable annualised pre-tax return on capital employed of 23.1%.

Profit before tax decreased 41.3% to R17.7 million against the comparable period, but was up 5% on the second half of the fiscal 2015 year. Our insurance operations increased pre-tax profits by 62.5% to R22.8 million (before head office costs). The decline of profit before tax at Group level was driven primarily by a decrease in investment income due to lower returns from the Group's investments. Profit after tax was also negatively affected by the normalisation of the Group's tax rate, which is expected to remain at this level for the full year.

It is our view that changes in net asset value per share offer a better proxy for changes in underlying intrinsic value as opposed to changes in the level of earnings at Group level.

It should be expected that investment income will be lumpy over short time periods. Our strategy of investing in quality companies at attractive prices is likely to generate acceptable investment returns over longer time periods. The paradox of investing is that the best time to put money to work is usually when things seem like they are never going to improve.

REGULATORY ENVIRONMENT

The Financial Sector Regulation Bill was made available to the insurance industry in mid-December. The Bill focuses on the future function of the South African Reserve Bank ("the Reserve Bank") in respect of financial stability and the prudential control functions of the Reserve Bank in respect of insurance companies. It also sets out the basis for the establishment of the Prudential Authority under the Reserve Bank and the Financial Sector Conduct Authority (effectively the Compliance and FAIS activities of the Financial Services Board). Over the past few years we have expended significant resources to ensure the Group complies with new legislation. Furthermore, we have been operating under Solvency Assessment and Management Interim Measures (a precursor to Solvency Assessment and Management, or SAM) and our view is that the manner in which we conduct our business meets all legislative requirements.

PROSPECTS

Instability and uncertainty in financial markets creates attractive opportunities for capital deployment. The threat of a ratings downgrade of the sovereign and global stock market volatility play very nicely into our hands. Our insurance businesses are launching new ventures and expanding existing relationships, as well as exploring opportunities to improve and grow their businesses. Investment income will always be unpredictable in the short term so our concern is for the performance of the portfolio over rolling three year periods. While we cannot predict how the fiscal year will transpire, we have laid down the early building blocks for sustained growth in intrinsic value over the long term.

Sean Riskowitz

Chief Executive Officer

Johannesburg

22 February 2016

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Unaudited six months ended 31 Dec 2015 R'000	Restated ¹⁾ unaudited six months ended 31 Dec 2014 R'000	Restated ¹⁾ unaudited six months ended 28 Feb 2015 R'000	Restated ¹⁾ audited ten months ended 30 Jun 2015 R'000
Gross written premium	481 326	502 244	467 155	788 517
Reinsurance premium	(258 283)	(331 378)	(311 751)	(474 544)
Net written premium	223 043	170 866	155 404	313 973
Net change in provision for unearned premium	5 424	(694)	707	(1 190)
Net premium income	228 467	170 172	156 111	312 783
Reinsurance commission received	157 776	263 593	244 295	362 663
Income from insurance operations	386 243	433 765	400 406	675 446
Net claims and movement in claims reserves	(134 188)	(76 762)	(70 563)	(129 273)
Insurance contract acquisition costs	(103 404)	(112 968)	(105 260)	(167 106)
Agency fees	(120 317)	(214 322)	(197 965)	(332 531)
Gross underwriting surplus	28 334	29 712	26 618	46 536
Administration costs	(14 927)	(17 140)	(15 289)	(24 702)
Net underwriting surplus	13 407	12 572	11 329	21 834
Non-insurance revenue	2 205	3 073	2 481	3 948
Other expenses	(18 828)	(17 474)	(16 167)	(41 180)
Operating loss	(3 216)	(1 829)	(2 357)	(15 398)
Equity accounted income	8 710	11 775	9 368	14 015
Investment income	3 843	18 023	21 117	45 576
Net other income	8 529	2 174	2 343	2 935
Finance charges	(204)	(31)	(53)	(212)
Profit before taxation	17 662	30 112	30 418	46 916
Taxation	(6 903)	(3 436)	(4 916)	(9 247)
Profit for the period	10 759	26 676	25 502	37 669
Other comprehensive income	-	-	-	-
Total comprehensive income	10 759	26 676	25 502	37 669
Attributable to:				
Equity holders of the parent	10 845	26 632	25 443	37 626
Non-controlling interest	(86)	44	59	43
Total comprehensive income	10 759	26 676	25 502	37 669
Headline earnings	10 845	26 555	25 449	38 179
Earnings per share (cents)				
- Basic	3.8	9.4	8.9	13.2
- Diluted	3.8	9.4	8.9	13.2
- Headline	3.8	9.3	8.9	13.4
- Diluted headline	3.8	9.3	8.9	13.4

¹⁾ Earnings per share for the prior periods have been restated due to the rights offer on 14 December 2015, as required by IAS 33: Earnings per share. Refer to notes 2 and 3.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited 31 Dec 2015 R'000	Unaudited 31 Dec 2014 R'000	Unaudited 28 Feb 2015 R'000	Audited 30 Jun 2015 R'000
ASSETS				
Non-current assets	368 493	450 049	459 148	304 563
- Property, plant and equipment	9 065	9 724	9 705	9 067
- Intangible assets	35 079	35 203	35 147	35 246
- Loans receivable	7 963	17 561	15 730	16 004
- Deferred taxation	16 045	15 369	15 237	9 334
- Investment properties	5 928	4 189	4 189	5 928
- Investment in associates	125 872	125 746	120 967	124 411
- Investment in joint ventures	666	476	217	225
- Investments held at fair value	167 875	241 781	257 956	104 348
Current assets	941 888	654 738	623 737	781 817
- Insurance assets	316 086	381 879	360 150	326 833
- Loans receivable	1 180	376	1 629	1 180
- Investments held at fair value	-	23 556	23 970	-
- Trade and other receivables	222 116	139 383	125 666	130 723
- Taxation	12 657	4 380	6 880	10 149
- Cash and cash equivalents	389 849	105 164	105 442	312 932
Total assets	1 310 381	1 104 787	1 082 885	1 086 380
EQUITY AND LIABILITIES				
Capital and reserves	613 047	434 959	443 658	455 825
- Ordinary share capital and share premium	323 167	176 704	176 704	176 704
- Retained earnings	289 389	257 679	266 361	278 544
Equity attributable to equity holders of the parent	612 556	434 383	443 065	455 248
Non-controlling interest	491	576	593	577
Non-current liabilities	68 209	57 050	56 944	61 281
- Policyholder liabilities under insurance contracts	32 606	20 522	20 522	32 606
- Interest-bearing borrowings	-	310	-	-
- Deferred taxation	35 603	36 218	36 422	28 675
Current liabilities	629 125	612 778	582 283	569 274
- Insurance liabilities	359 395	421 273	405 604	369 104
- Trade and other payables	255 180	189 160	173 819	191 970
- Taxation	14 550	2 345	2 860	8 200
Total equity and liabilities	1 310 381	1 104 787	1 082 885	1 086 380
Net asset value per share (cents)	184.9	169.4	172.8	177.6
Tangible net asset value per share (cents)	148.3	155.7	125.5	130.3

SEGMENTAL REPORT

The report has been reformatted to more accurately reflect the performance of the different segments under the Group's new strategy, as well as the capital utilised by each segment. The prior period segmental report has been presented in a manner similar to that of the current period in order to simplify comparative analysis. For clarity, the Insurance and Risk segment shows the profit and capital employed in insurance and risk activities only (excluding discretionary investments of the insurers). The Investments segment shows the profit and capital employed in the discretionary investment activities of the Group (including the insurers).

SEGMENTAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

	Insurance and Risk R'000	Investments R'000	Total R'000
Net underwriting surplus	13 407	-	13 407
Non-insurance revenue and other expenses	(10 272)	(692)	(10 964)
Operating profit (loss)	3 135	(692)	2 443
Equity accounted income	124	8 586	8 710
Investment income (loss)	6 217	(2 859)	3 358
Other	13 328	(5 000)	8 328
Profit before taxation	22 804	35	22 839
Unallocated net head office expenses			(5 177)
Taxation			(6 903)
Profit for the period			10 759
Capital utilised			
Capital employed at end of period	161 583	274 198	613 046
Capital utilised at end of period	161 583	198 644	537 493
Average capital utilised during the period	197 673	142 220	399 674

SEGMENTAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

	Insurance and Risk R'000	Investments R'000	Total R'000
Net underwriting surplus	12 572	-	12 572
Non-insurance revenue and other expenses	(8 531)	(1 724)	(10 255)
Operating profit (loss)	4 041	(1 724)	2 317
Equity accounted income	2 446	9 329	11 775
Investment income	5 455	11 411	16 866
Other	2 094	-	2 094
Profit before taxation	14 036	19 016	33 052
Unallocated net head office expenses			(2 940)
Taxation			(3 436)
Profit for the period			26 676
Capital utilised			
Capital employed at end of period	185 277	194 181	434 957
Capital utilised at end of period	185 277	118 628	359 403
Average capital utilised during the period	180 555	99 788	356 271

SEGMENTAL REPORT FOR THE SIX MONTHS ENDED 28 FEBRUARY 2015

	Insurance and Risk R'000	Investments R'000	Total R'000
Net underwriting surplus	11 329	-	11 329
Non-insurance revenue and other expenses	(7 230)	(1 761)	(8 991)
Operating profit (loss)	4 099	(1 761)	2 338
Equity accounted income	750	8 618	9 368
Investment income	6 603	13 906	20 509
Other	2 282	-	2 282
Profit before taxation	13 734	20 763	34 497
Unallocated net head office expenses			(4 079)
Taxation			(4 916)
Profit for the period			25 502
Capital utilised			
Capital employed at end of period	184 723	194 002	443 659
Capital utilised at end of period	184 723	118 448	368 105
Average capital utilised during the period	184 871	109 435	361 390

SEGMENTAL REPORT FOR THE 10 MONTHS ENDED 30 JUNE 2015

	Insurance and Risk R'000	Investments R'000	Total R'000
Net underwriting surplus	21,834	-	21,834
Non-insurance revenue and other expenses	(15,877)	(2,411)	(18,288)
Operating profit (loss)	5,957	(2,411)	3,546
Equity accounted income (loss)	(256)	14,271	14,015
Investment income	11,745	32,998	44,743
Other	2,724	-	2,724
Profit before taxation	20,170	44,858	65,028
Unallocated net head office expenses			(18,112)
Taxation			(9,247)
Profit for the period			37,669
Capital utilised			
Capital employed at end of period	204,806	197,312	455,825
Capital utilised at end of period	204,806	121,759	380,271
Average capital utilised during the period	190,952	111,502	365,002

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited six months ended 31 Dec 2015 R'000	Unaudited six months ended 28 Feb 2015 R'000	Audited 10 months ended 30 Jun 2015 R'000
Net cash flows from operating activities	(16 172)	24 726	50 522
Net cash flows from investing activities	(61 415)	(9 294)	185 418
Net cash flows from financing activities	154 504	1 048	(11 970)
Total cash movement for the period	76 917	16 480	223 970
Cash at the beginning of the period	312 932	88 962	88 962
Total cash at the end of the period	389 849	105 442	312 932

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital and share premium R'000	Retained earnings R'000	Non-controlling interest R'000	Total R'000
Balance at 31 August 2014	176 704	253 737	612	431 053
Total comprehensive income for the period	-	25 443	59	25 502
Dividends paid	-	(12 819)	(78)	(12 897)
Balance at 28 February 2015	176 704	266 361	593	443 658
Total comprehensive income (loss) for the period	-	12 183	(16)	12 167
Balance at 30 June 2015	176 704	278 544	577	455 825
Total comprehensive income (loss) for the period	-	10 845	(86)	10 759
Issue of share capital	150 000	-	-	150 000
Share issue costs	(3 537)	-	-	(3 537)
Balance at 31 December 2015	323 167	289 389	491	613 047

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accounting policies applied in the preparation of these condensed consolidated unaudited financial statements for the six months ended 31 December 2015 ("interim results") are in accordance with International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. These accounting policies are consistent with those applied in the annual financial statements for the 10 months ended 30 June 2015. The interim results have been prepared making use of reasonable judgements and estimates and reporting is done in terms of IAS 34 – Interim Financial Reporting, the Companies Act, 2008 (Act 71 of 2008), as amended, and the Listings Requirements of JSE Limited ("the JSE") under the supervision of Mr Lourens Louw, the Financial Director. The interim results have not been audited or reviewed by the Group's auditors.

2. Restatement of comparative numbers

The weighted average number of shares in issue and the earnings per share measures have been restated by a factor of 1.1097 to reflect the bonus element of the rights offer in terms of IAS 33: Earnings per share (also refer to note 3).

3. Changes in share capital

75 000 000 (2015: Nil) ordinary shares totalling R150.0 million were issued by way of a rights offer on 14 December 2015. Share issue costs of R3.5 million have been charged to the Share Premium account.

Details of the shares in issue as at the reporting dates are as follows:

	31 Dec 2015 '000	31 Dec 2014 '000	28 Feb 2015 '000	30 Jun 2015 '000
Number of shares	331 377	256 377	256 377	256 377
- Shares in issue	331 380	256 380	256 380	256 380
- Shares held as treasury shares	(3)	(3)	(3)	(3)
Weighted average number of shares on which earnings and diluted earnings per share calculations are based	289 076	284 490	284 490	284 490
- Shares in issue	263 717	256 380	256 380	256 380
- Bonus issue for rights offer ¹⁾	25 362	28 113	28 113	28 113
- Shares held as treasury shares	(3)	(3)	(3)	(3)

¹⁾ The weighted average number of shares has been restated by the Bonus issue amount due to the rights offer that took place on 14 December 2015, as required by IAS 33: Earnings per share.

4. Financial instruments

Fair value estimation

The financial assets valued at fair value through profit and loss in the statement of financial position are grouped into the fair value hierarchy as follows:

Financial assets	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Listed investments	167 875	-	-	167 875
Investment properties	-	5 928	-	5 928
	167 875	5 928	-	173 803

There have been no transfers between levels 1, 2 and 3 during the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period:

- Financial assets classified in Level 1 have been valued with reference to quoted prices and market rates (unadjusted) in active markets for identical assets or liabilities; and
- Financial assets classified in Level 2 have been valued by an independent third party according to a formula (using the fair market values of the underlying assets in the investment) in terms of which the investment could have been liquidated as at the reporting date.

5. Reconciliation of headline earnings

	Unaudited six months ended 31 Dec 2015 R'000	Unaudited six months ended 31 Dec 2014 R'000	Unaudited six months ended 28 Feb 2015 R'000	Audited 10 months ended 30 Jun 2015 R'000
Profit attributable to ordinary equity holders of Conduit	10 845	26 632	25 443	37 626
Net profit on revaluation of investment properties	-	-	-	(657)
(Profit) loss on disposal of intangibles, property, plant and equipment	-	(64)	8	(7)
Impairment of associates and joint ventures	-	(25)	-	1 071
Tax on the items above	-	12	(2)	146
Headline earnings	10 845	26 555	25 449	38 179

6. Contingent liabilities

The Group is not aware of any current or pending legal cases that would have a material adverse effect on its results.

7. Directors

Following the retirement and resignation of Dr CH Kühn from the insurance subsidiary companies of Conduit Capital (comprising Constantia Insurance Company Limited, Constantia Life Limited and Constantia Life and Health Assurance Company Limited) (hereinafter collectively referred to as "Constantia Insurance Group") and in order to ensure continuity and maintain independence of the Constantia Insurance Group Boards, Mr Richard Bruyns has resigned as an independent non-executive director of Conduit Capital's board of directors ("the Board") with effect from 3 August 2015 and has simultaneously been appointed as Chairman of the Constantia Insurance Group.

8. Dividends and other distributions

The Board has not recommended any dividend payment to ordinary shareholders for the six months ended 31 December 2015 (2015: Nil).

9. Events after reporting period

There were no events that resulted in a material impact on the Group between the reporting date and the date of publication of this report.

Directors:

Executive directors: Sean Riskowitz (Chief Executive Officer), Lourens Louw (Financial Director), Robert Shaw, Gavin Toet

Non-executive directors: Ronald Napier (Chairman)*, David Harpur*, Jabulani Mahlangu*, Tyrone Moodley, Barry Scott*, Rosetta Xaba*

* Independent

Company secretary:

CIS Company Secretaries Proprietary Limited

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Sponsor:

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