CONDUIT CAPITAL

# Conduit Capital Limited

## Integrated Annual Report 2016

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# LETTER FROM THE CEO TO THE SHAREHOLDERS OF CONDUIT CAPITAL

Dear Shareholder

On behalf of the Directors and Executive Management, I am pleased to present the Integrated Annual Report of Conduit Capital Limited ("Conduit Capital", "Conduit", "the Company", or "the Group") for the year ended 30 June 2016. This report is prepared in accordance with the JSE Limited's ("the JSE") requirements of Integrated Reporting, the King III Code on Corporate Governance ("King III") and other legal requirements relevant to Conduit.

Throughout this letter, I shall refer to specific sections in the Annexures hereto in order to expand on certain concepts and provide a detailed view of how we understand Conduit.

## OUR VISION

Conduit Capital is a South African holding company that owns subsidiaries involved in the insurance industry. Conduit's long-term ambition is to develop a high quality, diversified insurance group supported by a value-oriented, non-insurance investment portfolio. The aim is to continue to build a Group where talented people can thrive in the evolution of a quality business.

Our primary objective is to increase the per share intrinsic value[1] of the Company over the long-term at an absolute rate in excess of the market in general. We intend to achieve this goal by pursuing profitable insurance opportunities that deliver sustainable underwriting profits and generate capital that can be invested in non-insurance opportunities. The increase in the value of this capital delivers a significant earnings stream for the Group, which in turn develops a larger capital base from which further insurance business can be written. Our goal is to accelerate this cycle, the ultimate effect of which should be a long-term sustainable increase in the value of the Company.

## MEASURING PERFORMANCE

Conduit's performance is most appropriately measured by the growth in our intrinsic value per share. We use the percentage change (not the absolute level) in net asset value ("NAV") per share to estimate the Group's performance. This measure is more appropriate than a standard price to earnings ratio because of the nature of the Group's assets: insurers are generally valued in terms of a multiple of NAV (refer to item 9 of Annexure 1). The investment portfolio should similarly be assessed in terms of its fair market value (rather than its realised or unrealised gains or losses that flow through the income statement).

The underlying nature of our businesses will result in inconsistent (but by no means undesirable) volatility in earnings in any year on year comparison (take this year, for example). We measure our progress not by the price to earnings multiple or growth in earnings, but rather the *rate of growth* in NAV per share. It is important to remember, however, that although growth in NAV per share is not a perfect proxy for *growth in intrinsic value*, it should over time offer a suitable correlation.

To accomplish our goal we will:

- invest in and sustainably develop our insurance businesses;
- pursue non-insurance investment opportunities; and
- grow our investable assets at no cost by achieving combined ratios[2] well below 100%.

More on combined ratios and their importance later.

For the year to 30 June 2016, NAV per share decreased by 1.8% primarily due to:

- new business reserving strain[3] brought about by substantial growth in the accident and health book in our insurance subsidiaries (explained further in item 5 of Annexure 1);
- a decrease in the value of our equity portfolio (refer to item 4 of Annexure 1); and
- an impairment to our associate investment in ARA (discussed in more detail below).

On a normalised basis[4], the Group showed a loss attributable to equity holders of R3.9 million, compared to prior period normalised earnings of R57.5 million for the year to 30 June 2015. The decrease in earnings was due to the factors stated above.

[1] *Intrinsic value refers to the actual value of a company or share determined through fundamental analysis without reference to its market value. Intrinsic value can vary significantly from market value.*

[2] *The combined ratio is calculated as net claims plus expenses divided by net earned premium.*

[3] *New business reserving strain occurs during the first year of the introduction of new insurance business when an IBNR reserve (for claims Incurred But Not Reported) needs to be established for the new business. After the first year, the reserve only has to be maintained. Although this IBNR reserve reduces income, it increases the insurer's "float" by the same amount, which means that Conduit Capital still gets to use the cash for investment purposes, exactly the same as if it was earned through retained earnings.*

[4] *Normalised earnings exclude certain fair value adjustments. It however includes the impact of the new business reserving strain and the mark-to-market of our equity portfolio. Normalised earnings is not an IFRS measure.*

## INSURANCE OPERATIONS

Our insurance group, Constantia, comprises Constantia Insurance Company Limited, Constantia Life Limited and Constantia Life & Health Assurance Company Limited. Constantia, under the leadership of CEO, Robert Shaw, is managed in a highly decentralised fashion. It operates within profitable niche segments of the insurance market, complemented by personal lines and commercial lines offerings. Products are distributed by various divisions and by independent Underwriting Management Agencies ("UMAs"). UMAs are generally incentivised on a cost recovery basis (calculated as a percentage of premium) and profit share arrangements (to ensure sufficient underwriting quality).

Constantia is an opportunistic and entrepreneurial group led by a strong management team. It built on its niche during the year by partnering with the Automobile Association of South Africa ("the AA") in a new targeted direct insurance offering for AA clients. This group of clients presents significantly lower loss ratios than other motor clients in general. Constantia also took on large new books of accident and health business and continues investing in improved systems and additional personnel for future growth.

Constantia increased gross premiums by 6.6% to over R1 billion. Net premium income increased to R376 million, but the underlying mix has changed substantially from the prior year (see item 6 of Annexure 1). We make use of solvency relief reinsurance contracts which have the effect of decreasing net premium income but increasing the insurer's return on invested capital. These solvency relief contracts relieve the group from onerous capital requirements by ceding marginally profitable (on a return on capital basis) gross premium in exchange for significantly lower capital requirements. Had we not entered into these agreements, net premium income would have been 80% higher at R676 million. However, we would have required an additional R105.8 million in capital which would have produced only R2.1 million in additional after-tax returns. Our intention is to retain more business on a net basis over time, but we will do so only when the return on capital compensates us for the risk and opportunity cost.

Constantia produced a 102.3% combined ratio, up from 97.2% last year[5]. Adjusted for new insurance venture losses (i.e. taking out costs associated with new initiatives that are not yet at scale) and new business reserving strain, the combined ratio was 94.9%. Constantia's targeted combined ratio is 95% (or lower). The combined ratio measures the sum of the net loss ratio and the expense ratio relative to net earned premium and is critical as it determines whether or not the company is profitably writing insurance (simply put, it is no good to double premium if claims are going to quadruple). The ratio is a measure of the "cost" of the investable assets our insurance business produces that are available for investment. A ratio below 100% means our investable assets cost us nothing to generate (compared to a bank loan at prime plus 1% to generate the same level of investable assets). The lower the ratio the better, as it means we are creating investable assets at no cost. We consider our target of 95% to be sustainable and scalable.

Constantia's gross loss ratio[6] increased to 50.2% from 31.4%. In addition to the impact of the new business reserving strain (3.1%) the underwriting performance was tempered by higher claims in the accident and health portfolio during the last half of the year. Decisive corrective action has been taken within the relevant UMAs and books of business. Constantia increased investable assets (a broader definition of "float") by 21.3% to R173.9 million (previously reported as R159 million and growth of 11.1%, but updated to reflect the impact of lower capital requirements in Constantia that only became known to us after publication of the original letter on SENS).

It is clear to us that Constantia's earnings power is significantly higher this year than it was in the previous year, even though the accounting result came in below expectations. Constantia is on a mission to invest in capacity to position itself optimally for its sustainable growth plans. This journey included a thorough review of systems, people and processes, including all existing UMA and divisional arrangements. While on paper the results appears somewhat disappointing, I am pleased at how the earnings power of Constantia has and will continue to materially increase.

On 13 April 2016 Conduit announced the appointment of Volker von Widdern as its Deputy Chief Executive Officer of Constantia. Volker was previously the Managing Director of Marsh South Africa. He is earmarked to succeed Robert Shaw after a two-year period when Robert retires. We welcome Volker to the team.

## PUBLIC EQUITY INVESTMENTS

Our equity portfolio comprises a concentrated selection of high quality businesses acquired for prices that we believe will ensure an attractive rate of return over the long-term. When we consider buying shares in a company, we view the transaction as if we were buying the whole company. We are shareholder partners of these companies. Investing in non-insurance businesses is a stated objective of the Group, which bolsters our capital base and, through earnings diversification, allows the insurance operations to focus on profitable growth.

[5] *Prior period comparisons are for the ten months to 30 June 2015.*
[6] *Gross claims incurred as a percentage of gross premium, as net claims ratios would be skewed by the impact of solvency reinsurance contracts entered into as highlighted above.*

The equity investment portfolio comprised approximately 20% of our assets, or about R245 million, spread between a subsidiary of Conduit and the insurance companies in Constantia. Constantia's investments are subject to Solvency Assessment and Management (SAM) regulatory constraints, while those held outside of Constantia are not. We have a blend of appropriate conservativeness and flexibility in order to pursue our investment objectives. The portfolio comprised eight investments at year-end.

On a mark-to-market basis, the equity portfolio delivered a negative 8.3% return for the year. This compares to the 38.7% return achieved for the prior period. The mark-to-market losses do not, in our opinion, reflect the growth in the underlying intrinsic value of the companies in which we are invested and in any event is too short a time period to measure the performance of the investment strategy. Conduit's net income after tax will be lumpy for the reason that stock prices are inherently uncertain and volatile. As explained above, growth in per share net asset value is a better proxy for the performance of Conduit's underlying business value.

### Look-through Earnings

A measure of the success of the investment portfolio is "Look-through Earnings": Conduit's pro rata share of income[7] produced by its investments in other companies. The metric is useful because all profits, whether paid out or not, are valuable to shareholders. The metric can show trends not otherwise observable by share price movements. Only share price movements and dividends are accounted for under accounting standards but there is real value to shareholders of retained earnings. In contrast to the share prices of our investments which decreased by 8.3%, Conduit's "Look-through Earnings" generated by the investment portfolio increased 273% year on year from R6.1 million to R23.1 million (also refer to item 4 of Annexure 1).

## OTHER INVESTMENTS

1. Conduit owns 40% of Anthony Richards & Associates ("ARA"), a leading credit recovery specialist. ARA produces a steady stream of income tied to the performance of consumer credit markets. The company generates an approximate 50% return on capital employed. Although we received R13.6 million in dividends from the company (R13.2 million in 2015) at a dividend yield of 11.1%, we have elected to impair the value of this investment by R13.075 million to R110 million in order to reflect the more difficult trading conditions experienced in consumer credit markets. The impairment negatively affected Conduit's earnings, but is excluded from the calculation of headline and normalised earnings.
2. Conduit agreed to participate as an investor and management company shareholder of Africa Special Opportunities Capital Proprietary Limited ("ASOC"). ASOC is building the pre-eminent special situations investment management company in South Africa, which is the "first-to-market" of its kind. Recently enacted Business Rescue legislation has created uncertainty in the market, creating an opportunity for an opportunistic distressed investment firm on which to capitalise. With little formal competition, ASOC is ideally placed to generate equity-like returns whilst assuming credit-like downside protections. We like to call it "shooting fish in a barrel".

ASOC is led by the three musketeers of Shaun Collyer, Paul Birkett and Richard Ferguson. The trio has more than 55 years of experience in distressed business turnaround and private equity. They represent the values we hold dear at Conduit: integrity, intelligence and passion. If your business is in distress and you are looking for fast, efficient assistance, they might have a solution for you. Visit them at www.asocapital.com.

## REMUNERATION

With effect from 1 July 2015, the Conduit Remuneration Committee introduced a new remuneration programme for Conduit Executives and CEOs of wholly owned subsidiaries. Each Executive and subsidiary CEO is now incentivised on areas over which he or she has influence, as well as overall group performance. In our view incentive systems should be clear but demanding and in the best interests of all stakeholders (including Executives).

Each Executive or subsidiary CEO is paid a fixed salary. Performance bonuses take the form of a short term cash bonus (earned annually) and a long-term bonus comprising 50% cash and 50% shares. Performance in terms of the long-term bonus is measured over three years and shares due (if any) are acquired by the Company on the open market (no shares are issued so there is no dilutive effect). The magnitude of the short and long-term bonuses is determined by a multiple of the employee's base salary in accordance with a weighted formula, and is capped.

[7] *Calculated as the audited headline earnings of each investee company at its most recent fiscal year-end multiplied by Conduit's ownership percentage of the company.*

The key performance metrics (with the relevant weightings in brackets) that determine performance remuneration are illustrated in the table below:

| | Short Term (1 year) | Long Term (3 year average) |
|---|---|---|
| Conduit CEO | Growth in per share NAV (50%), Return on Capital Employed (25%), Return on Equity Investments (25%) | Growth in per share NAV (50%), Return on Capital Employed (20%), Return on Equity Investments (30%) |
| Other Conduit Executives | Return on Capital Employed (50%), Growth in per share NAV (50%) | Return on Capital Employed (25%), Growth in per share NAV (75%) |
| Constantia CEO | Combined Ratio (50%), Investable Asset Growth (25%), Insurance Return on Capital Employed (25%) | Combined Ratio (40%), Investable Asset Growth (20%), Insurance Return on Capital Employed (20%), Growth in NAV per share (20%) |

The base levels at which performance bonuses begin are:

| | |
|---|---|
| Growth in per share NAV | 10% |
| Return on Capital Employed | 15% |
| Return on Investments | 10% |
| Combined Ratio | 95% |
| Investable Asset Growth | >0% |
| Insurance Return on Capital Employed | 15% |

Further detail on the Group's remuneration policy is contained in the Remuneration Report in Annexure 3. Shareholders will be asked to approve in a non-binding vote the Group's remuneration policy at the forthcoming Annual General Meeting.

## DIVIDEND

Conduit has a range of opportunities in which to deploy capital at attractive rates and therefore no dividend has been declared. For as long as we can identify opportunities that meet our return requirements, it is unlikely Conduit will pay a dividend.

## MIDBROOK LANE PROPRIETARY LIMITED ("MIDBROOK") AND SNOWBALL WEALTH PROPRIETARY LIMITED ("SNOWBALL") TRANSACTIONS

Subsequent to year-end Conduit announced the acquisitions of Midbrook and Snowball, two private investment companies with similar portfolios and investment frameworks as Conduit. The deals are in the best interests of Conduit shareholders because they increase the per share net asset value of the Company, create a larger capital base from which we can write increased levels of insurance, give Conduit the opportunity to materially benefit from the growth in value of the underlying investments, and amalgamate two related party entities into the Conduit Capital business, thereby better aligning interests with those of Conduit shareholders. A circular containing further detail on the acquisitions was distributed to all Conduit shareholders on 29 September 2016. I am pleased to report, as disclosed in the circular that the directors and major shareholders of the Company will be voting in favour of the acquisitions.

## APPRECIATION

Insurance and investment businesses are reliant on their people and partners as their most valuable assets. I express my sincere appreciation to all Conduit and Constantia staff for their remarkable efforts during the year – we would not be going anywhere without your valuable contribution. I thank our Board of Directors who support our efforts to create long-term value for shareholders. While it was a difficult year on all fronts, I believe the right decisions have and will be made to position the Group for sustainable long-term growth in earnings power. I thank all people involved in this Group for their unwavering commitment and conviction as we continue to build Conduit for the long-term.

**Sean Riskowitz**
*Chief Executive Officer*

Johannesburg
29 September 2016

# ANNEXURE 1: UNDERSTANDING CONDUIT CAPITAL AND ITS SUSTAINABILITY

Dear Shareholder

The complexities in our business do not translate well into IFRS accounting. The Statements of Financial Position, Profit or Loss and Other Comprehensive Income and Cash Flows tell us only part of the story – they leave out what we deem to be important aspects of the business. This Annexure will highlight certain features and themes of Conduit Capital and Constantia in order to communicate a better understanding of our business and how we, as management, look at our Group.

It is important to note that the sustainability report may contain forward-looking statements; where examples in the Annexures contain such statements, it reflects our expectations as at 30 June 2016 unless indicated otherwise. Actual results may differ materially from our expectations if known and unknown risks or uncertainties affect the business, or if assumptions prove inaccurate. We cannot guarantee any forward-looking statements will materialise and, accordingly, you are cautioned not to place undue reliance on any of these forward-looking statements. We disclaim any intention and assume no obligation to update or revise any forward-looking statement, even if new information becomes available as a result of future events or for any other reason, other than that which is required by regulation and/or legislation.

We recognise that the Annual Report is the most suitable vehicle to describe our business. The themes have been compiled in no specific order and are not exhaustive.

## 1. MAIN ACTIVITIES

Table 1 below details the main activities of our business and how our sustainability and financial objectives inter-relate:

**Table 1**

| Business activity within the Group | Management approach | Sustainability and financial objectives | Reporting scope and boundary |
|---|---|---|---|
| **Insurance:** Holding 100% of the issued share capital in Constantia, which operates as an insurer in both the long-term and short-term insurance industry in South Africa, dealing mainly through underwriting managers and administrators ("UMAs"), and in turn brokers | • Full ownership<br>• Responsibility for overall strategic direction and support of the insurer<br>• Make capital allocation decisions | • Ensuring profitability of operating companies, along with sustainable cover for our policyholders<br>• Sales-centred approach, personal service, strict underwriting and claims criteria in an effort to pursue quality business<br>• Attract and retain quality people<br>• Underwriting profit as well as appropriate investment returns governed by the Group investment policy<br>• Maintain credit rating<br>• Continual monitoring of capital adequacy requirement and the Solvency Assessment and Management regime<br>• Excellent governance and compliance procedures provide risk mitigation and an opportunity for differentiation in the market<br>• Development of new structured opportunities and products<br>• Return on Regulatory Capital<br>• Growth in intrinsic value<br>• Growth in the insurance book at below the combined ratio target to generate investable assets at no cost<br>• Growth in net asset value per share | Return on Capital Employed, underwriting, combined ratio and growth in investable assets, further elaborated on in the CEO's letter to Shareholders, as well as in this Annexure |

| Business activity within the Group | Management approach | Sustainability and financial objectives | Reporting scope and boundary |
|---|---|---|---|
| **Investments:** Capital allocation and investment strategy; strategic investments in businesses | • Capital deployed in terms of Group investment policy and levels of authority<br>• Due diligence investigation and own research when assessing any investment opportunity<br>• Ensuring compliance in terms of corporate governance, good business principles and risk management for the benefit of the business and its strategy<br>• Day-to-day management involvement in implementing the investment strategy | • Enhance Group investment returns<br>• Diversification into non-insurance assets<br>• Monitor performance relative to objectives<br>• Diversification of earnings<br>• Investment returns are an important component in growing intrinsic value and providing capital support to the insurer<br>• Sustainable earnings<br>• Return on capital employed<br>• Growth in net asset value per share | Capital allocation and investment strategy, public equity investments and dividend themes are further elaborated on in the CEO's letter to Shareholders |

## 2. STAKEHOLDERS: ANALYSIS AND ENGAGEMENT

We recognise the importance of balancing our main objective with long-term social, economic and environmental factors. In doing so, we identify material issues raised during interactions with a variety of stakeholders, which could have an impact on the Group's sustainability.

We are accountable to our staff, investors, shareholders, policyholders, business partners (reinsurers, UMAs and brokers), regulators, service providers and the community. Table 2 details the key stakeholders that are material to the success of the business and explains the important areas, determined by our experience, relevant for each stakeholder.

**Table 2**

| Stakeholder | Relationship | Material issues | Communication forum or method of engagement |
|---|---|---|---|
| **Institutional and public investors** | Shareholders | • Compounded growth in intrinsic value per share over the long-term<br>• The change in net asset value per share<br>• Share price, return on capital, profitability<br>• Management<br>• Business risk and culture<br>• Compliance, Governance | • SENS<br>• Integrated Annual Report<br>• Print media<br>• One-on-one meetings and/or conference calls<br>• Information available on our website<br>• General meetings of shareholders, including AGM, where shareholders may pose questions to management |

## 2. STAKEHOLDERS: ANALYSIS AND ENGAGEMENT (continued)

### Table 2 (continued)

| Stakeholder | Relationship | Material issues | Communication forum or method of engagement |
|---|---|---|---|
| **Staff** | Employees | • Job security – Growth and stability of the business<br>• Recognition and reward<br>• Career development<br>• Corporate policies (conditions of employment)<br>• Culture of empowerment and ambition<br>• Culture and environment | • Head of Division/Department forum<br>• Internal newsletters<br>• Staff meetings<br>• Workshops and training<br>• Communication through themed events which serves multiple purposes of building culture and teamwork<br>• Intranet (Website)<br>• Living morals and values which drives behaviours and equates to culture<br>• Quarterly (one-on-one) Personal Review for Improvement and Development ("PRIDE") sessions and semi-annual Key Performance Appraisals ("KPAs")<br>• Internal memoranda, mainly distributed via email and/or placed on various notice boards |
| **Policyholders (relevant to Constantia only)** | Customers | • Reputation<br>• Service and quick turnaround<br>• Price<br>• Payment of claims<br>• Treating Customers Fairly ("TCF") and formalised complaints handling process | • New and existing customers receive formal correspondence in writing<br>• When required, and only in certain circumstances, do we engage with the customer directly<br>• We respect the insurer's model of dealing through UMAs, who in turn deal with brokers, who represent the customer<br>• Monthly reports and statistics<br>• Dedicated TCF officer appointed to deal with complaints |
| **UMAs (relevant to Constantia only)** | Partners | • UMA fees (binder fees)<br>• Service<br>• Product development and differentiation<br>• Pricing<br>• Broker or book loss ratio<br>• Due diligence investigations on brokers and or on blocks of business prior to take-on<br>• Solvency and claims paying ability including credit rating<br>• Binder agreements<br>• Claims administration turnaround and efficiency by the insurer if the UMA is not mandated to handle same<br>• Compliance<br>• Systems and tools<br>• Policy updates and endorsements | • Monthly financial reporting received from UMAs<br>• Dedicated relationship management directly from the Constantia Group CEO's office<br>• Various departments will meet with UMAs on a regular basis<br>• Formal written communication between the parties<br>• Distribution of Constantia's credit rating report to partners<br>• Personal Service Manager to drive service objectives<br>• UMA workshops for strategic alignment and knowledge sharing, risk management expectations<br>• Compliance and legislation updates<br>• Internal audits conducted by Constantia |

# ANNEXURE 1: UNDERSTANDING CONDUIT CAPITAL AND ITS SUSTAINABILITY (continued)

| Stakeholder | Relationship | Material issues | Communication forum or method of engagement |
|---|---|---|---|
| **Brokers** | Partners | • Service<br>• Product development and differentiation<br>• Pricing<br>• TCF and formalised complaints handling process<br>• Data integrity, accurate commission statements and payments<br>• Due diligence investigations on brokers and or on blocks of business prior to take-on<br>• Solvency and claims paying ability, including credit rating<br>• Claims administration turnaround and efficiency by the insurer if the UMA is not mandated to handle same<br>• Compliance<br>• Systems and tools<br>• Policy updates and endorsements | • Managed through the UMAs, or in some instances directly by the insurer on the same basis as that of the UMAs<br>• Where a broker has a direct facility with Constantia, Broker visits on a regular basis<br>• Personal Service Manager to drive service objectives<br>• Dedicated TCF officer appointed to deal with complaints<br>• Internal audits conducted by Constantia |
| **Regulators and Industry Bodies applicable to our subsidiaries** | Regulators | • Development of new policies and legislation<br>• Implementation and compliance<br>• Code of conduct of SAIA for short-term insurers<br>• Code of conduct of ASSISA for long-term insurers | • Representation on various committees of insurance institutes and associations within South Africa<br>• Compliance reports to regulators<br>• Regulators engage via correspondence or physical inspections |
| **Reinsurers** | Reinsurers | • Management of risks<br>• Cash flow control<br>• Policy wording and exclusions<br>• Loss ratios<br>• Profitability | • Annual treaty renewal<br>• Ongoing relationship through reinsurance broker<br>• Reporting of large losses |
| **Global Credit Rating Co. ("GCR") (relevant to Constantia only)** | Credit rating agency | • International and statutory solvency<br>• Liquidity and claims paying ability<br>• Credit rating | • Annual meetings (audit and inspection)<br>• Information requests by GCR |
| **Community** | Stakeholder and/or beneficiary | • Effectiveness of corporate social investment spend | • Ad-hoc meetings and presentations<br>• CSI Committee determines which initiatives receive support<br>• Staff support and teambuilding outings<br>• Quarterly and/or annual review meetings |
| **• Lawyers<br>• Recovery agents<br>• Assessors, surveyors and investigators<br>• Telephony and IT service providers<br>• External Auditors<br>• Internal Audit<br>• Ancillary operational service providers** | Service providers | • Ability to pay<br>• Screening criteria prior to appointments and on-going review<br>• 3rd party audits of assessors, etc.<br>• Ongoing stability and functionality of various IT platforms within Constantia<br>• Data integrity | • Mainly outsourced independently, contracting individually with each service provider<br>• Quarterly status meetings<br>• Building partnerships |

# ANNEXURE 1: UNDERSTANDING CONDUIT CAPITAL AND ITS SUSTAINABILITY (continued)

## 3. FLOAT AND INVESTABLE ASSETS

Float is the amount of money on hand at any given time that an insurer has collected in premiums but has not yet paid out in claims. The insurer gets to invest this money until any claims are made and keeps the profits. The cost of this float is measured by the combined ratio, explained in more detail in the CEO letter.

Constantia's technical insurance float can be described in terms of the following formula:

*Insurance liabilities + Policyholder liabilities – (Re)insurance assets*

which indicates that our float reduced from R93.67 million in June 2015 to R64.28 million in June 2016. However, because of the way Constantia is structured, this measure dramatically understates our float. Furthermore, the financial statements do not account for the impact of: an effectively inflated (re)insurance asset brought about by increased solvency reinsurance; the effect of increased or reduced capital requirements on the amount available for investment in assets other than cash; the fact that we offset some insurance liabilities against a trade receivable in order to reflect the fact that we will settle an inward reinsurance[8] client on a net basis; and so on.

In order to take account of the above and to more accurately assess the level of assets we have to invest, we created the concept of "investable assets". These are assets generated by the insurance companies that can be freely invested for a return directly associated with the investment and have "float like" characteristics. We added further caveats in that amounts required to be held in bank balances or cash in terms of our investment policy would be excluded and only assets in Constantia would qualify for inclusion. It is therefore more accurate to measure our investable assets rather than just our levels of technical float.

Our version[9] of investable assets can be summarised in terms of the following formula:

*Investments held at fair value + Cash and cash equivalents – Assets not held in Constantia – Assets required to be held in cash*

On this conceptually more accurate and inclusive basis investable assets increased from R143.28 million in June 2015 to R195.23 million in June 2016. This tells a completely different story from what the movement in float had us believe and illustrates why we use the "investable asset" definition to measure our "float".

R138.97 million of the R195.23 million in investable assets has been deployed into various listed companies. The remaining R56.26 million will be allocated once we have clarity of how Constantia's solvency requirements will be impacted in terms of the new SAM regime and how the impact on the claims cash cover ratio (refer to item 8 below) will affect Constantia's credit rating.

## 4. PERFORMANCE OF EQUITY PORTFOLIOS

We evaluate our equities portfolio by comparing:

(a) *the look-through earnings achieved by the equities portfolio held as at 30 June 2015 with the look-through earnings achieved by the portfolio held as at 30 June 2016, on the assumption that both portfolios were fully in place throughout the respective years, which also tells us whether we have achieved our objective of increasing the portfolio's earnings power:*

### Table 4(a)

| 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|
| Stock | Shareholding in entity | Share of headline earnings (loss) R'000 | Share of dividend R'000 | **Stock** | **Shareholding in entity** | **Share of headline earnings (loss) R'000** | **Share of dividend R'000** |
| S1 | 0.81% | 2 243 | 332 | **S1** | **1.99%** | **8 337** | **982** |
| S2 | 0.03% | 99 | 82 | **S2** | **0.00%** | **–** | **–** |
| S3 | 0.88% | 1 232 | – | **S3** | **2.15%** | **3 801** | **–** |
| S4 | 0.99% | 153 | 190 | **S4** | **2.09%** | **(1 253)** | **–** |
| S5 | 0.02% | 11 | 5 | **S5** | **2.42%** | **1 512** | **628** |
| S6 | 0.00% | – | – | **S6** | **0.01%** | **255** | **97** |
| S7 | 0.47% | (291) | – | **S7** | **0.55%** | **(327)** | **–** |
| S8 | 0.40% | 733 | 311 | **S8** | **1.55%** | **3 136** | **1 508** |
| S9 | 0.66% | 2 013 | 993 | **S9** | **2.46%** | **7 690** | **–** |
| | | 6 193 | 1 913 | | | **23 151** | **3 215** |

[8] *Where Constantia acts as a reinsurer to another insurer; in this case an insurer in Africa that uses Constantia as a reinsurer.*
[9] *This formula may change, depending on the types of insurance we write and the types of investments that we make, in order to most accurately measure the change in investable assets.*

(b) *the 2015 look-through earnings achieved by the equities portfolio held as at 30 June 2015 with the 2016 look-through earnings achieved by exactly the same portfolio on a like-for-like basis, which tells us whether the individual investments making up the portfolio increased or decreased their earnings on a consolidated basis:*

**Table 4(b)**

| 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|
| Stock | Shareholding in entity | Share of headline earnings (loss) R'000 | Share of dividend R'000 | Stock | Shareholding in entity | Share of headline earnings (loss) R'000 | Share of dividend R'000 |
| S1 | 0.81% | 2 243 | 332 | S1 | 0.81% | 3 411 | 402 |
| S2 | 0.03% | 99 | 82 | S2 | 0.03% | 113 | 91 |
| S3 | 0.88% | 1 232 | – | S3 | 0.88% | 1 561 | – |
| S4 | 0.99% | 153 | 190 | S4 | 0.99% | (595) | – |
| S5 | 0.02% | 11 | 5 | S5 | 0.02% | 14 | 6 |
| S6 | 0.00% | – | – | S6 | 0.00% | – | – |
| S7 | 0.47% | (291) | – | S7 | 0.47% | (276) | – |
| S8 | 0.40% | 733 | 311 | S8 | 0.40% | 812 | 390 |
| S9 | 0.66% | 2 013 | 993 | S9 | 0.66% | 2 066 | – |
| | | 6 193 | 1 913 | | | 7 106 | 889 |

On the basis of (a) above, the "look-through" earnings of the portfolio increased 273% from R6.1 million to R23.1 million. Similarly, the "look-through" earnings of the portfolio, had it stayed the same over the course of the year, increased 14.7%. It is clear that during the year Conduit Capital's underlying public equity investments substantially increased their earnings power even though the market prices of the companies in which we are invested decreased 8.3%. It is our belief that over short time periods the market prices of shares will be volatile, but that over the long-term the market will value earnings and earnings power accordingly.

## 5. NEW BUSINESS RESERVING STRAIN AND COMBINED RATIO

### New business reserving strain

When new business is introduced to an insurer, or existing business increased, we generally see an increase in reserves during the first year due to:

- an unearned premium reserve being created for premiums that have been received in advance and not yet earned; and/or
- provisions being raised for claims that have been incurred, but not yet paid.

Thereafter, reserves are usually just maintained with less pronounced movements between one year and the next (year 1 reserves are settled in year 2 and a new reserve is created for year 2, and so on). From an accounting perspective, it is correct that profits are impaired by the value of these reserves, as it reflects the true accounting position of the Group.

From an economic viewpoint, however, the above does not reflect reality. For illustration purposes, let us assume in Table 5(a) below that Year 0 reflects Constantia's underwriting income statement and investment result for 2016. Let us further assume that during years 1 – 5 the business remains exactly the same, save for the fact that we grow it with the equivalent of the new Accident and Health book that was introduced in 2016. Our final assumptions are that:

- the same solvency reinsurance structure remains in place throughout the period;
- the increased business each year results in exactly the same new reserves being created for each year;
- the additional business achieving a 100% combined ratio, i.e. after expenses, it only breaks even; and
- any investable asset generates a pre-tax investment return of 10%.

## 5. NEW BUSINESS RESERVING STRAIN AND COMBINED RATIO (continued)

### Table 5(a): Pro forma insurance results for Years 1 – 5 assuming a 100% combined ratio

| | Year 0<br>R'000 | Year 1<br>R'000 | Year 2<br>R'000 | Year 3<br>R'000 | Year 4<br>R'000 | Year 5<br>R'000 |
|---|---|---|---|---|---|---|
| Gross written premium | 1 005 586 | 1 240 010 | 1 474 435 | 1 708 860 | 1 943 285 | 2 177 710 |
| Reinsurance premium | (629 530) | (806 275) | (983 020) | (1 159 765) | (1 336 510) | (1 513 255) |
| Net written premium | 376 056 | 433 735 | 491 415 | 549 095 | 606 775 | 664 455 |
| Net change in provision for unearned premium | (348) | (350) | (350) | (350) | (350) | (350) |
| Net premium income | 375 708 | 433 385 | 491 065 | 548 745 | 606 425 | 664 105 |
| Reinsurance commission received | 298 973 | 379 665 | 460 355 | 541 045 | 621 735 | 702 425 |
| Income from insurance operations | 674 681 | 813 050 | 951 420 | 1 089 790 | 1 228 160 | 1 366 530 |
| Net claims and movement in claims reserves | (187 318) | (216 240) | (245 160) | (274 080) | (303 000) | (331 920) |
| – Net claims, movement in outstanding claims | (187 318) | (208 485) | (237 405) | (266 325) | (295 245) | (324 165) |
| – Net movement in IBNR reserve | | (7 755) | (7 755) | (7 755) | (7 755) | (7 755) |
| Insurance contract acquisition costs | (180 064) | (227 165) | (274 265) | (321 365) | (368 465) | (415 565) |
| Agency fees | (266 930) | (329 280) | (391 630) | (453 980) | (516 330) | (578 680) |
| Gross underwriting surplus | 40 369 | 40 365 | 40 365 | 40 365 | 40 365 | 40 365 |
| Administration costs | (36 213) | (36 215) | (36 215) | (36 215) | (36 215) | (36 215) |
| Net underwriting surplus | 4 156 | 4 150 | 4 150 | 4 150 | 4 150 | 4 150 |
| Non-insurance revenue and other expenses | (12 773) | (12 775) | (12 775) | (12 775) | (12 775) | (12 775) |
| Operating loss | (8 617) | (8 625) | (8 625) | (8 625) | (8 625) | (8 625) |
| **Capital requirement in the insurers** | | | | | | |
| Opening balance | | 124 826 | 147 321 | 169 816 | 192 311 | 214 806 |
| Estimated additional capital requirement | | 22 495 | 22 495 | 22 495 | 22 495 | 22 495 |
| Closing balance | 124 826 | 147 321 | 169 816 | 192 311 | 214 806 | 237 301 |

As can be seen from the above it appears that the business is going nowhere. The operating loss remains the same even though gross written premium more than doubles over the 5-year period and the capital requirement also doubles.

### Table 5(a): Pro forma insurance results for Years 1 – 5 assuming a 100% combined ratio (continued)

If we however look at the rest of the picture, we see something remarkable – the impact that the increase in investable assets has on the returns of the company:

| | Year 0 R'000 | Year 1 R'000 | Year 2 R'000 | Year 3 R'000 | Year 4 R'000 | Year 5 R'000 |
|---|---|---|---|---|---|---|
| Operating loss b/f | (8 617) | (8 625) | (8 625) | (8 625) | (8 625) | (8 625) |
| Investment income | 14 793 | 18 925 | 23 515 | 28 615 | 34 285 | 40 585 |
| Net result before tax | 6 176 | 10 300 | 14 890 | 19 990 | 25 660 | 31 960 |
| Investable assets | | | | | | |
| Opening balance | | 367 765 | 409 085 | 454 995 | 506 005 | 562 685 |
| Profit for the year | | 10 300 | 14 890 | 19 990 | 25 660 | 31 960 |
| Movement in gross float | | 31 020 | 31 020 | 31 020 | 31 020 | 31 020 |
| Closing balance | 367 765 | 409 085 | 454 995 | 506 005 | 562 685 | 625 665 |
| Long-term return on additional investable assets | | 10% | 10% | 10% | 10% | 10% |
| Return on overall capital in the insurers | 4.9% | 7.0% | 8.8% | 10.4% | 11.9% | 13.5% |
| Return that additional capital generates | | 18.3% | 20.4% | 22.7% | 25.2% | 28.0% |

From an economic viewpoint, the new business reserving strain that is experienced from an accounting viewpoint falls away completely. Investable assets are exactly the same as they would have been if the reserves were not raised and the result comes through in investment income. From Year 4 the profit being generated is more than the additional capital requirement.

This difference between the accounting result and the economic effect is why we disclose items such as the combined ratio, look-through earnings and level of investable assets – because we feel they more accurately measure the performance of the business.

### Combined ratio

Our target combined ratio is 95%. Why so low if, as shown above, the numbers already have the potential to look good over time if we bring new business in at a 100% combined ratio? The answer lies in the multiplier effect that can be seen in Table 5(b) below where we have used the same assumptions as before, except for the fact that the combined ratio was substituted for one of 95%:

# ANNEXURE 1: UNDERSTANDING CONDUIT CAPITAL AND ITS SUSTAINABILITY (continued)

## 5. NEW BUSINESS RESERVING STRAIN AND COMBINED RATIO (continued)

### Table 5(b): Pro forma insurance results for Years 1 – 5 assuming a 95% combined ratio

| | Year 0<br>R'000 | Year 1<br>R'000 | Year 2<br>R'000 | Year 3<br>R'000 | Year 4<br>R'000 | Year 5<br>R'000 |
|---|---|---|---|---|---|---|
| Gross written premium | 1 005 586 | 1 240 010 | 1 474 435 | 1 708 860 | 1 943 285 | 2 177 710 |
| Reinsurance premium | (629 530) | (806 275) | (983 020) | (1 159 765) | (1 336 510) | (1 513 255) |
| Net written premium | 376 056 | 433 735 | 491 415 | 549 095 | 606 775 | 664 455 |
| Net change in provision for unearned premium | (348) | (350) | (350) | (350) | (350) | (350) |
| Net premium income | 375 708 | 433 385 | 491 065 | 548 745 | 606 425 | 664 105 |
| Reinsurance commission received | 298 973 | 379 665 | 460 355 | 541 045 | 621 735 | 702 425 |
| Income from insurance operations | 674 681 | 813 050 | 951 420 | 1 089 790 | 1 228 160 | 1 366 530 |
| Net claims and movement in claims reserves | (187 318) | (213 355) | (239 390) | (265 425) | (291 460) | (317 495) |
| – Net claims, movement in outstanding claims | (187 318) | (205 600) | (231 635) | (257 670) | (283 705) | (309 740) |
| – Net movement in IBNR reserve | | (7 755) | (7 755) | (7 755) | (7 755) | (7 755) |
| Insurance contract acquisition costs | (180 064) | (227 165) | (274 265) | (321 365) | (368 465) | (415 565) |
| Agency fees | (266 930) | (329 280) | (391 630) | (453 980) | (516 330) | (578 680) |
| Gross underwriting surplus | 40 369 | 43 250 | 46 135 | 49 020 | 51 905 | 54 790 |
| Administration costs | (36 213) | (36 215) | (36 215) | (36 215) | (36 215) | (36 215) |
| Net underwriting surplus | 4 156 | 7 035 | 9 920 | 12 805 | 15 690 | 18 575 |
| Non-insurance revenue and other expenses | (12 773) | (12 775) | (12 775) | (12 775) | (12 775) | (12 775) |
| Operating loss | (8 617) | (5 740) | (2 855) | 30 | 2 915 | 5 800 |
| Investment income | 14 793 | 19 245 | 24 515 | 30 690 | 37 870 | 46 170 |
| Net result before tax | 6 176 | 13 505 | 21 660 | 30 720 | 40 785 | 51 970 |
| <u>Capital requirement in the insurers</u> | | | | | | |
| Opening balance | | 124 826 | 147 321 | 169 816 | 192 311 | 214 806 |
| Estimated additional capital requirement | | 22 495 | 22 495 | 22 495 | 22 495 | 22 495 |
| Closing balance | 124 826 | 147 321 | 169 816 | 192 311 | 214 806 | 237 301 |
| <u>Investable assets</u> | | | | | | |
| Opening balance | | 367 765 | 412 290 | 464 970 | 526 710 | 598 515 |
| Profit for the year | | 13 505 | 21 660 | 30 720 | 40 785 | 51 970 |
| Movement in gross float | | 31 020 | 31 020 | 31 020 | 31 020 | 31 020 |
| Closing balance | 367 765 | 412 290 | 464 970 | 526 710 | 598 515 | 681 505 |
| Long-term return on additional investable assets | | 10% | 10% | 10% | 10% | 10% |
| Return on overall capital in the insurers | 4.9% | 9.2% | 12.8% | 16.0% | 19.0% | 21.9% |
| Return that additional capital generates | | 32.6% | 36.3% | 40.3% | 44.7% | 49.7% |

You can clearly see the significance of this multiplier effect.

## 6. PREMIUM/BUSINESS MIX

When comparing 2016 gross insurance revenue of R1.006 billion with the R942.98 million of 2015, it appears that premium increased 6.6% (in line with inflation). Net insurance revenue (after reinsurance) appears to confirm this, as it increased from R372.98 million to R375.71 million. Breaking the premium down per line of business, a slightly different picture emerges:

### Table 6(a)

| | Total R'000 | Property R'000 | Motor R'000 | Accident and Health R'000 | Guarantee R'000 | Miscella-neous R'000 | Assistance R'000 |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| Gross insurance revenue | **1 005 586** | **105 666** | **56 659** | **601 574** | **24 902** | **46 589** | **170 196** |
| Net insurance revenue | **375 708** | **27 668** | **21 809** | **129 232** | **13 882** | **13 294** | **169 823** |
| **2015** | | | | | | | |
| Gross insurance revenue | 942 982 | 189 344 | 86 839 | 463 554 | 23 362 | 90 730 | 89 153 |
| Net insurance revenue | 372 982 | 29 817 | 40 902 | 188 158 | 11 212 | 14 618 | 88 275 |

If we take the analysis a step further and exclude a specific book of inwards-reinsured business (which is retroceded[10] in full and on which we take only a 0.8% margin), the gross premium picture looks completely different:

### Table 6(b)

| | Total R'000 | Property R'000 | Motor R'000 | Accident and Health R'000 | Guarantee R'000 | Miscella-neous R'000 | Assistance R'000 |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| Gross insurance revenue | **840 369** | **39 579** | **56 659** | **535 488** | **24 902** | **13 545** | **170 196** |
| Net insurance revenue | **375 708** | **27 668** | **21 809** | **129 232** | **13 882** | **13 294** | **169 823** |
| **2015** | | | | | | | |
| Gross insurance revenue | 603 554 | 53 573 | 86 839 | 327 783 | 23 362 | 22 844 | 89 153 |
| Net insurance revenue | 372 982 | 29 817 | 40 902 | 188 158 | 11 212 | 14 618 | 88 275 |

a. Gross insurance revenue increased by an overall 39.2%, with the bulk of the increase coming from a 63.4% increase in the Accident and Health line and a 90.9% increase in Assistance business.

b. The reduction in the Property and the Motor lines was due to certain non-profitable books being discontinued in 2015 and the full impact thereof only being realised in 2016.

c. The overall reinsurance percentage appears to have increased from 38.2% in 2015 to 55.3% in 2016, mostly as a result of the introduction of solvency reinsurance on certain books in the Accident and Health line.

Again, the financial statements tell only part of the story: by introducing the solvency reinsurance, Constantia reduced its capital requirement by R105.8 million for a low fee (2% of capital "saved"). The underwriting result comes back to Constantia in the form of reinsurance profit commissions received on profitable books of business, so in real terms, the solvency reinsurance should be added back to determine Constantia's actual reinsurance percentage. Table 6(c) below reflects "real" reinsurance of 8.6% in 2016 compared to 17.4% in 2015. Although the reported numbers do not appear to reflect it, Constantia actually retained more of its business than in 2015. This is in line with our stated longer term strategy of retaining more business.

[10] *Retrocession takes place when an entity that acts as a reinsurer to another insurer takes all or part of that reinsurance premium income and reinsures it with a third insurer.*

# ANNEXURE 1: UNDERSTANDING CONDUIT CAPITAL AND ITS SUSTAINABILITY (continued)

## 6. PREMIUM/BUSINESS MIX (continued)

### Table 6(c)

| | Total R'000 | Property R'000 | Motor R'000 | Accident and Health R'000 | Guarantee R'000 | Miscella-neous R'000 | Assistance R'000 |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| Gross insurance revenue | **840 369** | **39 579** | **56 659** | **535 488** | **24 902** | **13 545** | **170 196** |
| Net insurance revenue | **768 024** | **27 668** | **21 809** | **521 298** | **13 882** | **13 545** | **169 822** |
| **2015** | | | | | | | |
| Gross insurance revenue | 603 554 | 53 573 | 86 839 | 327 783 | 23 362 | 22 844 | 89 153 |
| Net insurance revenue | 498 797 | 29 817 | 40 902 | 310 127 | 11 212 | 18 463 | 88 276 |

## 7. CAPITAL REQUIREMENT/CAPITAL ADEQUACY RATIOS ("CAR")

Constantia, as a regulated entity, is subject to statutory minimum capital requirements imposed by the Financial Services Board ("FSB") based on each individual insurance company's premium income, investments and other classes of assets. Until SAM comes into effect (expected in July 2017), the insurance entities are subject to a dual measurement system in that they have to comply with the SAM Interim Measures ("SAM IM") requirement that became effective in January 2012, as well as the SAM Comprehensive Parallel Run ("SAM CPR") requirement that became effective in January 2016.

The level of compliance with each capital requirement is expressed in terms of a Capital Adequacy Ratio ("CAR") that indicates the number of times by which actual capital in the business exceeds the minimum requirement.

Global Credit Rating Co., the ratings company, that determines Constantia Insurance Company Limited's ("CICL") credit rating requires that CICL's international solvency ratio (net assets ÷ net premium) remains in excess of 45% in order to retain its current A- rating in terms of its claims paying ability.

It is currently Constantia's objective under both standards for its short-term insurer to have a CAR of no less than 1.25x, whereas the CAR for each of the long-term insurer's should be no less than 1.50x. Where targets have not been achieved, efforts are underway to correct the situation.

Based on Constantia's audited results as at 30 June 2016, the individual insurance companies' estimated unaudited statutory capital requirements and CARs were as follows:

### Table 7

| | CICL* | CLL** | CLAH*** |
|---|---|---|---|
| SAM IM CAR requirement (FSB) | 1.00x | 1.00x | 1.00x |
| SAM IM CAR requirement (Internal) | 1.25x | 1.50x | 1.50x |
| SAM IM CAR requirement (Actual) | 2.62x | 1.97x | 3.70x |
| SAM CPR CAR requirement (FSB) | 1.00x | 1.00x | 1.00x |
| SAM CPR CAR requirement (Internal) | 1.25x | 1.50x | 1.50x |
| SAM CPR CAR requirement (Actual) | 1.38x | 1.22x | 2.44x |
| International solvency requirement (GCR) | 45.0% | | |
| International solvency requirement (Actual) | 107.8% | | |

* *Constantia Insurance Company Limited*
** *Constantia Life Limited*
*** *Constantia Life & Health Assurance Company Limited*

# ANNEXURE 1: UNDERSTANDING CONDUIT CAPITAL AND ITS SUSTAINABILITY (continued)

## 8. CASH FLOWS/CASH COVER RATIOS

Group operating cash flows were down R39.3 million on a net basis during the year. The main reasons for this were:

**8.1** issues with the collection of US dollar-based premium from certain African insurers that reinsure into Constantia, with a negative net impact of R15.5 million. Premium was received from clients by the insurers, but there is a US dollar shortage in the countries in which these insurers operate, which has delayed payment to Constantia. We account for this item as a trade receivable; and

**8.2** the introduction of a new book of Accident and Health business in the form of inwards reinsurance that is settled only on a quarterly basis, resulting in a temporary cash shortfall of R22.8 million.

Higher claims ratios during 2016 along with the move of cash into equities resulted in Constantia's gross claims cash coverage ratio reducing to 5.4 months from 14.4 months in 2015 (Constantia retained sufficient cash in its bank accounts to settle an average 5.4 months' worth of gross claims, assuming no further cash flowed into the business after 30 June 2016). If we include equities investments, the cover ratio was 8.7 months in 2016, compared to the 18.1 months in 2015. The ratio is well above our internal minimum.

## 9. CORPORATE SOCIAL RESPONSIBILITY (CSR INVESTMENT)

Conduit, in association with Constantia, supported the following organisations in 2016:

**9.1** Unsung Heroes: a non-profit organisation which, in line with South African Insurance Association ("SAIA") objectives, provides a financial education and training programme within community based organisations;

**9.2** Afrika Tikkun: we adopted a classroom at the Uthando Centre in Braamfontein;

**9.3** SAIA: financial contribution to their consumer education fund;

**9.4** Chayil Foundation: we help build a new day care centre as well as provided assistance with a Christmas event; and

**9.5** certain Rotary Club initiatives.

## 10. CONCLUSION

Much has been achieved during the 2016 financial year. There were some issues: claims ratios in certain lines of business were higher than expected, the equities market did not reflect the underlying performance of our investments and we had some issues obtaining monies owed to us out of Africa. However, two of the three items are directly within our control (which we have already taken steps toward rectifying) and the third, the equities market, will eventually reflect the underlying value of our holdings.

Here's what we have done:

- "Real" premium increased by almost 40% in a few short months with more than a commensurate increase in earnings power, as our fixed costs won't increase with premium income;
- The look-through earnings of our investment portfolio has more than trebled since 2015;
- We have increased our investable assets – other people's money working for us – by 21%;
- Our capital adequacy levels are significantly in excess of what is required; and
- We raised R150 million (before expenses) in order to make sure we can continue doing all of the above going forward.

# ANNEXURE 2: DIRECTORS' REMUNERATION

Our remuneration philosophy and policy support the Group's objective of growing a high quality diversified insurance group complemented by a value-oriented investment programme over the long-term. The Group aims to create an environment where exceptional people can thrive in the building of a quality business over many decades.

## REMUNERATION PHILOSOPHY

Quality people should be given the opportunity to perform and should be rewarded for the success they create for Conduit's benefit. The general philosophy is one of fixed remuneration, short-term cash compensation linked to performance metrics over which the employee is directly responsible, and long-term equity compensation. Conduit seeks owner managers with a vested interest in the success of the Group over the long-term.

## OBJECTIVES

The Remuneration policy has the following primary objectives:

1. To provide flexible and competitive remuneration structures that:
    a) are referenced to appropriate market benchmarks;
    b) conform to market Best Practices; and
    c) are tailored to specific circumstances within the Group in order to attract, motivate and retain highly skilled directors, executives and employees.
2. To be fair and appropriate, having regard to the performance of the Group and the relevant director/s, executive/s and/or employees.
3. To motivate directors, executives and employees to pursue the long-term profitable growth and success of the Group within an appropriate control framework.
4. Ensure that excessive or inappropriate risk taking is avoided and all activity is consistent with the long-term interests of the Group and the interests of all its stakeholders;
5. Is consistent with the Group's business and Risk Management strategy (including Risk Management practices) and performance;
6. Takes into account the respective roles of each person within the Group;
7. Provides for a clear, transparent and effective governance structure around remuneration, and the continuous oversight of the policy;
8. Where remuneration includes both fixed and variable components:
    a) the variable component is based on a combination of the assessment of the individual and the collective performance, such as the performance of the business area and the overall results of the Group; and
    b) the payment of the major part of an incentive, irrespective of the form in which it is to be paid, contains a flexible, deferred component that considers the nature and time horizon of the Group's business; and
9. Ensures that in defining an individual's performance, financial and non-financial performance is considered.

## REMUNERATION POLICY

The Policy serves to assist the Remuneration Committee ("Remco") in the determination of remuneration paid to Group employees. Remco is required to approve salary increases and annual merit awards based on the achievement of set targets which, depending on job function, comprise at least two of the following:

i. Return on Capital Employed for the Group as well as for Constantia;
ii. Growth in Net Asset Value per share;
iii. Investment returns as it relates to investments in equities;
iv. The combined ratio ((claims + expenses) ÷ premium) as it relates to the Insurance and Risk division; and
v. Growth in investable assets (cash + investments) as it relates to the Insurance and Risk division.

The Policy sets out guidelines within which Remco, the Board of Directors ("the Board") and, in turn, the Group is authorised to enter into agreements concerning performance related remuneration for its executive directors, senior employees and employees. This is done with a view to being able to attract, develop and retain competent key individuals who contribute to improving the earnings and value creation of the Group for the benefit of all stakeholders.

The implementation of the Policy is managed in terms of Remco's Terms of Reference and approved Levels of Authority as adopted by the Board. Where the Levels of Authority do not adequately address any particular control or management function contained in the Policy, the approval or implementation thereof shall be signed off by no less than two executive directors.

## Remuneration Committee

Remco has been established in accordance with the provisions of this guideline and King III principles of Corporate Governance. Remco comprises only independent non-executive directors who bring independent thought and scrutiny to all aspects of the Group's remuneration policy.

Remco is responsible for adopting remuneration policies and practices in accordance with this guideline and its Terms of Reference. The policies and practices are approved by the Board, regularly reviewed and aligned with the Group's objectives.

## Executive directors' service contracts

The executive directors have service agreements ("the service agreements") in place in order to:

a) ensure continuity and retention;

b) provide the Group and the Executive with protection; and

c) reflect operational and labour law best practice.

The service agreements contain restraint of trade provisions in terms of which the executive directors, at the Group's election, are restrained from competing (either directly or indirectly) with the Group during their employment and for a period of up to two years after the termination of their employment with the Group. If the restraint is enforced the executive will be remunerated for the restraint period after the termination date.

In addition, some service agreements contain minimum employment periods ranging between two and four years, whereafter the service agreements continue indefinitely. In the event of the Group terminating the service contract for any reason other than misconduct, prior to the expiry of the minimum employment period, the Group is liable to pay the executive for the remainder of the minimum employment period. Reciprocally, in the event of the executive resigning prior to the expiry of the minimum employment period, the executive is liable for the penalties contained in the service agreement.

Should the executive resign from the Group after expiry of the minimum employment period, a six months' notice period is applicable. The executive is remunerated in full during the notice period.

## Structure

Conduit designs and measures the Remuneration structure of all Conduit employees and the heads of wholly or majority owned subsidiaries. Compensation at subsidiary level is delegated to the management and/or board of the subsidiary. Executive compensation takes the form of a basic salary, a short-term incentive bonus based on a matrix of performance outcomes, and a long-term cash and equity incentive also based on a matrix of performance outcomes. Compensation should be as simple as possible and is unique to each executive.

### 1. Basic salary and benefits

Each Executive receives a basic salary, as determined by Remco from time to time. In addition, Executives receive the following benefits that are not included in the basic salary:

a) Group Life Cover;

b) Permanent Health Insurance/Disability Cover;

c) Funeral Cover;

d) Education Protector Cover;

e) AIDS/HIV Cover; and

f) Long Service awards.

### 2. Short-term incentive

An annual cash payment based on basic salary on the achievement of certain targets. The short-term incentive bonus is tailored to the performance of an individual measured by performance criteria over which he or she has influence. There is a maximum payout in any one year, but no minimum. Remco retains the authority to pay discretionary bonuses to Executives under appropriate circumstances.

### 3. Long-term incentive

A 50% cash and 50% equity bonus based on performance metrics that will ultimately be calculated on a three-year rolling basis (the incentives for 2016 and 2017 will be calculated based on an annual and two-year rolling basis, respectively). Shares will be purchased on market by the company to fulfil its obligation. There is a maximum payout in any one year, but no minimum. Remco retains the authority to pay discretionary bonuses to Executives under special circumstances.

Each of the Executives' (other than the Chief Executive Officer) combined short and long-term incentive for any one year can range between 0% and 90% of the basic annual salary. The Chief Executive Officer's combined short and long-term incentive for any one year can range between 0% and 202.5% of his basic annual salary.

# ANNEXURE 2: DIRECTORS' REMUNERATION (continued)

### Non-executive directors' remuneration

The Group's policy on remuneration for non-executive directors is that, as a general guideline, it should:

1. be market-related, having regard to the fees paid and number of meetings attended by non-executive directors of groups or companies of similar size and structure and operating in similar sectors;
2. not be linked to Conduit's share price or performance;
3. consider market norms and practices, as well as the additional responsibilities placed on board members by existing and new legislation and corporate governance principles; and
4. be reviewed and recommended by Remco and approved by shareholders at the annual general meeting.

In addition, non-executive directors' remuneration shall:

1. be subject to an annual increase which is partly determined by the Group's average increases for its employees, and subject to Board and shareholder approval;
2. be limited to a fee;
3. not include any additional benefits; and
4. specifically exclude the participation by non-executive directors in any share scheme.

It is recognised that Board and Committee Chairpersons undertake additional board work to that undertaken by non-executive directors and, for this reason, may be remunerated at a different level.

The Group shall furthermore pay for all travel and accommodation expenses incurred by non-executive directors to attend board and committee meetings, as well as ad hoc visits to and on behalf of the Group. These related expenses payable on behalf of the non-executive directors are governed by a formal travel and expenses policy approved by the Board.

## REMUNERATION SUMMARY

1. Details of the remuneration paid to executive directors and non-executive directors are contained in note 40 on page 66 of the Annual Report.
2. Details of directors' shareholding in Conduit and their interest in share options are contained in note 48 on page 82 of the Annual Report.

# CORPORATE GOVERNANCE STATEMENT

The directors fully support the principles of good corporate governance established by the Code of Corporate Practices and Conduct of the King III Report on Corporate Governance for South Africa, 2009 ("King III") and are committed to the implementation thereof. During the year under review, the Company has complied with King III in all material aspects.

## FINANCIAL STATEMENTS

The Financial Statements set out in this report have been prepared by the directors in accordance with International Financial Reporting Standards, the Companies Act, 2008 (Act 71 of 2008), as amended (" the Companies Act") and the Listings Requirements of JSE Limited ("the JSE"). They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgement and estimates.

The directors of the Company are responsible for the preparation of the Financial Statements and related financial information that fairly present the state of affairs and the results of the Company and of the Group. The external auditors are responsible for independently auditing and reporting on these Financial Statements in conformity with International Standards on Auditing.

## GOING CONCERN

The Financial Statements have been prepared on the going concern basis since the directors have every reason to believe that the Company and the Group have adequate resources in place to continue operations for the foreseeable future.

## STRUCTURE OF THE BOARD

As at the signature date the Board of Directors ("the Board") consisted of nine members. The directors have a wide range of skills and the majority have financial services experience. Any changes to the composition of the Board are approved by the Board as a whole. All executive directors and non-executive directors are subject to re-election in accordance with the provisions of the Memorandum of Incorporation ("MoI").

New directors will be nominated by the Nominations Committee and appointed by the Board, as and when required. All directors so appointed are required to step down at the next General or Annual General Meeting of shareholders ("AGM") in order for them to be re-elected by the shareholders. An abridged CV of the nominated director is sent to shareholders with the notice 21 days before the AGM. At the AGM, shareholders vote by separate resolution to determine whether the director will be re-elected.

The capacity of the directors can be categorised as follows:

- Ronald Napier — Independent non-executive director and Chairman
- Sean Riskowitz — Chief Executive Officer
- David Harpur — Independent non-executive director
- Lourens Louw — Financial director
- Jabulani Mahlangu — Independent non-executive director
- Tyrone Moodley — Non-executive director
- Barry Scott — Independent non-executive director
- Gavin Toet — Chief Operating Officer
- Rosetta Xaba — Independent non-executive director

The following directors resigned from the Board since publication of the previous Integrated Report:

- Robert Shaw — Executive director

In accordance with the terms of the Memorandum of Incorporation the following directors will retire at the forthcoming Annual General Meeting:

- Ronald Napier — Independent non-executive director and Chairman
- Rosetta Xaba — Independent non-executive director

Both directors, being eligible to do so, have made themselves available for re-election.

The Board is aware that during most of the year under review independent non-executive directors did not represent a majority on the Board. The Board's independence was however and will in future continue to be maintained by:

- keeping separate the roles of the Chairman and the Chief Executive Officer;
- ensuring functioning Board committees are comprised mainly of independent non-executive directors;
- all directors, with permission of the Board, being entitled to seek independent professional advice on the Group's affairs at the Group's expense;
- all directors having access to the advice and the services of the Company Secretary;
- the appointment or dismissal of the Company Secretary being decided by the Board as a whole and not by one individual director;
- the Board has concluded that the Company Secretary maintains an arms-length relationship with the Board; and
- the Company Secretary is not a director of the Company.

At the financial year-end however, independent non-executive directors represented a majority on the Board.

The Board recently conducted the first internal appraisal of its members and committees. The Chairman is currently compiling the results and will present it to the Board during its November 2016 meeting. The Board has resolved to conduct this internal appraisal on an annual basis going forward.

Not all directors are shareholders of the Company. Details of directors' shareholdings are reflected on page 82 of the Integrated Report.

The Board has appointed the following committees to assist in the performance of its duties:

- Audit and Risk Committee;
- Investment Committee;
- Nominations Committee;
- Remuneration Committee; and
- Social and Ethics Committee.

### Attendance at Board meetings

Seven formal Board meetings were held since publication of the previous Integrated Report. The Chairman and other non-executive directors also meet regularly with the executive management on an informal basis in order to keep abreast of developments within the Group. The attendance of formal Board meetings is set out below:

| Name | 20 Nov '15 | 19 Feb '16 | 17 May '16 | 2 Aug '16 | 30 Aug '16 | 14 Sep '16 | 29 Sep '16 |
|---|---|---|---|---|---|---|---|
| Harpur, David | P | P | P | P | P | P | P |
| Louw, Lourens | P | P | P | P | P | P | P |
| Mahlangu, Jabulani | P | P | P | P | P | P | P |
| Moodley, Tyrone | P | P | P | P | P | P | P |
| Napier, Ronald *(Chair)* | P | P | P | P | P | P | P |
| Riskowitz, Sean | P | P | P | P | P | P | P |
| Scott, Barry | P | P | P | P | P | P | P |
| Shaw, Robert | P | P | P | – | – | – | – |
| Toet, Gavin | P | P | P | P | P | P | P |
| Xaba, Rosetta | P | P | P | P | P | P | P |
| Number of Board members | 10 | 10 | 10 | 9 | 9 | 9 | 9 |
| Number present | 10 | 10 | 10 | 9 | 9 | 9 | 9 |

*Key: P Present/Participated*
*– Not a director at the time*

## AUDIT AND RISK COMMITTEE

During the 2015 financial year the Audit Committee and the Risk Committee have been merged into a single Audit and Risk Committee.

The Audit and Risk Committee consists of three independent non-executive directors. Since publication of the previous Integrated Report, the committee has met five times with executive management and the auditors to review accounting, auditing and financial reporting matters in order to ensure that an effective control environment is maintained in the Group. The committee also monitors proposed changes in accounting policies, reviews the internal audit and risk management functions and reviews the implications of major transactions from an accounting and risk management point of view.

The Audit and Risk Committee receives a high level of co-operation from directors, management and staff and is satisfied that controls and systems within the Group have been adhered to and, where necessary, improved during the period under review.

The committee will continue to monitor and appraise internal operating structures, controls and systems to ensure that these are maintained and continue contributing to the ongoing functioning of the Company.

The Audit and Risk Committee sets the principles and approves the use of the external auditors for non-audit services. A report by the committee has been provided on page 27 of the Integrated Report.

### Attendance at Committee meetings

| Name | 20 Nov '15 | 19 Feb '16 | 17 May '16 | 14 Sep '16 | 29 Sep '16 |
|---|---|---|---|---|---|
| Harpur, David | P | P | P | P | P |
| Mahlangu, Jabulani *(Chair)* | P | P | P | P | P |
| Xaba, Rosetta | P | P | P | P | P |
| Number of committee members | 3 | 3 | 3 | 3 | 3 |
| Number present | 3 | 3 | 3 | 3 | 3 |

*Key: P Present/Participated*

### Review of Management and Financial controls

The directors and the Audit and Risk Committee continuously review the management and financial controls of the Group to ensure that:

- an effective system of internal controls and accounting records is maintained for the Group; and
- the assets of the Group are safeguarded and appropriately insured.

### Internal Audit

An internal audit function has been established at Group level. The insurance operations are audited by its own internal audit department, while the function for the non-insurance operations has been outsourced to Grant Thornton: Business Risk Services. Post year-end the function for non-insurance operations was outsourced to PricewaterhouseCoopers.

The internal audit department reports on the findings of the internal audit function to the chairman of the Audit and Risk Committee.

### Internal control

The effectiveness of the internal control system is monitored through management overviews. The Board is responsible for the Group's systems of internal control. These systems are designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability of its assets and to select and minimise significant fraud, potential liability, loss and material misstatement while complying with applicable laws and regulations.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statements preparation and asset safeguarding.

The controls throughout the Group concentrate on critical risk, and these areas are closely monitored. Continual reviews and reporting structures enhance the control environment. Nothing has come to the attention of the Board to indicate that a material breakdown in the controls within the Group has occurred during the period under review.

## NOMINATIONS COMMITTEE

The Nominations Committee considers and nominates to the directors and shareholders candidates for appointment to the main Board. The committee members are Ronald Napier (Chair), David Harpur and Jabulani Mahlangu, all independent non-executive directors. The CEO and other directors attend committee meetings by invitation. There was no requirement for the committee to meet during the year under review.

## REMUNERATION COMMITTEE

The Remuneration Committee's main responsibilities are to:

- consider, review and make recommendations to the Board concerning the remuneration policies and principles of the Group; and
- review and approve the remuneration and terms of employment of the executive directors and senior employees of the Group.

All the Group's executive directors have service contracts, the salient details of which are disclosed on page 19 of the Integrated Report.

During the year under review the committee comprised only independent non-executive directors. The CEO and other directors attend committee meetings by invitation. The committee met twice during the past year. Details of directors' remuneration have been provided on pages 18 to 20 and 66 to 67 of the Integrated Report.

### Attendance at Remuneration Committee meetings

| Name | 17 May '16 | 14 Sep '16 |
|---|---|---|
| Harpur, David | P | P |
| Mahlangu, Jabulani | P | P |
| Napier, Ronald | P | P |
| Number of committee members | 3 | 3 |
| Number present | 3 | 3 |

*Key: P Present/Participated*

## SOCIAL AND ETHICS COMMITTEE

The Umbrella Social and Ethics Committee assesses the Group's various social and ethics related activities against the five areas of responsibility as outlined in its terms of reference and the Companies Act, identifies developmental areas for each of the areas of responsibility and then enables the formulation of an action plan to address these matters in respect of each of the areas. The committee met twice during the past year under the leadership of Ms Rosetta Xaba and all members were present.

## INVESTMENT COMMITTEE

The Investment Committee's main responsibilities are to:

- consider, review and make recommendations to the Board concerning the capital allocation strategy of the Group as a whole, while being cognisant of any limitations imposed on individual Group companies by statutory bodies; and
- oversee the implementation of the Group's approved capital allocation strategy and ensure that restrictions imposed by statutory bodies are conformed to.

The Committee has executive and non-executive directors as members and met twice during the period under review. All members were present at both meetings.

## EMPLOYMENT EQUITY AND PRACTICES

The Group is committed to providing equal opportunities for its employees regardless of their ethnic origin or gender.

The directors are of the view that affirmative action, structured in an economically viable and self-sustaining manner, is an essential and integral part of a sound employment strategy. Where applicable, employment equity policies have been formalised and, where required, plans have been submitted to the Department of Labour.

## ENVIRONMENT

The Group is committed to pursuing sound environmental policies in all aspects of its business and seeks to encourage and promote good environmental practice among its employees and within the community in which it operates.

# DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The board of directors of Conduit Capital Limited ("the Board") accepts responsibility for the integrity, objectivity and reliability of the Group and Company Financial Statements of Conduit Capital Limited. The directors are required in terms of the Companies Act of South Africa to ensure that adequate accounting records are maintained.

The responsibility of the external auditors is to express an independent opinion on the fair presentation of the Financial Statements based on their audit of Conduit Capital Limited and its subsidiaries.

The Board has confirmed that adequate internal financial control systems are being maintained. There were no material breakdowns in the function of the internal financial control systems during the period. The Board is satisfied that the Financial Statements fairly present the financial position, the financial performance and cash flows in accordance with relevant accounting policies consistently applied and supported by judgements and estimates that are reasonable in the circumstances based on International Financial Reporting Standards ("IFRS").

The directors' responsibilities also include maintaining an effective system of risk management.

The directors have made an assessment of the Group and Company's ability to continue as a going concern for the year to 30 June 2017 and there is no reason to believe that the Group and Company will not be a going concern in the year ahead.

The external auditors are responsible for independently auditing and reporting on the Group and Company's Financial Statements. The Financial Statements have been examined by the Group's external auditors and their report is presented on page 28.

The Financial Statements set out on pages 32 to 85, which have been prepared on the going concern basis, and the directors report as set out on pages 29 to 31, were approved by the Board on 29 September 2016 and were signed on its behalf by:

**S Riskowitz**
*Chief Executive Officer*

**L E Louw**
*Financial Director*

Johannesburg
29 September 2016

# COMPANY SECRETARY'S CERTIFICATE

Pursuant to our duties in term of Section 88 (2)(e) of the Companies Act of South Africa we certify that to the best of our knowledge and belief the company has filed all such returns and notices as are required of a public company in terms of the Act, and that all such returns are true, correct and up to date.

**CIS Company Secretaries Proprietary Limited**
*Company Secretary*

Johannesburg
29 September 2016

# REPORT OF THE AUDIT AND RISK COMMITTEE

This report is issued to the shareholders of the Company pursuant to the Audit and Risk Committee's duty to report in terms of s94(7)(f) of the Companies Act of South Africa.

## ROLE AND MANDATE OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is a statutory committee of the Company and, in addition to having specific statutory responsibilities in terms of the Companies Act, it assists the Board through advising and making submissions on financial reporting, monitoring the risk management function and internal control environment, and overseeing the external and internal audit functions and the statutory and regulatory compliance of the Company. Its duties and terms of reference are set out in a formal charter, approved by the Board.

## COMPOSITION OF THE AUDIT AND RISK COMMITTEE AND ACCESS THERETO

As at 30 June 2016, the Audit and Risk Committee comprised three independent non-executive directors, namely Mr J Mahlangu (Chairman), Mr D Harpur and Ms R Xaba. The qualifications of the Members of the Committee appear on pages 92 and 95. The Group Financial Director, other directors, senior financial executives and representatives from the external and internal auditors attended the meetings by invitation only.

The external auditors enjoy unrestricted access to the Audit and Risk Committee and its Chairman and during the year time was allotted for the committee and the external audit representatives to meet without the management team present.

## FREQUENCY OF MEETINGS

Meetings were held in September 2015, November 2015, February 2016, May 2016 and September 2016.

## STATUTORY RESPONSIBILITIES

In fulfilment of its statutory duties, the Audit and Risk Committee during the reporting period, amongst other:

1. ensured that the appointment of the external auditors, Grant Thornton, complied with all applicable legislation;
2. satisfied itself of the independence of the external auditors;
3. agreed the fees to be paid to the external auditors and reviewed the other terms of their engagement;
4. determined the nature and extent of non-audit work to be performed by the external auditors and pre-approved any non-audit engagements;
5. made itself available to deal with any complaints relating to the accounting practices or the content or audit of the Financial Statements of the Company or the internal financial controls of the Company or any related matters (no such matters were, however, referred to the committee); and
6. nominated Grant Thornton for appointment as the Company's external auditors for the 2017 financial year.

## OTHER RESPONSIBILITIES

In addition to its statutory responsibilities, the Audit and Risk Committee has executed its duties over the past financial period in accordance with its charter. These duties included:

1. considering the going concern status of the companies in the Group and making a recommendation to the Board on such;
2. monitoring the internal control environment;
3. overseeing the development of the internal audit function;
4. monitoring the risk management function;
5. recommending that the Board approve the half-yearly financial results and the Financial Statements of the Company and the Group after reviewing the results and the accounting policies applied, considering the external auditors' comments and reviewing any significant estimates or assumptions included in the results;
6. satisfying itself that the Financial Director is adequately experienced and qualified; and
7. satisfying itself of the experience and the independence of the Company Secretary.

**J Mahlangu**
*Audit and Risk Committee Chairman*

Johannesburg
29 September 2016

# INDEPENDENT AUDITOR'S REPORT

## TO THE SHAREHOLDERS OF CONDUIT CAPITAL LIMITED

We have audited the consolidated and separate financial statements of Conduit Capital Limited set out on pages 32 to 85, which comprise the statements of financial position as at 30 June 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material 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 Conduit Capital Limited as at 30 June 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

### Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2016, we have read the Directors' Report, Audit Committee's Report and Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

### Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette 39475 dated 4 December 2015, we report that Grant Thornton Johannesburg Partnership has been the auditor of Conduit Capital Limited for 16 years.

Grant Thornton

**GRANT THORNTON JOHANNESBURG PARTNERSHIP**
*Registered Auditors*

**S Ho**
*Partner*
*Registered Auditor*
*Chartered Accountant (SA)*

29 September 2016

@Grant Thornton
Wanderers Office Park
52 Corlett Drive
Illovo, 2196

# DIRECTORS' REPORT

The directors have pleasure in presenting their report for the year ended 30 June 2016.

## NATURE OF THE BUSINESS

Conduit Capital is an investment holding company that, through its subsidiaries and associates, carries on business in the financial services industry with the main focus being on insurance and related investment activities.

## SHARE CAPITAL

The authorised share capital of the Company is 500 million ordinary shares of one cent each (2015: 500 million).

On 14 December 2015, 75 000 000 (2015: Nil) ordinary shares with an aggregate par value of R750 000 were issued by way of a rights offer at a premium of R149.25 million. There were no other changes to the issued share capital or treasury shares during the reporting period.

Please refer to notes 28 and 44.3 of the Financial Statements for further details.

## SHARE PREMIUM

After R3.5 million in share issue expenses have been charged to the Group's share premium account, the rights offer above resulted in the balance on the share premium account increasing to R319.88 million (2015: R174.14 million).

Please refer to note 29 of the Financial Statements for further details.

## ACQUISITIONS, DISPOSALS AND IMPAIRMENTS OF PROPERTY, PLANT AND EQUIPMENT, SOFTWARE, INVESTMENTS AND FINANCIAL ASSETS

The Group made the following cash acquisitions and investments during the period:

1. property, plant and equipment, software and other intangible assets to the value of approximately R3.90 million (2015: R1.25 million); and
2. investments held at fair value through profit and loss to the value of approximately R186.38 million (2015: R67.85 million).

No joint ventures or associates were acquired (2015: Nil).

The Group disposed of and impaired the following material assets and investments during the period:

1. property, plant and equipment, software and other intangible assets to the value of approximately R0.04 million were disposed of (2015: R0.04 million);
2. investments held at fair value through profit and loss to the value of approximately R28.44 million were disposed of (2015: R241.18 million);
3. trade debtors and loans of R5.42 million were impaired and written off through profit and loss (2015: R0.05 million). No previous period impairments were reversed through profit and loss (2015: Nil);
4. an associate company was disposed of for approximately R0.33 million (2015: Nil); and
5. a joint venture company was disposed of for approximately R1.72 million (2015: Nil).

## SUBSEQUENT EVENTS

In a series of Stock Exchange News Service announcements published on 4 August 2016, 11 August 2016 and 15 September 2016 shareholders were informed that Conduit Capital has acquired Snowball Wealth Proprietary Limited and Midbrook Lane Proprietary Limited for a total consideration of R632.26 million, subject to shareholders' approval and a number of conditions precedent.

The general meeting to approve the transactions has been scheduled for Friday, 28 October 2016.

## DIRECTORS AND OFFICERS

The following persons acted as directors:

| Name | | | Appointed | Resigned |
|---|---|---|---|---|
| Bruyns, Richard | | # * R | 4 October 2012 | 3 August 2015 |
| Harpur, David | | # * R | 31 March 2015 | |
| Louw, Lourens | *(Financial Director)* | | 25 August 2004 | |
| Mahlangu, Jabulani | | # * R | 31 March 2015 | |
| Moodley, Tyrone | | ** | 19 May 2015 | |
| Napier, Ronald | *(Chairman)* | * R | 31 March 2015 | |
| Riskowitz, Sean | *(Chief Executive Officer)* | | 31 March 2015 | |
| Scott, Barry | | * | 19 May 2015 | |
| Shaw, Robert | | | 2 July 2012 | 1 June 2016 |
| Toet, Gavin | | | 8 September 2009 | |
| Xaba, Rosetta | | # * | 19 May 2015 | |

*Key:* * *Non-executive (Independent)*
** *Non-executive (Non-independent)*
# *Audit Committee*
R *Remuneration Committee*

The company secretary is CIS Company Secretaries Proprietary Limited. Its business address is 70 Marshall Street, Johannesburg, 2001. Its postal address is PO Box 61763, Marshalltown, 2107.

## DIRECTORS' SHAREHOLDING

As at 30 June 2016 certain directors beneficially owned 6.2 million (2015: 6.2 million) ordinary shares in Conduit Capital. The directors held no rights to share options (2015: Nil). Full details of these holdings are disclosed in note 48 to the financial statements.

## DIRECTORS' INTEREST IN CONTRACTS

Other than their letters of employment with the Company and what is disclosed in notes 48 and 49, no director of the Company has an interest in any contract that a company within the Group has entered into.

## BORROWING LIMITATIONS OF DIRECTORS

In terms of the Memorandum of Incorporation of the Company, the directors may exercise all the powers of the Company to borrow money, as they consider appropriate. At 30 June 2016 and 30 June 2015 the Company's borrowings totalled as follows:

| | **2016 R'000** | 2015 R'000 |
|---|---|---|
| Borrowings from other Group companies | **162** | 2 323 |

## DIVIDENDS

In line with the Group's strategy, the details of which appear in the Chief Executive Officer's Letters of June 2015 and June 2016, the Board has not recommended any dividend payment to ordinary shareholders (2015: R12.82 million).

## AUDIT AND RISK COMMITTEE

The Audit and Risk Committee's report appears on page 27.

## SPECIAL RESOLUTIONS

- A special resolution that extended the mandate given to the company (or one of its wholly-owned subsidiaries), by way of a general approval, to acquire the company's own securities upon such terms and conditions and in such amounts as the directors may from time to time decide, but subject to the provisions of the Companies Act and the Listings Requirements of JSE Limited and subject to certain terms and conditions, was approved by shareholders at the company's annual general meeting that was held on 20 November 2015.
- A special resolution that authorised the company to provide any direct and indirect financial assistance as contemplated in Section 45 of the Companies Act to any present or future subsidiaries and any other related or inter-related company or corporation, but subject to the provisions of the Companies Act and subject to certain terms and conditions, was approved by shareholders at the company's annual general meeting that was held on 20 November 2015.

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Notes | GROUP 30 June 2016 R'000 | GROUP 30 June 2015 R'000 | COMPANY 30 June 2016 R'000 | COMPANY 30 June 2015 R'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | **324 653** | 304 563 | **290 736** | 170 354 |
| Property, plant and equipment | 15 | **10 787** | 9 067 | **110** | 146 |
| Intangible assets | 16 | **37 226** | 35 246 | **–** | 13 |
| Loans receivable | 17 | **16 783** | 16 004 | **–** | – |
| Deferred taxation | 18 | **8 098** | 9 334 | **–** | – |
| Investment properties | 19 | **4 351** | 5 928 | **–** | – |
| Investment in associates | 20 & 37 | **133** | 124 411 | **3** | 11 568 |
| Investment in joint ventures | 21 | **–** | 225 | **–** | – |
| Investment in subsidiaries | 22 | **–** | – | **290 623** | 158 627 |
| Investments held at fair value | 23 | **247 275** | 104 348 | **–** | – |
| **Current assets** | | **759 670** | 776 448 | **38 023** | 6 868 |
| Insurance assets | 24 | **267 108** | 302 672 | **–** | – |
| Loans receivable | 17 | **2 365** | 1 180 | **10** | – |
| Trade and other receivables | 25 | **203 878** | 149 515 | **492** | 398 |
| Taxation | | **13 846** | 10 149 | **–** | – |
| Cash and cash equivalents | 26 | **272 473** | 312 932 | **37 521** | 6 470 |
| **Assets held for sale** | 27 & 37 | **110 000** | – | **11 568** | – |
| **Total assets** | | **1 194 323** | 1 081 011 | **340 327** | 177 222 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves** | | **578 268** | 455 825 | **336 274** | 171 150 |
| Ordinary share capital | 28 | **3 314** | 2 564 | **3 314** | 2 564 |
| Share premium | 29 | **319 881** | 174 140 | **344 167** | 198 426 |
| Retained earnings (accumulated losses) | | **254 727** | 278 544 | **(11 207)** | (29 840) |
| Equity attributable to owners of the parent | | **577 922** | 455 248 | **336 274** | 171 150 |
| Non-controlling interest | | **346** | 577 | **–** | – |
| **Non-current liabilities** | | **52 883** | 61 281 | **3 065** | 2 905 |
| Policyholder liabilities under insurance contracts | 31 | **25 987** | 32 606 | **–** | – |
| Interest-bearing borrowings | 46.6 | **–** | – | **3 065** | 2 905 |
| Deferred taxation | 18 | **26 896** | 28 675 | **–** | – |
| **Current liabilities** | | **563 172** | 563 905 | **988** | 3 167 |
| Insurance liabilities | 24 | **305 398** | 363 735 | **–** | – |
| Loans payable | 46.6 | **–** | – | **162** | 2 323 |
| Trade and other payables | 32 | **251 744** | 191 970 | **826** | 844 |
| Taxation | | **6 030** | 8 200 | **–** | – |
| **Total equity and liabilities** | | **1 194 323** | 1 081 011 | **340 327** | 177 222 |
| Net asset value per share (cents) | | **174.4** | 177.6 | | |
| Tangible net asset value per share (cents) | | **142.0** | 130.3 | | |

# CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | GROUP 30 June 2016 R'000 | GROUP Restated[1] 10 months ended 30 June 2015 R'000 | COMPANY 30 June 2016 R'000 | COMPANY 10 months ended 30 June 2015 R'000 |
|---|---|---|---|---|---|
| **Insurance revenue** | 11.1 & 33.1 | **1 005 586** | 790 494 | **–** | – |
| Reinsurance | | **(629 530)** | (474 544) | **–** | – |
| **Net written premium** | | **376 056** | 315 950 | **–** | – |
| Net change in provision for unearned premiums | | **(348)** | (1 190) | **–** | – |
| **Net insurance revenue** | | **375 708** | 314 760 | **–** | – |
| Reinsurance commissions received | | **298 973** | 362 663 | **–** | – |
| **Income from insurance operations** | | **674 681** | 677 423 | **–** | – |
| Net claims and movement in claims reserves | 11.1 & 34 | **(187 318)** | (158 656) | **–** | – |
| Insurance contract acquisition costs | 11.1 | **(180 064)** | (167 335) | **–** | – |
| Agency fees | | **(266 930)** | (304 896) | **–** | – |
| Underwriting management fees | 11.1 | **(200 228)** | (132 762) | **–** | – |
| Profit commissions | 11.1 | **(66 702)** | (172 134) | **–** | – |
| **Gross underwriting surplus** | | **40 369** | 46 536 | **–** | – |
| Administration costs | | **(36 213)** | (24 702) | **–** | – |
| **Net underwriting surplus** | | **4 156** | 21 834 | **–** | – |
| Non-insurance revenue | 33.2 | **18 231** | 3 948 | **4 326** | 2 083 |
| Other expenses | | **(48 429)** | (41 180) | **(3 482)** | (3 040) |
| **Operating (loss) profit** | | **(26 042)** | (15 398) | **844** | (957) |
| Equity accounted income | 20 & 21 | **13 153** | 14 015 | **–** | – |
| Investment income | 35 | **4 513** | 45 576 | **17 936** | 14 394 |
| Other | 36 | **(12 109)** | 2 935 | **–** | – |
| Finance charges | 38 | **(924)** | (212) | **(147)** | (195) |
| **(Loss) profit before taxation** | 39 | **(21 409)** | 46 916 | **18 633** | 13 242 |
| Taxation | 42 | **(2 639)** | (9 247) | **–** | – |
| **(Loss) profit for the year** | | **(24 048)** | 37 669 | **18 633** | 13 242 |
| Other comprehensive income | | **–** | – | **–** | – |
| **Total comprehensive (loss) income** | | **(24 048)** | 37 669 | **18 633** | 13 242 |
| **Attributable to:** | | | | | |
| Equity holders of the parent | | **(23 817)** | 37 626 | | |
| Non-controlling interest | | **(231)** | 43 | | |
| **Total comprehensive (loss) income** | | **(24 048)** | 37 669 | | |
| **(LOSS) EARNINGS PER SHARE (CENTS)** | | | | | |
| **– Basic** | 11.2 & 44.4.1 | **(7.7)** | 13.2 | | |
| **– Diluted** | 11.2 & 44.4.2 | **(7.7)** | 13.2 | | |

[1] *Refer to note 11*

# STATEMENTS OF CHANGES IN EQUITY

| GROUP | Ordinary share capital R'000 | Share premium R'000 | Retained earnings R'000 | Non-controlling interest R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Balance at 31 August 2014** | 2 564 | 174 140 | 253 737 | 612 | 431 053 |
| Total comprehensive income for the period | – | – | 37 626 | 43 | 37 669 |
| Dividends paid | – | – | (12 819) | (78) | (12 897) |
| **Balance at 30 June 2015** | 2 564 | 174 140 | 278 544 | 577 | 455 825 |
| Total comprehensive loss for the year | – | – | (23 817) | (231) | (24 048) |
| Issue of share capital | 750 | 149 250 | – | – | 150 000 |
| Share issue costs | – | (3 509) | – | – | (3 509) |
| **Balance at 30 June 2016** | 3 314 | 319 881 | 254 727 | 346 | 578 268 |

| COMPANY | Ordinary share capital R'000 | Share premium R'000 | Accumulated losses R'000 | Total R'000 |
|---|---|---|---|---|
| **Balance at 31 August 2014** | 2 564 | 198 426 | (30 263) | 170 727 |
| Total comprehensive income for the period | – | – | 13 242 | 13 242 |
| Dividends paid | – | – | (12 819) | (12 819) |
| **Balance at 30 June 2015** | 2 564 | 198 426 | (29 840) | 171 150 |
| Total comprehensive income for the year | – | – | 18 633 | 18 633 |
| Issue of share capital | 750 | 149 250 | – | 150 000 |
| Share issue costs | – | (3 509) | – | (3 509) |
| **Balance at 30 June 2016** | 3 314 | 344 167 | (11 207) | 336 274 |

# STATEMENTS OF CASH FLOWS

| | Notes | GROUP 30 June 2016 R'000 | GROUP 10 months ended 30 June 2015 R'000 | COMPANY 30 June 2016 R'000 | COMPANY 10 months ended 30 June 2015 R'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | **(39 253)** | 50 522 | **17 545** | 14 791 |
| Cash (utilised) generated by operations | 45.2 | **(49 009)** | 42 919 | **456** | 592 |
| Interest received | 35 | **17 157** | 12 600 | **3 636** | 1 194 |
| Finance charges | 38 | **(924)** | (212) | **(147)** | (195) |
| Dividends received from investments | 35 | **2 572** | 1 923 | **13 600** | 13 200 |
| Taxation paid | 45.3 | **(9 049)** | (6 708) | **–** | – |
| **Cash flows from investing activities** | | **(145 413)** | 185 418 | **–** | (112) |
| Disposal of joint ventures | 21 | **1 716** | – | **–** | – |
| Dividends received from joint ventures | 21 | **738** | 118 | **–** | – |
| Disposal of associates | 20 | **325** | – | **–** | – |
| Dividends received from associates | 20 | **13 600** | 13 200 | **–** | – |
| Acquisition of property, plant and equipment | 15 | **(1 095)** | (805) | **–** | (113) |
| Disposal of property, plant and equipment | | **37** | 36 | **–** | 1 |
| Acquisition of other intangible assets | 16 | **(2 801)** | (449) | **–** | – |
| Disposal of other intangible assets | 16 | **4** | 1 | **–** | – |
| Acquisition of investment properties | | **–** | (17) | **–** | – |
| Acquisition of financial investments | 23 | **(186 375)** | (67 846) | **–** | – |
| Disposal of financial investments | 23 | **28 438** | 241 180 | **–** | – |
| **Cash flows from financing activities** | | **144 207** | (11 970) | **13 506** | (16 302) |
| Proceeds from new share issue | | **146 491** | – | **146 491** | – |
| Movement in interest bearing borrowings | | **–** | – | **160** | – |
| Dividends paid | | **–** | (12 897) | **–** | (12 819) |
| Movement in loans to third parties | 17 | **(1 964)** | 913 | **–** | – |
| Movement in loans to joint ventures and associates | 20 & 21 | **(320)** | 14 | **(3)** | – |
| Movement in loans to subsidiaries | 46.6 | **–** | – | **(133 142)** | (3 483) |
| **Net (decrease) increase in cash and cash equivalents** | | **(40 459)** | 223 970 | **31 051** | (1 623) |
| Cash and cash equivalents at the beginning of the period | | **312 932** | 88 962 | **6 470** | 8 093 |
| **Cash and cash equivalents at the end of the period** | 26 | **272 473** | 312 932 | **37 521** | 6 470 |

# SEGMENTAL ANALYSIS OF EARNINGS

## SEGMENT REPORTING

The Group operates two main business segments: **Insurance and Risk**, which is headed by Robert Shaw and **Investments**, which is headed by Sean Riskowitz. In identifying its operating segments, management generally follows the Group's product lines, which represent the main services provided by the Group.

Each of these operating segments is managed separately as each one requires different technologies and other resources, as well as marketing approaches (if any). All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

| | Insurance and Risk R'000 | Investments R'000 | Total R'000 |
|---|---|---|---|
| **YEAR ENDED 30 JUNE 2016** | | | |
| **Net underwriting surplus** | 4 156 | – | 4 156 |
| Non-insurance revenue and other expenses | (12 773) | (1 405) | (14 178) |
| **Operating loss** | (8 617) | (1 405) | (10 022) |
| Equity accounted income (loss) | (676) | 13 829 | 13 153 |
| Investment income (loss) | 14 793 | (12 105) | 2 688 |
| Other | (1 553) | (5 000) | (6 553) |
| **(Loss) profit before head office expenses and taxation** | 3 947 | (4 681) | (734) |
| Unallocated net head office expenses | | | (20 675) |
| Taxation | | | (2 639) |
| **Loss for the year** | | | (24 048) |
| **Capital utilised** | | | |
| Capital employed at end of year | 124 826 | 338 967 | 578 268 |
| Capital utilised at end of year | 124 826 | 263 414 | 502 713 |
| Average capital utilised during the year | 175 837 | 191 587 | 466 622 |
| **10 MONTHS ENDED 30 JUNE 2015** | | | |
| **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 head office expenses and 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 |

## 1. BASIS OF PREPARATION

The Group's consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are in compliance with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the South African Companies Act, No. 71 of 2008 and the Listings Requirements of JSE Limited. The Group's Financial Statements have been prepared on the historical cost basis, except for the measurement of investment properties and certain financial instruments at fair value, the application of the equity method in accounting for investments in associated companies and joint ventures and the valuation of long-term policyholder liabilities on a financial soundness valuation basis. The Financial Statements incorporate the principal accounting policies set out below, which are consistently applied to all the years presented, unless otherwise stated.

It should be noted that, as IFRS is implemented internationally, evolving practices with regard to the interpretation and application of standards under IFRS could impact future reported results and disclosure.

The significant accounting policies have been included in the relevant notes in the Financial Statements. Those accounting policies considered to be of a general nature and not relating to a specific note have been disclosed below.

## 2. BASIS OF CONSOLIDATION

The consolidated Financial Statements include the financial position, results and cash flow information of the Company and its subsidiaries, including its share trust. The results of subsidiaries acquired and disposed of during the reporting period are included in the consolidated Financial Statements from the date that effective control was acquired and up to the date that effective control ceased. Control exists when the Group is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its ability to direct the relevant activities over the entity.

On acquisition, the Group recognises the subsidiary's identifiable assets, liabilities and contingent liabilities at fair value, except for assets classified as held-for-sale, which are recognised at fair value less cost to sell. The excess of cost of shares acquired over the fair value of subsidiaries' identifiable net assets at dates of acquisition is expressed as goodwill. Goodwill is carried at cost and is assessed annually for impairment.

## 3. FINANCIAL INSTRUMENTS

### 3.1 Initial recognition

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the statement of financial position when the Group or the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognised at fair value. Where financial assets or liabilities are not subsequently recognised at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

### 3.2 Subsequent measurement

After initial recognition, these instruments are measured as follows:

**Derivative financial instruments**

Investments in derivatives may give rise to financial assets and in some cases also to financial liabilities due to the nature of these financial instruments and the entering into either long or short positions. Derivatives are initially measured at the cost of the contract, but are marked to market on each reporting date based on the current price of the contract where a regulated market exists, failing which the fair value of investments is estimated using appropriate pricing models. Gains and losses are included in profit or loss in the period in which they arise.

**Loans, trade and other receivables**

Loans, trade and other receivables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method, provided that the Group's objective in holding the assets is to realise the contractual cashflows and that cashflows associated with the assets comprise only payments of principal and interest amounts thereon, on specified dates. If these conditions are not met, they are measured subsequently at fair value.

**Financial liabilities**

Financial liabilities, including trade and other payables, loans payable and other liabilities, are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest method.

## 3. FINANCIAL INSTRUMENTS (continued)

### 3.3 Gains and losses

A gain or loss arising from a change in a financial asset or liability is recognised as follows:

- a gain or loss on a financial asset or liability classified as at fair value through profit or loss is recognised in profit or loss; and
- where financial assets and liabilities are carried at amortised cost, a gain or loss is recognised in profit or loss through the amortisation process, or when the financial asset or liability is derecognised or impaired.

### 3.4 Loans to/from group companies

These include loans to/from subsidiaries, associates, joint ventures and fellow subsidiaries and are carried at amortised cost, as is the case for other loans and receivables.

## 4. INSURANCE CONTRACTS

### 4.1 Classification of insurance contracts

A contract is classified as an insurance contract if it is a contract under which the Group's insurance entities accept 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. Such contracts are accounted for in terms of IFRS 4: Insurance Contracts.

Insurance risk is risk other than financial risk, transferred from the holder of a contract to the issuer. Financial risk is defined as the risk of a possible future change in one or more of a specified interest rate, financial instrument 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.

An insurance risk is significant if the benefits to be paid under the contract, if the insured event occurs, are materially higher than any benefit to be paid under the contract should the insured event not occur.

The Group classifies financial guarantee contracts as insurance contracts.

### 4.2 Recognition and measurement of insurance contracts

#### 4.2.1 Premiums

Premium income relates to premiums received on insurance contract business entered into during the reporting period, irrespective of whether the risk cover in terms of that contract relates in whole or in part to later accounting periods, together with any adjustments to premiums recognised in prior accounting periods and changes to the unearned premium liability. Premiums are shown gross of commission payable to intermediaries and management fees payable to underwriting managers and exclude value added taxation levied on premiums, where applicable.

Premiums are recognised as revenue (earned premiums) proportionally over the period of cover provided by the insurance contract. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned premium liability. The liability is generally calculated on a time proportionate basis.

#### 4.2.2 Acquisition costs and deferred acquisition costs

Acquisition costs, which include commissions paid to intermediaries, are recognised over the period in which the related premiums are earned. A deferred acquisition cost asset is recognised in respect of costs paid relating to premium income which remains unearned as at the reporting date.

#### 4.2.3 Claims

Claims paid are recognised in profit or loss and consists of claims and related expenses paid during the reporting period and changes in the provision for outstanding claims, together with any other adjustments to claims estimates from previous years. Where applicable, adjustments are made for salvage and subrogation recoveries received.

The provision for outstanding claims comprises the Group's estimate of the undiscounted ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not, and related internal and external claims handling expenses. Related anticipated reinsurance recoveries are disclosed separately as assets. These estimated reinsurance and other recoveries are assessed in a manner similar to the assessment of the claims outstanding. Outstanding claims are stated net of expected subrogation and salvage recoveries.

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. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses, including an implicit risk margin to allow for the ultimate cost of claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court rulings. The methods used to value these provisions, and the estimates made, are reviewed regularly.

### 4.2.4 Profit commission

In terms of agreements entered into with the underwriting managers, whereby a profit commission will become due and payable if a loss ratio below a stipulated level is achieved, a provision is made to cover estimated profit commissions payable. The provision is based on the performance of the affected underwriting managers as at the reporting date. However, this provision may change should the results be affected by any claims developments after this date. Final payment of profit commissions is only made after these subsequent claims developments.

### 4.2.5 Reinsurance

Reinsurance contracts are contracts entered into by the Group with reinsurers under which the Group is compensated for the entire or a portion of losses arising on one or more of the insurance contracts issued by the Group.

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss exposure. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance services received.

Amounts recoverable under reinsurance contracts are assessed for impairment at the reporting date. Such assets are considered impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that there is a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses are recognised in profit or loss.

### 4.2.6 Reinsurance commission

Commission on reinsurance contracts placed with reinsurers is received to cover the administration costs of the Group and is earned over the period over which the premium is earned. The commission is earned consistent with the pattern of risk of the underlying direct insurance policies.

### 4.2.7 Policyholder liabilities under long-term insurance contracts

The Group's liabilities under unmatured policies of long-term insurance contracts are calculated at the reporting date by the Independent Statutory Actuary in accordance with prevailing legislation, on the 'Financial Soundness Valuation' basis using a discounted cash flow methodology as prescribed by SAP 104 issued by the Actuarial Association of South Africa. The transfer to or from the policyholder liabilities under insurance contracts reflected in profit or loss represents the increase or decrease in actuarial liabilities. The reports of the Statutory Actuary are included in the Financial Statements of the relevant subsidiary companies and are available to shareholders on request.

## 5. OPERATING LEASES

Leases under which the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Rights and obligations incurred under operating leases are accrued in profit or loss over the period of the lease on a straight-line basis.

## 6. EMPLOYEE BENEFITS

### Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render the service that increases their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

## 7. TAXATION

### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

## 8. FOREIGN CURRENCIES

A foreign currency transaction is recorded on initial recognition in Rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

## 9 STANDARDS AND INTERPRETATIONS

### 9.1 Standards and interpretations effective and adopted in the current year

No new standards and interpretations were adopted in the current year.

### 9.2 Standards and interpretations not yet effective, but early adopted

#### Amendments to IAS 1: Presentation of Financial Statements – Disclosure initiative

The amendments clarify:

- the disaggregation of specific line items in the statements of profit or loss and other comprehensive income and the statement of financial position;
- additional requirements of how entities should present subtotals in the statement of profit or loss and other comprehensive income and the statement of financial position; and
- that entities have flexibility as to the order in which they present the notes to the consolidated financial statements.

The effective date for the amendments is for years beginning on or after 1 January 2016. These amendments did not have a significant impact on the Group.

**IFRS 9: Financial Instruments**

The Financial Instruments standard to replace IAS 39 is being introduced in a phased approach. The first phase, issued in 2009 and effective for the 2016 financial year, deals with the categorisation and measurement of financial assets. It categorises financial assets as either being carried at amortised cost or fair value, depending on the business model and contractual cash flows of the Group. This first phase was adopted by the Group in the 2010 financial year. The second phase, issued in 2010, is also effective for the 2016 financial year and has been early adopted by the Group. This phase extends the scope of IFRS 9 to address the classification and measurement of liabilities and derecognition criteria, amongst others. The classification categories for financial liabilities remain unchanged and financial liabilities shall not be reclassified. In summary to date, the chapters dealing with recognition, classification, measurement, de-recognition of financial assets and liabilities and hedge accounting have been issued. Furthermore, chapters dealing with impairment methodology have been developed. These amendments did not have a significant impact on the Group.

The final standard is expected to be effective for annual periods beginning on or after 1 January 2018.

## 10. STATEMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

The Group has chosen not to early adopt the following standards and interpretations which have been published and are believed to be mandatory for the Group's accounting periods beginning on or after 1 July 2016 or later periods:

**Amendments to IFRS 5: Non-current Assets Held for Sale and Discontinued Operations**

*Annual improvements 2012 – 2014 Cycle*

These amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27 – 29 of IFRS does not apply. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27 – 29.

The effective date for the standard is for years beginning on or after 1 July 2016. This standard is not expected to have a significant impact on the Group.

**Amendments to IFRS 7: Financial Instruments – Disclosures**

*Annual improvements 2012 – 2014 Cycle*

These amendments provide additional guidance to help entities identify the circumstances under which a servicing contract is considered to be 'continuing involvement' for the purposes of applying the disclosure requirements of IFRS 7. The amendments further clarify that the additional disclosure required by recent amendments to this standard is not specifically required for all interim periods.

The effective date for the standard is for years beginning on or after 1 July 2016. This standard is not expected to have a significant impact on the Group.

**Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments apply retrospectively for years beginning on or after 1 January 2016. These amendments are not expected to have an impact on the Group.

**Amendments to IFRS 10, 12 and IAS 28: Investment Entities – Applying the Consolidation Exception**

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.

The amendments apply retrospectively for years beginning on or after 1 January 2016. These amendments are not expected to have an impact on the Group.

**Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations**

The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined on IFRS 3 Business Combinations. The amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. These amendments are not expected to have a significant impact on the Group.

## 10. STATEMENTS AND INTERPRETATIONS NOT YET EFFECTIVE (continued)

### IFRS 15: Revenue from Contracts with Customers

This new standard provides guidance on the recognition of revenue that requires recognition of revenue in a manner that depicts the transfer of goods or services to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

The effective date for the standard is for years beginning on or after 1 January 2018. This standard is not expected to have a significant impact on the Group.

### IFRS 16: Leases

This standard will require lessees to account for leases 'on-balance sheet' by recognising a 'right-of-use' asset and a lease liability. It also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS17's approach to lessor accounting; and
- introduces new disclosure requirements.

The effective date for the standard is for years beginning on or after 1 January 2019. This standard is not expected to have a significant impact on the Group.

### Amendments to IAS 16: Property, Plant and Equipment

The amendments prohibit the use of a revenue-based depreciation method for property, plant and equipment, and provide guidance in the application of the diminishing balance method for property, plant and equipment.

The effective date for the amendments was for years beginning on or after 1 January 2016. These amendments are not expected to have an impact on the Group.

### Amendments to IAS 27: Consolidated and Separate Financial Statements

These amendments introduce a third option which allows entities to account for investments in subsidiaries, joint ventures and associates under the equity method in their separate financial statements.

The effective date for the amendments was for years beginning on or after 1 January 2016. These amendments are not expected to have an impact on the Group.

### Amendments to IAS 34: Interim Financial Reporting

*Annual improvements 2012 – 2014 Cycle*

These amendments clarify the meaning of disclosure of information elsewhere in the interim financial report and require the inclusion of a cross-reference from the interim financial statements to the location of this information. The amendments specify that this information must be available to users of the interim financial statements on the same terms as the interim financial statements and at the same time, or the interim financial statements will be incomplete.

The effective date for the standard is for years beginning on or after 1 July 2016. This standard is not expected to have a significant impact on the Group.

### Amendments to IAS 38: Intangible Assets

These amendments present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate except in two limited circumstances and provide guidance in the application of the diminishing balance method for intangible assets.

The effective date for the amendments was for years beginning on or after 1 January 2016. These amendments are not expected to have an impact on the Group.

## 11. CORRECTION OF PRIOR PERIOD ERRORS AND RESTATEMENT OF COMPARATIVE NUMBERS

### 11.1 Correction of prior period errors

Two of the Group's underwriting managers reported information relating to the prior financial period only in the current financial year. This resulted in insurance revenue, claims, insurance contract acquisition costs and underwriting management fees reported in the prior period being understated, while profit commissions were overstated. The error had no impact on prior period earnings or equity.

The error has been corrected by restating each of the affected Statement of Profit or Loss and Other Comprehensive Income line items for the prior period as follows:

| | Previously reported R'000 | Adjustment R'000 | Restated R'000 |
|---|---|---|---|
| Insurance revenue | 788 517 | 1 977 | 790 494 |
| Net claims and movement in claims reserves | (129 273) | (29 383) | (158 656) |
| Insurance contract acquisition costs | (167 106) | (229) | (167 335) |
| Underwriting management fees | (132 374) | (388) | (132 762) |
| Profit commissions | (200 157) | 28 023 | (172 134) |

### 11.2 Restatement of comparative numbers

75 000 000 (2015: Nil) ordinary shares totalling R150.0 million were issued by way of a rights offer on 14 December 2015. Consequently, the comparative 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 44.3).

## 12. GROUP FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

### 12.1 Assets

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Financial assets at amortised cost R'000 | Fair value through profit and loss R'000 | Financial assets at amortised cost R'000 | Fair value through profit and loss R'000 |
| **Non-current** | | | | |
| Loans receivable | 16 783 | – | 16 004 | – |
| Investments | – | 247 275 | – | 104 348 |
| Listed investments | – | 247 275 | – | 99 133 |
| Unlisted investments | – | – | – | 5 215 |
| **Current** | | | | |
| Loans receivable | 2 365 | – | 1 180 | – |
| Trade and other receivables | 11 238 | – | 16 391 | – |
| Cash and cash equivalents | 272 473 | – | 312 932 | – |
| | 302 859 | 247 275 | 346 507 | 104 348 |

### 12.2 Liabilities

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Financial liabilities at amortised cost R'000 | Fair value through profit and loss R'000 | Financial liabilities at amortised cost R'000 | Fair value through profit and loss R'000 |
| **Current** | | | | |
| Trade and other payables | 21 399 | – | 13 373 | – |
| | 21 399 | – | 13 373 | – |

The carrying value of assets and liabilities approximates the fair value.

### 12.3 Fair value hierarchy

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

| | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 | Level 4 R'000 |
|---|---|---|---|---|
| **2016** | | | | |
| **Assets** | | | | |
| – Listed investments | 247 275 | – | – | 247 275 |
| – Investment properties | – | 4 351 | – | 4 351 |
| | 247 275 | 4 351 | – | 251 626 |
| **2015** | | | | |
| **Assets** | | | | |
| – Listed investments | 99 133 | – | – | 99 133 |
| – Investment properties | – | 5 928 | – | 5 928 |
| – Unlisted investments | – | 5 215 | – | 5 215 |
| | 99 133 | 11 143 | – | 110 276 |

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.

The inputs, assumptions and judgements used in the valuation of investment properties are detailed in note 19.2.

## 13. COMPANY FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

### 13.1 Assets

| | 2016 Financial assets at amortised cost R'000 | 2015 Financial assets at amortised cost R'000 |
|---|---|---|
| **Non-current** | | |
| Amounts due from subsidiaries | 13 393 | 12 146 |
| **Current** | | |
| Trade and other receivables | 313 | 267 |
| Cash and cash equivalents | 37 521 | 6 470 |
| | 51 227 | 18 883 |

### 13.2 Liabilities

| | 2016 Financial liabilities at amortised cost R'000 | 2015 Financial liabilities at amortised cost R'000 |
|---|---|---|
| **Current** | | |
| Loans payable | 162 | 2 323 |
| Trade and other payables | 826 | 844 |
| | 988 | 3 167 |

The carrying value of assets and liabilities approximates the fair value.

## 14. GAINS AND LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES PER CATEGORY

The following table presents the total net gains or losses for each category of financial assets and financial liabilities:

| | Financial assets at amortised cost R'000 | Fair value through profit and loss R'000 | Financial liabilities at amortised cost R'000 | Total R'000 |
|---|---|---|---|---|
| **14.1 Group** | | | | |
| **14.1.1 2016** | | | | |
| Interest received | **17 157** | **–** | **–** | **17 157** |
| Finance charges | **–** | **–** | **(924)** | **(924)** |
| Dividend income | **–** | **2 572** | **–** | **2 572** |
| Realised fair value adjustment of financial assets | **–** | **1 752** | **–** | **1 752** |
| Unrealised fair value adjustment of financial assets | **–** | **(17 369)** | **–** | **(17 369)** |
| Amounts written off | **(5 420)** | **–** | **–** | **(5 420)** |
| | **11 737** | **(13 045)** | **(924)** | **(2 232)** |
| **14.1.2 2015** | | | | |
| Interest received | 12 600 | – | – | 12 600 |
| Finance charges | – | – | (212) | (212) |
| Dividend income | – | 1 923 | – | 1 923 |
| Realised fair value adjustment of financial assets | – | 11 832 | – | 11 832 |
| Unrealised fair value adjustment of financial assets | – | 18 406 | – | 18 406 |
| Amounts written off | (48) | – | – | (48) |
| | 12 552 | 32 161 | (212) | 44 501 |
| **14.2 Company** | | | | |
| **14.2.1 2016** | | | | |
| Interest received | **3 636** | **–** | **–** | **3 636** |
| Finance charges | **–** | **–** | **(147)** | **(147)** |
| Impairment losses | **325** | **–** | **–** | **325** |
| | **3 961** | **–** | **(147)** | **3 814** |
| **14.2.2 2015** | | | | |
| Interest received | 1 194 | – | – | 1 194 |
| Finance charges | – | – | (195) | (195) |
| | 1 194 | – | (195) | 999 |

## 15. PROPERTY, PLANT AND EQUIPMENT

### Accounting policy

Property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. Each item's useful life and residual value is reassessed on an annual basis and its carrying value is restated by applying an appropriate depreciation charge against profit or loss, unless the depreciation charge is included in the carrying amount of another asset.

Depreciation is provided on all property, plant and equipment (other than land) to write down the cost, less expected residual value, by equal instalments over their useful lives. The current estimated useful lives are as follows:

| Category | Expected useful life |
|---|---|
| Motor vehicles | 5 years |
| Computer hardware | 3 – 6 years |
| Furniture and fittings | 6 – 10 years |
| Office equipment | 5 – 10 years |
| Leasehold improvements | 1 – 5 years |
| Owner occupied property | 20 years |

### 15.1 Group

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Cost R'000 | Accumulated depreciation R'000 | Net carrying value R'000 | Cost R'000 | Accumulated depreciation R'000 | Net carrying value R'000 |
| – Owner occupied properties (Land) | 2 217 | – | 2 217 | 1 692 | – | 1 692 |
| – Owner occupied properties (Buildings) | 5 082 | – | 5 082 | 3 736 | – | 3 736 |
| – Leasehold improvements | 63 | (63) | – | 476 | (476) | – |
| – Computer hardware | 1 525 | (1 071) | 454 | 2 946 | (2 434) | 512 |
| – Office equipment | 1 624 | (917) | 707 | 1 758 | (948) | 810 |
| – Furniture and fittings | 4 388 | (2 324) | 2 064 | 5 356 | (3 417) | 1 939 |
| – Motor vehicles | 592 | (329) | 263 | 592 | (214) | 378 |
| | 15 491 | (4 704) | 10 787 | 16 556 | (7 489) | 9 067 |

| | Owner occupied properties (Land) R'000 | Owner occupied properties (Buildings) R'000 | Leasehold improvements R'000 | Computer hardware R'000 | Office equipment R'000 | Furniture and fittings R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | |
| *Movement for the year* | | | | | | | | |
| – Opening carrying value | 1 692 | 3 736 | – | 512 | 810 | 1 939 | 378 | 9 067 |
| – Reclassification from investment properties | 525 | 1 346 | – | – | – | – | – | 1 871 |
| – Additions | – | – | – | 226 | 167 | 702 | – | 1 095 |
| – Disposals | – | – | – | (10) | (8) | (280) | – | (298) |
| – Depreciation | – | – | – | (274) | (262) | (297) | (115) | (948) |
| | 2 217 | 5 082 | – | 454 | 707 | 2 064 | 263 | 10 787 |

No depreciation is raised on owner occupied buildings as the residual value of the buildings (R8.69 million) is in excess of the book value.

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

### 15.1 Group (continued)

| | Owner occupied properties (Land) R'000 | Owner occupied properties (Buildings) R'000 | Leasehold improve-ments R'000 | Computer hardware R'000 | Office equipment R'000 | Furniture and fittings R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | |
| *Movement for the period* | | | | | | | | |
| – Opening carrying value | 1 951 | 4 400 | 4 | 747 | 422 | 2 121 | 340 | 9 985 |
| – Reclassification to investment properties | (259) | (664) | – | – | – | – | – | (923) |
| – Additions | – | – | – | 50 | 557 | 58 | 140 | 805 |
| – Disposals | – | – | – | (11) | – | – | (18) | (29) |
| – Depreciation | – | – | (4) | (274) | (169) | (240) | (84) | (771) |
| | 1 692 | 3 736 | – | 512 | 810 | 1 939 | 378 | 9 067 |

### 15.2 Company

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost R'000** | **Accumulated depreciation R'000** | **Net carrying value R'000** | Cost R'000 | Accumulated depreciation R'000 | Net carrying value R'000 |
| – Office equipment | **117** | **(30)** | **87** | 117 | (7) | 110 |
| – Furniture and fittings | **115** | **(92)** | **23** | 115 | (79) | 36 |
| | **232** | **(122)** | **110** | 232 | (86) | 146 |

| | Computer hardware R'000 | Office equipment R'000 | Furniture and fittings R'000 | Total R'000 |
|---|---|---|---|---|
| **2016** | | | | |
| **Movement for the year** | | | | |
| – Opening carrying value | **–** | **110** | **36** | **146** |
| – Depreciation | **–** | **(23)** | **(13)** | **(36)** |
| | **–** | **87** | **23** | **110** |
| **2015** | | | | |
| **Movement for the period** | | | | |
| – Opening carrying value | 10 | 2 | 68 | 80 |
| – Additions | – | 113 | – | 113 |
| – Disposals | (1) | – | – | (1) |
| – Depreciation | (9) | (5) | (32) | (46) |
| | – | 110 | 36 | 146 |

## 16. INTANGIBLE ASSETS

### Accounting policy

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interests in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets, while goodwill on the acquisition of associates or joint ventures is included in investments in associates or joint ventures. Internally generated goodwill is not recognised as an asset.

Intangible assets are recognised only when the cost can be measured reliably and if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group.

The process of generating an intangible asset is divided into a research and a development phase. No costs arising from the research phase may be capitalised. Costs arising from the development phase are recognised as intangible assets when the following criteria are met:

– it is technically feasible to complete the asset so that it will be available for use or sale;
– there is an intention to complete or sell it;
– there is an ability to use or sell it;
– it will generate probable future economic benefits;
– there are available resources to complete the development; and
– the expenditure attributable to the asset during its development can be measured reliably.

Any expenditure written off during the research or development phase cannot subsequently be capitalised if the project meets the criteria for recognition at a later date.

The costs relating to many internally generated intangible assets cannot be capitalised and are expensed as incurred. This includes research, start-up and advertising costs. Expenditure on internally generated brands, customer lists and items similar in substance are not recognised as intangible assets.

Intangible assets are initially recognised at cost.

The useful life of intangible assets is assessed at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it is amortised over its useful life through profit or loss. Amortisation periods and methods of amortisation for intangible assets with a finite useful life are reviewed annually, or earlier where an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortised, as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. Intangibles with indefinite useful lives are reviewed annually to ensure that the carrying value does not exceed the recoverable amount, regardless of whether an indicator of impairment is present and whether or not the intangible asset continues to have an indefinite life.

The expected useful lives of the different categories of intangible assets are estimated to be as follows:

| Category | Expected useful life |
|---|---|
| Computer software | 2 – 5 years |
| Broker relationships | 2 – 5 years |
| Other | Indefinite |

## 16. INTANGIBLE ASSETS (continued)

| | GROUP 30 June 2016 R'000 | GROUP 30 June 2015 R'000 | COMPANY 30 June 2016 R'000 | COMPANY 30 June 2015 R'000 |
|---|---|---|---|---|
| – Goodwill (note 16.1) | **34 371** | 34 371 | **–** | – |
| – Computer software (note 16.2) | **1 754** | 833 | **–** | 13 |
| – Broker relationships and other (note 16.3) | **1 101** | 42 | **–** | – |
| | **37 226** | 35 246 | **–** | 13 |
| **16.1 Goodwill** | | | | |
| **16.1.1 Net carrying value** | | | | |
| – Cost | **52 943** | 52 943 | **–** | – |
| – Impairment | **(18 572)** | (18 572) | **–** | – |
| – Net carrying value | **34 371** | 34 371 | **–** | – |
| **16.1.2 Goodwill per cash generating unit** | | | | |
| Black Ginger 92 Proprietary Limited | | | | |
| – Cost | **1 992** | 1 992 | **–** | – |
| Constantia Risk and Insurance Holdings Proprietary Limited | | | | |
| – Cost | **32 379** | 32 379 | **–** | – |
| Marble Gold 213 Proprietary Limited | | | | |
| – Cost | **18 573** | 18 573 | **–** | – |
| – Impairment | **(18 573)** | (18 573) | **–** | – |
| | **34 371** | 34 371 | **–** | – |
| **16.2 Computer software** | | | | |
| **16.2.1 Net carrying value** | | | | |
| Cost | **4 202** | 5 908 | **–** | 64 |
| Amortisation | **(2 448)** | (5 075) | **–** | (51) |
| Net carrying value | **1 754** | 833 | **–** | 13 |
| **16.2.2 Movement for the year** | | | | |
| At beginning of the year | **833** | 705 | **13** | 15 |
| Additions | **1 292** | 444 | **–** | – |
| Disposals | **(4)** | (1) | **–** | – |
| Amortisation | **(367)** | (315) | **(13)** | (2) |
| | **1 754** | 833 | **–** | 13 |
| The remaining expected useful life of computer software is 2 – 5 years. | | | | |
| **16.3 Broker relationships and other** | | | | |
| **16.3.1 Net carrying value** | | | | |
| Cost | **1 551** | 42 | **–** | – |
| Amortisation | **(450)** | – | **–** | – |
| Net carrying value | **1 101** | 42 | **–** | – |
| **16.3.2 Movement for the year** | | | | |
| Cost | **42** | 37 | **–** | – |
| Additions | **1 509** | 5 | **–** | – |
| Amortisation | **(450)** | – | **–** | – |
| Net carrying value | **1 101** | 42 | **–** | – |

### 16.4 Impairment testing of intangible assets

#### 16.4.1 Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following individual cash generating units, which have the same risk profile and underlying assets and are reportable segments for impairment testing:
– Black Ginger 92 Proprietary Limited; and
– Constantia Risk and Insurance Holdings Proprietary Limited ("CRIH").

The recoverable amount of each unit has been determined based on a "value in use calculation" that:
– uses cash flow projections based on actual and budgeted results covering a three year period;
– adjusts such projections with variable growth rates that reduces from between 17.5% and 20% in year 1 to between 6% and 7.5% in year 5 in order to take account of future prospects in each unit over a five-year period;
– extrapolates cash flows beyond the fifth year by using a growth rate of 6%; and
– discounts cash flows at an after tax cost of equity rate of 21%.

These calculations indicate that there is no need for impairment of the carrying value of goodwill in the current financial period.

The directors believe that any reasonable change in the key assumptions would not cause the carrying amounts of the cash generating units to exceed the recoverable amounts that remain.

#### 16.4.2 Impairment testing of other intangible assets

The useful life and residual value of each asset is assessed twice annually and its carrying value is restated by applying the appropriate impairment or amortisation charge against the profit or loss.

These calculations indicate that there is no need for impairment of the carrying value of other intangible assets in the current financial period.

## 17. LOANS RECEIVABLE

### Accounting policy

Loans receivable are financial assets measured at amortised cost. Refer to the financial instruments accounting policy, note 3.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| Non-current: Unsecured | **16 783** | 16 004 | **–** | – |
| Current: Unsecured | **2 365** | 1 180 | **10** | – |
| | **19 148** | 17 184 | **10** | – |
| **NON-CURRENT** | | | | |
| Unsecured loans | **21 783** | 16 004 | **–** | – |
| *Less:* Allowance for impairment | **(5 000)** | – | **–** | – |
| | **16 783** | 16 004 | **–** | – |
| Allowance for impairment | | | | |
| – At beginning of the year | **–** | (1 811) | **–** | – |
| – Impairment raised due to entity being placed in business rescue | **(5 000)** | – | **–** | – |
| – Impairment utilised | **–** | 1 811 | **–** | – |
| | **(5 000)** | – | **–** | – |
| **CURRENT** | | | | |
| Unsecured loans | **2 365** | 1 180 | **10** | – |

Unsecured loans' repayment and interest terms are as follows:
– R0.42 million is interest free and has no fixed repayment date;
– R0.68 million carries interest at the prime bank overdraft rate plus 1% and is repayable by no later than 1 November 2018; and
– R18.05 million carries interest at call rates and is repaid through profit commissions earned by the borrower from business that it generates for the Group. R2.37 million of this loan is included under current loans.

## 18. DEFERRED TAX

### Accounting policy

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax base (or tax value) used in the computation of current taxable profits.

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

In respect of temporary differences arising out of the fair value adjustment on investment properties, deferred taxation is provided at the capital gains tax rate to the extent that the carrying value is expected to be recovered through sale of the property.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| Balance at beginning of year | **(19 341)** | (18 582) | **–** | – |
| Charge against the statement of profit or loss and other comprehensive income | **543** | (759) | **–** | – |
| Balance at end of year | **(18 798)** | (19 341) | **–** | – |
| *Relating to:* | **(18 798)** | (19 341) | **–** | – |
| Provisions and accruals | **(1 467)** | (3 918) | **–** | – |
| Accelerated capital allowances | **(9)** | (7) | **–** | – |
| Unrealised gains on investment properties | **(400)** | (750) | **–** | – |
| Unrealised gains on investments | **(25 535)** | (24 912) | **–** | – |
| Estimated tax losses | **8 613** | 10 246 | **–** | – |
| *Comprising:* | **(18 798)** | (19 341) | **–** | – |
| Deferred tax assets | **8 098** | 9 334 | **–** | – |
| Deferred tax liabilities | **(26 896)** | (28 675) | **–** | – |

## 19. INVESTMENT PROPERTIES

### Accounting policy

Investment properties are classified as properties that are held to earn rental income and/or for capital appreciation and that are not occupied by companies in the Group. Owner-occupied properties are held for the supply of services and administration purposes. This distinguishes owner-occupied properties from investment properties.

Investment properties are initially recognised at cost. At the reporting date, investment properties are measured at fair value as determined by professional property valuators using open market values. When investment properties become owner occupied, the Group reclassifies them to property, plant and equipment, using the fair value at the date of reclassification as the cost. A gain or loss arising from a change in fair value is included in net profit or loss for the period in which it arises.

### Significant judgement

The fair value of investment properties has been determined with the use of open market values by professional property valuators.

| | GROUP 30 June 2016 R'000 | GROUP 30 June 2015 R'000 | COMPANY 30 June 2016 R'000 | COMPANY 30 June 2015 R'000 |
|---|---|---|---|---|
| **19.1 Net carrying value** | | | | |
| Cost | **1 246** | 2 949 | **–** | – |
| Fair value adjustment | **3 105** | 2 979 | **–** | – |
| Net carrying value | **4 351** | 5 928 | **–** | – |
| **19.2 Movement for the year** | | | | |
| At beginning of year | **5 928** | 4 173 | **–** | – |
| Additions | **–** | 17 | **–** | – |
| Reclassification (to) from owner occupied properties | **(1 871)** | 923 | **–** | – |
| Fair value adjustment (note 35) | **294** | 815 | **–** | – |
| | **4 351** | 5 928 | **–** | – |

The fair value of each investment property was determined on the income/investment approach (using the capitalisation of net income) by R.A. Gibbons (AEI (ZIM), FIV (SA)) from Mills Fitchet Magnus Penny Proprietary Limited, an independent valuer, after taking the following factors into consideration:

- Location, size and nature of the building;
- Supply, demand and lettability of similar properties in the area;
- Market rentals ranging between R60 and R90 per $m^2$ in the general vicinity of the properties; and
- A capitalisation rate ranging between 10.25% and 10.5%, as used in the market for similar type properties.

## 20. INVESTMENT IN ASSOCIATES

### Accounting policy

**Group**

Interests in associates are accounted for under the equity method, except when the investment is acquired and held exclusively with a view to its disposal in the near future, in which case the investment in associate is accounted for under the cost method. The equity method of accounting is the method whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate. The use of the equity method is discontinued from the date that the Group ceases to have significant influence over an associate.

Impairment losses reduce the carrying amount of investments in associates.

Distributions received from the associate reduce the carrying amount of the investment.

**Company**

Interests in associates are stated at cost, less any impairment losses.

## 20. INVESTMENT IN ASSOCIATES (continued)

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| At beginning of year | **124 411** | 124 931 | **11 568** | 11 568 |
| Loans | **3** | – | **3** | – |
| Disposals | **(325)** | – | **–** | – |
| Attributable portion of earnings | **12 719** | 13 751 | **–** | – |
| Dividend received | **(13 600)** | (13 200) | **–** | – |
| Impairment (refer note 37) | **(13 075)** | (1 071) | **–** | – |
| Reclassification to assets held for sale (refer note 27) | **(110 000)** | – | **(11 568)** | – |
| Balance at end of year | **133** | 124 411 | **3** | 11 568 |

Details of the fair value calculation are set out in note 37 and further details of the investments are set out in notes 46.1 and 46.2.

### Associates' summary information

The aggregate assets, liabilities, revenue and profits of the associates, all of which are unlisted, were as follows:

| | **Anthony Richards and Associates Proprietary Limited R'000** | **Other listed in note 46.1 R'000** | **Total R'000** |
|---|---|---|---|
| **30 June 2016** | | | |
| Non-current assets | **8 507** | **704** | **9 211** |
| Current assets | **57 024** | **1 545** | **58 569** |
| Non-current liabilities | **–** | **(525)** | **(525)** |
| Current liabilities | **(18 400)** | **(1 398)** | **(19 798)** |
| **Revenue** | **116 160** | **926** | **117 086** |
| After-tax profit for the year | **34 572** | **(2 774)** | **31 798** |
| Other comprehensive income | **–** | **–** | **–** |
| **Total comprehensive income** | **34 572** | **(2 774)** | **31 798** |
| *Reconciliation from share of net asset value to carrying value* | | | |
| Net asset value | **47 131** | **326** | **47 457** |
| Share of net asset value (40%) | **18 852** | **130** | **18 983** |
| Loan balances (refer note 46.1) | **–** | **3** | **3** |
| Goodwill | **91 148** | **–** | **91 148** |
| Carrying value | **110 000** | **133** | **110 133** |
| **30 June 2015** | | | |
| Non-current assets | 7 330 | 696 | 8 026 |
| Current assets | 63 687 | 6 849 | 70 536 |
| Non-current liabilities | – | (306) | (306) |
| Current liabilities | (24 757) | (3 453) | (28 210) |
| **Revenue** | 107 998 | 11 774 | 119 772 |
| After-tax profit for the period | 35 678 | (1 226) | 34 452 |
| Other comprehensive income | – | – | – |
| **Total comprehensive income** | 35 678 | (1 226) | 34 452 |

## 21. INVESTMENT IN JOINT VENTURES

### Accounting policy

Interests in joint ventures are accounted for under the equity method, except when the investment is acquired and held exclusively with a view to its disposal in the near future, in which case the investment is accounted for under the cost method. The equity method of accounting is the method whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture, less any impairment losses. The use of the equity method is discontinued from the date that the Group ceases to have joint control over the entity.

Distributions received from the joint venture reduce the carrying amount of the investment.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| At beginning of year | **225** | 93 | **–** | – |
| Loans | **317** | (14) | **–** | – |
| Disposals | **(1 716)** | – | **–** | – |
| Dividend received | **(738)** | (118) | **–** | – |
| Attributable portion of earnings | **434** | 264 | **–** | – |
| Profit on sale | **1 478** | – | **–** | – |
| **Balance at end of year** | **–** | 225 | **–** | – |

Details of the investments are set out in notes 46.3 and 46.4. In June 2016 the joint venture in Riverstone Insurance Brokers Proprietary Limited was disposed of for a total consideration of R1.72 million.

### Joint ventures' summary information

The summary details of jointly controlled entities, which are unlisted, were as follows:

| | Riverstone Insurance Brokers Proprietary Limited R'000 | Total R'000 |
|---|---|---|
| **30 June 2016** | | |
| **Revenue** | **4 280** | **4 280** |
| After-tax profit for the year | **868** | **868** |
| Other comprehensive income | **–** | **–** |
| **Total comprehensive income** | **868** | **868** |
| **30 June 2015** | | |
| Non-current assets | 82 | 82 |
| Current assets | 1 020 | 1 020 |
| Current liabilities | (282) | (282) |
| **Revenue** | 3 148 | 3 148 |
| After-tax profit for the period | 528 | 528 |
| Other comprehensive income | – | – |
| **Total comprehensive income** | 528 | 528 |

## 22. INVESTMENT IN SUBSIDIARIES

### Accounting policy

**Company**

Investments in subsidiaries are stated at cost, less any impairment losses.

| | COMPANY | |
|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 |
| Unlisted shares at cost, less amounts written off | **2 217** | 1 517 |
| Equity loans (terms detailed in note 46.5) | **275 023** | 144 964 |
| Other amounts due by subsidiaries | **13 393** | 12 146 |
| Net carrying value (refer notes 46.5 and 46.6) | **290 633** | 158 627 |
| Directors' valuation | **531 059** | 450 538 |

The directors' valuation of the underlying shares for trading entities is based on cash flow projections using the same principles as described in section 16.4.1, while the valuation of non-trading entities is based on the entities' Net Asset Value, adjusted for the recoverability or forgiveness of inter-group loans receivable or payable. These assets would fit into Level 3 of the fair value hierarchy.

## 23. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

### Accounting policy

Investments in equity and debt securities are recognised on a trade-date basis and are initially measured at fair value. Investments are classified as "at fair value through profit or loss" and at subsequent reporting dates investments in equity and debt securities are valued at fair value, with changes in fair value being recognised in profit or loss.

Refer to the financial instruments accounting policy, note 3 for further details.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| **23.1 Long term investments** | | | | |
| Listed investments (note 23.1.1) | **247 275** | 99 133 | **–** | – |
| Listed equities | **245 364** | 87 561 | **–** | – |
| Bonds | **1 911** | 11 572 | **–** | – |
| Unlisted investments (note 23.1.2) | **–** | 5 215 | **–** | – |
| | **247 275** | 104 348 | **–** | – |
| **23.1.1 Listed equities and bonds at valuation** | | | | |
| Opening net book value | **99 133** | 238 359 | **–** | – |
| Additions | **186 375** | 54 863 | **–** | – |
| Disposals | **(22 401)** | (225 795) | **–** | – |
| Fair value adjustment (note 35) | **(15 832)** | 31 706 | **–** | – |
| Closing net book value | **247 275** | 99 133 | **–** | – |
| **23.1.2 Unlisted investments at valuation** | | | | |
| Opening net book value | **5 215** | 4 814 | **–** | – |
| Additions | **–** | 5 000 | **–** | – |
| Disposals | **(6 037)** | (4 394) | **–** | – |
| Fair value adjustment (note 35) | **822** | (205) | **–** | – |
| Closing net book value | **–** | 5 215 | **–** | – |
| Directors' valuation at net book value | **–** | 5 215 | **–** | – |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| **23.2 Short term investments** | | | | |
| **23.2.1 Listed equities at valuation** | | | | |
| Opening net book value | **–** | 4 683 | **–** | – |
| Additions | **–** | 7 983 | **–** | – |
| Disposals | **–** | (10 991) | **–** | – |
| Fair value adjustment (note 35) | **–** | (1 675) | **–** | – |
| Closing net book value | **–** | – | **–** | – |

## 24. INSURANCE ASSETS AND LIABILITIES

### Accounting policy

Refer to the insurance contracts accounting policy, note 4 for further details.

### Significant judgement

Judgement is required in estimating reserves in respect of reported claims which have not yet been settled, in the determination of the Incurred But Not Reported ("IBNR") provision and in estimating future cash flows in respect of salvages and claims recoveries.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| **24.1 Gross insurance liabilities** | | | | |
| Claims reported but not paid (refer note 24.4 below) | **(48 811)** | (75 127) | **–** | – |
| Claims incurred but not reported (refer note 24.5 below) | **(70 191)** | (35 066) | **–** | – |
| Unearned premiums, net of deferred acquisition costs | **(186 396)** | (253 542) | **–** | – |
| Unearned premiums | **(275 616)** | (378 279) | **–** | – |
| Deferred acquisition costs | **89 220** | 124 737 | **–** | – |
| Total insurance liabilities | **(305 398)** | (363 735) | **–** | – |
| **24.2 Recoverable from reinsurers** | | | | |
| Claims reported but not paid (refer note 24.4 below) | **52 776** | 43 784 | **–** | – |
| Claims incurred but not reported (refer note 24.5 below) | **43 983** | 19 808 | **–** | – |
| Unearned premiums, net of deferred reinsurance commission revenue | **170 349** | 239 080 | **–** | – |
| Unearned premiums | **258 374** | 362 549 | **–** | – |
| Deferred reinsurance commission revenue | **(88 025)** | (123 469) | **–** | – |
| Reinsurers' share of insurance liabilities | **267 108** | 302 672 | **–** | – |
| **24.3 Net insurance liabilities** | | | | |
| Claims reported but not paid (refer note 24.4 below) | **3 965** | (31 343) | **–** | – |
| Claims incurred but not reported (refer note 24.5 below) | **(26 208)** | (15 258) | **–** | – |
| Unearned premiums | **(16 047)** | (14 462) | **–** | – |
| Total net insurance liabilities | **(38 290)** | (61 063) | **–** | – |

## 24. INSURANCE ASSETS AND LIABILITIES (continued)

### 24.4 Claims reported but not paid

Gross claims reported but not paid is less than the amount after reinsurance has been taken into account due to the fact that R23.9 million in gross claims relating to foreign inward reinsurance business has been offset against outstanding premium balances, as these will be settled by the foreign insurer on a net basis.

### 24.5 Incurred But Not Reported ("IBNR") provision

The directors have estimated that the statutory IBNR provision calculated in terms of the provisions of the Short Term Insurance Act is too low in terms of the portfolio of business underwritten by the Group. In light of this, the net provision has been revised and calculated at an average rate of 12.6% of net insurance premium for the 2016 financial period (2015: 5.3%).

Had the IBNR provision been calculated at statutory rates, the net provision would have been R8.55 million less (2015: R6.01 million greater) than the net R26.21 million currently provided for (2015: R15.26 million).

At the reporting date the Group performed a detailed exercise (that included the use of cumulative chain ladder calculations in the largest underwriting managers) in order to assess the required provisions and run-off assets in the insurance division. Although showing quite significant variances between the IBNR and asset levels in the various books, it was determined that overall levels of current provisioning is sufficient when compared to the best estimate of what these provisions should be. IBNR on the remaining schemes continue to be raised on 4% as it has been found that sensitivity to IBNR is very low in many of these schemes – a move in provisioning merely translates into a corresponding move in the commission payable. The average value across the division, determined as a result of this exercise, approximates 5.3% of the net insurance premium for the year.

It is important to note that for the purpose of calculating the solvency margin in terms of the Financial Services Board requirements the IBNR provision has been calculated at statutory rates.

## 25. TRADE AND OTHER RECEIVABLES

### Accounting policy

Trade and other receivables are financial assets measured at amortised cost using the effective interest method. Refer to the financial instruments accounting policy, note 3.

### Significant judgement

The Group assesses its trade and other receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| Deposits and prepaid expenses | **2 352** | 1 399 | **179** | 131 |
| Insurance receivables | **190 513** | 131 950 | **–** | – |
| Trade receivables | **4 665** | 12 000 | **313** | 267 |
| Loans – Unsecured | **–** | 768 | **–** | – |
| Other receivables – Unsecured | **6 573** | 3 623 | **–** | – |
| *Less:* Allowance for impairment | **(225)** | (225) | **–** | – |
| | **203 878** | 149 515 | **492** | 398 |

The directors are of the opinion that the value of the above receivables approximates their fair value.

## 26. CASH AND CASH EQUIVALENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| *Comprising:* | | | | |
| Cash | **51** | 69 | **–** | – |
| Call accounts | **258 208** | 229 849 | **37 485** | 6 345 |
| Derivative margin deposits | **–** | 10 800 | **–** | – |
| Current accounts – Local | **5 894** | 67 172 | **36** | 125 |
| Current accounts – Foreign | **8 320** | 5 042 | **–** | – |
| Net cash and cash equivalents | **272 473** | 312 932 | **37 521** | 6 470 |

Balances on call include amounts held on call at banks and at stockbrokers.

## 27. ASSETS HELD FOR SALE

### Accounting policy

The carrying amount of non-current assets (and disposal groups) classified as held for sale will be recovered through a sale transaction rather than through continuing use.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| **27.1 Net carrying value** | | | | |
| Cost | **11 568** | – | **11 568** | – |
| Fair value adjustment | **98 432** | – | **–** | – |
| Net carrying value | **110 000** | – | **11 568** | – |
| **27.2 Movement for the year** | | | | |
| At beginning of year | **–** | – | **–** | – |
| Reclassification from associates | **110 000** | – | **11 568** | – |
| | **110 000** | – | **11 568** | – |

On 23 June 2016 Conduit Capital received an unsolicited, non-binding offer from an independent party who is looking to acquire its 40% shareholding in Anthony Richards and Associates Proprietary Limited for a purchase consideration of R110 million. After due consideration Conduit Capital's board of directors agreed to a possible sale, subject to certain conditions. As at the signature date of these Annual Financial Statements, negotiations were ongoing.

## 28. ORDINARY 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.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| **Authorised** | | | | |
| 500 000 000 ordinary shares of 1c each (2015: 500 000 000) | **5 000** | 5 000 | **5 000** | 5 000 |
| **Issued** | | | | |
| Opening: 256 379 818 ordinary shares of 1c each (2015: 256 379 818) | **2 564** | 2 564 | **2 564** | 2 564 |
| Rights offer: 75 000 000 ordinary shares of 1c each (2015: Nil) | **750** | – | **750** | – |
| Treasury shares: | | | | |
| – 3 221 ordinary shares of 1c each held by Conduit Management Services Proprietary Limited (2015: 3 221) | **–*** | –* | **–*** | –* |
| | **3 314** | 2 564 | **3 314** | 2 564 |
| In terms of a resolution passed at the most recent Annual General Meeting, all authorised and unissued shares are placed under the control of the Company's directors. | | | | |
| ** Amounts less than R1 000* | | | | |
| Number of shares (net of treasury shares held): | **331 376 597** | 256 376 597 | **331 379 818** | 256 379 818 |

**Shares under option**

As at the reporting date, no shares in the Company were under option in terms of the Group Senior Executive Option Scheme (2015: Nil). There were no contracts in place for the sale of shares (2015: Nil).

## 29. SHARE PREMIUM

| | GROUP 30 June 2016 | GROUP 30 June 2015 | COMPANY 30 June 2016 | COMPANY 30 June 2015 |
|---|---|---|---|---|
| *Reconciliation of movement in share premium:* | | | | |
| Opening balance | **174 140** | 174 140 | **198 426** | 198 426 |
| Received in terms of rights offer | **149 250** | – | **149 250** | – |
| Expenses incurred in terms of rights offer | **(3 509)** | – | **(3 509)** | – |
| | **319 881** | 174 140 | **344 167** | 198 426 |

## 30. SHARE-BASED PAYMENTS

No new share options were awarded to executive directors and staff during 2015/16. No share options remained outstanding as at the reporting date (2015: Nil).

## 31. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS

### Accounting policy

Refer to the insurance contracts accounting policy, note 4 for further details.

### Significant judgement

The policyholder liabilities arising from long term insurance contracts are determined by the statutory actuaries based on appropriate estimates and assumptions.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| Opening balance | **32 606** | 20 522 | **–** | – |
| Transfer (from) to profit or loss | **(6 619)** | 12 084 | **–** | – |
| | **25 987** | 32 606 | **–** | – |
| Policyholder liabilities are determined by the statutory actuaries of the underlying long-term insurance companies. The reports of the statutory actuaries are set out in the Financial Statements of these subsidiary companies and are available to shareholders on request. | | | | |
| **31.1 Analysis of policyholder liabilities** | | | | |
| Individual funeral cover | **22 765** | 30 272 | **–** | – |
| Group funeral cover | **3 222** | 2 334 | **–** | – |
| | **25 987** | 32 606 | **–** | – |
| **31.2 Maturity analysis of policyholder liabilities** | | | | |
| Policyholder liabilities are expected to become payable as follows: | | | | |
| Up to one year | **5 937** | 14 497 | **–** | – |
| One year to five years | **4 359** | 3 655 | **–** | – |
| More than five years | **15 691** | 14 454 | **–** | – |
| | **25 987** | 32 606 | **–** | – |

### 31.3 Key assumptions

There were no changes to the valuation basis from the prior year.

In the calculation of liabilities, provision was made for the best estimate of the future experience plus the compulsory margins prescribed by the Actuarial Society of South Africa's Standard of Actuarial Practice ("SAP") 104. SAP 104 is intended to provide for a minimum level of financial resilience in the liabilities to ensure that profits are not recognised prematurely.

For the group funeral business an IBNR reserve was established based on the most recent claims run-off numbers. These claims run-off numbers were based on the results of "experience investigations" and current and expected future market conditions. In certain instances a deficiency reserve was established to allow for any expected losses on the group funeral policies.

For individual business units, a prospective valuation is carried out with the following principal assumptions:

- Inflation rate 6.39% (2015: 6.10%)
- Interest rate 7.89% (2015: 7.60%)
- Withdrawal assumptions were based on experience in the portfolio and in the market
- Mortality rates were based on SA85/90 Heavy (2015: SA85/90 Heavy) and the relevant AIDS tables, adjusted to reflect the most recent claims experience.

All business is non-participating business and policyholders would have a reasonable expectation that contractual benefits would be met and that there would be no undue delay in the processing of claims and queries.

## 31. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS (continued)

### 31.4 Matching of assets and liabilities

The Group only underwrites assistance insurance business and, to that extent, the matching of assets and liabilities is reasonably simple. In the settlement of policyholder liabilities, cash resources and (where required) the equity investments are utilised. Cash resources and the equity investments provide sufficiently liquid funds for the settlement of liabilities and are therefore suitable for the matching of assets and liabilities and in providing for the settlement patterns of the funeral business.

### 31.5 Sensitivities

Policyholder liabilities have been calculated at R25.99 million by the statutory actuary as at 30 June 2016 (2015: R32.61 million). The following scenarios indicate the value of the liabilities if the factors influencing the valuation had to change by the percentages given:

| Factor | Level of change | Resulting liability R'000 | Change % |
|---|---|---|---|
| Main basis | None | 25 987 | 0.00 |
| Mortality (and other claims) | 10% increase | 26 508 | 2.00 |
| Expenses | 10% increase | 28 241 | 8.67 |
| Investment returns | 1% reduction | 28 433 | 9.41 |
| Withdrawals | 10% increase | 25 493 | (1.90) |
| Inflation | 1% increase | 28 177 | 8.43 |

## 32. TRADE AND OTHER PAYABLES

### Accounting policy

Trade and other payables are financial instruments measured at amortised cost. Refer to the financial instruments accounting policy, note 3.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 | **30 June 2016 R'000** | 30 June 2015 R'000 |
| Accruals | **7 720** | 8 833 | **677** | 732 |
| Insurance payables | **230 345** | 178 597 | **–** | – |
| Trade payables | **13 648** | 4 495 | **118** | 67 |
| Dividends payable | **31** | 45 | **31** | 45 |
| | **251 744** | 191 970 | **826** | 844 |

## 33. REVENUE

### Accounting policy

Service fees are recognised as revenue over the period during which the service is performed.

Rental income is recognised on a straight line basis over the lease term.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

For insurance contract accounting, refer to note 4 for further details.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 10 months ended 30 June 2015 R'000 | **30 June 2016 R'000** | 10 months ended 30 June 2015 R'000 |
| **33.1 Insurance revenue** | | | | |
| Gross insurance premiums | **1 005 586** | 790 494 | **–** | – |
| Local | **904 738** | 676 278 | **–** | – |
| Foreign | **100 848** | 114 216 | **–** | – |
| **33.2 Non-insurance revenue (local)** | **18 231** | 3 948 | **4 326** | 2 083 |
| Advisory, consulting and management fees received from group companies | **–** | – | **2 400** | 2 000 |
| Advisory, consulting, management and other fees, fees received from third parties | **17 584** | 3 540 | **1 926** | 83 |
| Rental income | **647** | 408 | **–** | – |
| | **1 023 817** | 794 442 | **4 326** | 2 083 |

## 34. CLAIMS AND MOVEMENT IN CLAIMS RESERVES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | Restated[1] 10 months ended 30 June 2015 R'000 | **30 June 2016 R'000** | 10 months ended 30 June 2015 R'000 |
| Gross claims paid | **(479 487)** | (277 918) | **–** | – |
| Change in provision for outstanding claims and IBNR | **(32 222)** | 41 603 | **–** | – |
| Transfer from (to) policyholder liabilities | **6 619** | (12 084) | **–** | – |
| Gross claims and movement in claims reserves | **(505 090)** | (248 399) | **–** | – |
| Reinsurers' share of claims paid | **284 887** | 109 234 | **–** | – |
| Reinsurers' share of provisions | **32 885** | (19 491) | **–** | – |
| Net claims and movement in claims reserves | **(187 318)** | (158 656) | **–** | – |

[1] *Refer to note 11.1*

## 35. INVESTMENT INCOME

### Accounting policy

Dividends are recognised when the right to receive payment, which is registered ownership on the last day to register, is established.

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity of the financial instrument.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 30 June 2016 R'000 | 10 months ended 30 June 2015 R'000 | 30 June 2016 R'000 | 10 months ended 30 June 2015 R'000 |
| Interest income | 17 157 | 12 600 | 3 636 | 1 194 |
| Investment income and fair value adjustments (listed shares and bonds) | (13 260) | 31 954 | – | – |
| Dividend income | 2 572 | 1 923 | – | – |
| Fair value adjustment (unrealised) | (13 832) | 18 005 | – | – |
| Fair value adjustment (realised) | (2 000) | 12 026 | – | – |
| Investment income (unlisted shares and bonds) | 822 | (205) | 14 300 | 13 200 |
| Dividend income (subsidiaries and associates) | – | – | 13 600 | 13 200 |
| Fair value adjustment (unrealised) | (3 537) | 401 | 700 | – |
| Fair value adjustment (realised) | 4 359 | (606) | – | – |
| Investment income – other | (206) | 1 227 | – | – |
| Derivatives (losses) profits | (607) | 412 | – | – |
| Fair value adjustment (Investment properties) | 294 | 815 | – | – |
| Other | 107 | – | – | – |
| | 4 513 | 45 576 | 17 936 | 14 394 |

## 36. OTHER (EXPENSES) INCOME

| | | | | |
|---|---|---|---|---|
| Foreign exchange (losses) profits | (251) | 3 999 | – | – |
| (Loss) profit on disposal of property, plant and equipment | (261) | 7 | – | – |
| Impairment of associates | (13 075) | (1 071) | – | – |
| Profit on disposal of joint ventures | 1 478 | – | – | – |
| | (12 109) | 2 935 | – | – |

## 37. IMPAIRMENT ASSESSMENT OF ASSOCIATES

Anthony Richards and Associates Proprietary Limited's ("ARA") fair value is determined based on an unsolicited purchase offer received from an independent third party on 23 June 2016. This resulted in an impairment during the 2016 financial year, the details of which are reflected below.

Administration Plus Proprietary Limited's ("Admin Plus") fair value was determined based on the lower of net asset value and a "value in use calculation" that:

– used cash flow projections based on actual and budgeted results covering a three year period;
– assumed no growth in earnings in the foreseeable future; and
– discounted cash flows at an after-tax rate of 30%.

There was no impairment requirement for Admin Plus.

The 2015 comparatives reflect the result from the revaluation of Auto Trade Underwriting Managers Proprietary Limited ("ATU"), an associate that was sold at the beginning of the financial year.

The result of the exercise is detailed below:

| | | **2016 ARA R'000** | 2015 ATU R'000 |
|---|---|---|---|
| Fair value determined in terms of calculation detailed above | | **110 000** | 1 565 |
| Book value prior to valuation | | **(123 075)** | (2 636) |
| Impairment | (notes 20 & 36) | **(13 075)** | (1 071) |
| Capital gains tax (deferred) | | **(21 324)** | – |
| – Fair value of investment | | **110 000** | – |
| – Original cost price of investment | | **(14 805)** | – |
| – Capital gain | | **95 195** | – |
| x Capital gains tax rate | | **22.40%** | 0.00% |
| Capital gains tax previously calculated and reported | | **18 308** | – |
| Reported reduction in net assets due to impairment | | **(16 091)** | (1 071) |

No tax credit was raised against the impairment of ATU in 2015.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 10 months ended 30 June 2015 R'000 | **30 June 2016 R'000** | 10 months ended 30 June 2015 R'000 |
| **38. FINANCE CHARGES** | | | | |
| Interest paid | **(924)** | (212) | **(147)** | (195) |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 10 months ended 30 June 2015 R'000 | **30 June 2016 R'000** | 10 months ended 30 June 2015 R'000 |
| **39. (LOSS) PROFIT BEFORE TAXATION** | | | | |
| The (loss) profit before taxation includes: | | | | |
| Auditors' remuneration (external) | **(3 556)** | (2 876) | **(601)** | (566) |
| Current year | **(3 360)** | (2 462) | **(585)** | (543) |
| Prior year underprovision | **(59)** | (234) | **(8)** | (23) |
| Other services | **(137)** | (180) | **(8)** | – |
| Consulting fees paid | **(4 278)** | (2 020) | **(20)** | (22) |
| Depreciation and amortisation | **(1 765)** | (1 086) | **(49)** | (48) |
| Direct operating expenses in respect of investment properties | **(283)** | (92) | **–** | – |
| (Financial assets impaired and written off) Reversal of impairment | **(5 420)** | (48) | **325** | – |
| Legal fees | **(1 075)** | (673) | **(47)** | (98) |
| Management fees paid to third parties | **(5 092)** | (1 806) | **–** | – |
| Operating lease charges | **(2 818)** | (2 767) | **–** | – |
| Equipment | **(24)** | (63) | **–** | – |
| Premises | **(2 794)** | (2 704) | **–** | – |
| Secretarial fees | **(246)** | (215) | **(170)** | (128) |
| Staff costs | **(30 770)** | (30 670) | **–** | – |
| Salaries and wages (excluding directors' remuneration) | **(28 943)** | (29 357) | **–** | – |
| Provident fund (defined contribution plan) | **(1 827)** | (1 313) | **–** | – |

| | Directors' fees R'000 | Basic salary R'000 | Bonuses R'000 | Other benefits R'000 | Total R'000 |
|---|---|---|---|---|---|
| **40. DIRECTORS' REMUNERATION** | | | | | |
| **40.1 2016** | | | | | |
| *Paid for by Company:* | | | | | |
| **NON-EXECUTIVE** | | | | | |
| Napier, R | 490 | – | – | – | 490 |
| Bruyns, S R | 22 | – | – | – | 22 |
| Harpur, D | 269 | – | – | – | 269 |
| Mahlangu, J | 338 | – | – | – | 338 |
| Moodley, T | 269 | – | – | – | 269 |
| Scott, B | 269 | – | – | – | 269 |
| Xaba, R | 338 | – | – | – | 338 |
| | 1 995 | – | – | – | 1 995 |
| *Paid for by subsidiaries:* | | | | | |
| **NON-EXECUTIVE** | | | | | |
| Mahlangu, J | 141 | – | – | – | 141 |
| Xaba, R | 85 | – | – | – | 85 |
| **EXECUTIVE** | | | | | |
| Louw, L E | – | 2 176 | – | 165 | 2 341 |
| Riskowitz, S | – | 1 480 | – | – | 1 480 |
| Shaw, R L | – | 2 824 | 356 | 28 | 3 208 |
| Toet, G | – | 2 167 | – | 174 | 2 341 |
| | 226 | 8 647 | 356 | 367 | 9 596 |
| | 2 221 | 8 647 | 356 | 367 | 11 591 |

| | Directors' fees R'000 | Basic salary R'000 | Bonuses R'000 | Other benefits R'000 | Total R'000 |
|---|---|---|---|---|---|
| **40.2 2015** | | | | | |
| *Paid for by Company:* | | | | | |
| **NON-EXECUTIVE** | | | | | |
| Berkowitz, R S | 288 | – | – | – | 288 |
| Bruyns, S R | 225 | – | – | – | 225 |
| Campbell, S M | 158 | – | – | – | 158 |
| Harpur, D | 67 | – | – | – | 67 |
| Mahlangu, J | 85 | – | – | – | 85 |
| Moodley, T | 45 | – | – | – | 45 |
| Napier, R | 123 | – | – | – | 123 |
| Scott, B | 45 | – | – | – | 45 |
| Steffens, G Z | 240 | – | – | – | 240 |
| Xaba, R | 56 | – | – | – | 56 |
| | 1 332 | – | – | – | 1 332 |
| *Paid for by subsidiaries:* | | | | | |
| **EXECUTIVE** | | | | | |
| Druian, J D | – | 1 979 | 275 | 24 | 2 278 |
| Louw, L E | – | 1 696 | 698 | 86 | 2 480 |
| Riskowitz, S | – | 250 | 125 | – | 375 |
| Shaw, R L | – | 2 158 | 872 | – | 3 030 |
| Toet, G | – | 1 689 | 698 | 93 | 2 480 |
| | – | 7 772 | 2 668 | 203 | 10 643 |
| | 1 332 | 7 772 | 2 668 | 203 | 11 975 |

## 41. RETIREMENT BENEFITS

50.9% of the Group's employees, all employed by the Insurance and Risk Services division, contribute to the GTC Umbrella Provident Fund of which the Constantia Insurance Group is a participant and which is a defined contribution plan. Once the contributions have been paid, the Group has no further payment obligations. The regular contributions constitute net periodic costs for the period in which they are due and as such are included in staff costs.

Contributions for the period under consideration amounted to R1.83 million (2015: R1.31 million). The umbrella fund and its participants are registered in terms of and regulated by the Pension Funds Act.

The rest of the Group has no formal or informal retirement benefit arrangements for employees or directors.

## 42. TAXATION

### Accounting policy

Current tax and deferred tax are charged against profit or loss and are based on the expected taxable income for the period, as adjusted for items which are non-taxable or disallowed, as well as any adjustment of tax payable for previous years, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, directly in equity; or
- a business combination.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 10 months ended 30 June 2015 R'000 | **30 June 2016 R'000** | 10 months ended 30 June 2015 R'000 |
| **42.1 Taxation** | | | | |
| South African normal taxation | **(3 139)** | (8 488) | **–** | – |
| Current period | **(3 150)** | (7 216) | **–** | – |
| Prior period underprovision | **11** | (1 272) | **–** | – |
| Deferred tax | **543** | (759) | **–** | – |
| Dividend withholding tax | **(43)** | – | **–** | – |
| Taxation per statement of profit or loss and other comprehensive income | **(2 639)** | (9 247) | **–** | – |
| **42.2 Taxation reconciliation** | | | | |
| (Loss) profit before tax | **(21 409)** | 46 916 | **18 633** | 13 242 |
| Standard South African normal taxation | **5 995** | (13 136) | **(5 217)** | (3 708) |
| Non-taxable income | **8 517** | 5 970 | **3 808** | 3 696 |
| Non-deductible expenses | **(4 128)** | (647) | **(26)** | (31) |
| Prior period underprovision – Normal tax | **11** | (1 272) | **–** | – |
| Prior period underprovision – Deferred tax | **118** | (367) | **–** | – |
| Deferred tax asset not raised in companies with losses | **(5 072)** | (3 014) | **–** | – |
| Utilisation of previously unrecognised tax losses | **636** | 151 | **1 435** | 43 |
| Capital gains tax rate differential | **(8 673)** | 3 068 | **–** | – |
| Dividend withholding tax | **(43)** | – | **–** | – |
| Taxation per statement of profit or loss and other comprehensive income | **(2 639)** | (9 247) | **–** | – |

Deferred tax assets have not been recognised in group companies that do not anticipate generating sufficient taxable income to utilise these assets in the foreseeable future. The tax assets not so recognised as at the reporting date amounted to R15.93 million (2015: R10.92 million).

## 43. COMMITMENTS AND CONTINGENT LIABILITIES

| | GROUP 30 June 2016 R'000 | GROUP 10 months ended 30 June 2015 R'000 | COMPANY 30 June 2016 R'000 | COMPANY 10 months ended 30 June 2015 R'000 |
|---|---|---|---|---|
| **43.1 Commitments: Operating leases** | | | | |
| At the reporting date the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows: | | | | |
| Property leases | **5 425** | 2 528 | **–** | – |
| Within one year | **1 787** | 2 195 | **–** | – |
| In second to fifth years | **3 638** | 333 | **–** | – |

Operating lease payments largely represent rentals payable for office properties.

### 43.2 Contingent liabilities

A portfolio acquisition agreement, effective 1 September 2015, exists between the Constantia Insurance Company Limited and Dealers Indemnity Proprietary Limited ("Dealers"). Dealers receives a monthly annuity of R45 000 for the remainder of the vendor's natural life, subject to a minimum payment of R1 500 000 ("the Minimum Payment").

The present value of the annuity payments as at 30 June 2016 amounted to R3 081 746 ("the Maximum Liability") per an actuarial calculation based on published mortality tables. As it is uncertain as to whether any amount in excess of the Minimum Payment will actually become due and payable, the Group has raised a liability to the value of the Minimum Payment and confirms that it has a contingent liability of R2 031 746 as at the reporting date. This contingent liability relates to the difference between the outstanding Minimum Payment balance and the Maximum Liability.

## 44. (LOSS) EARNINGS PER SHARE

### 44.1 Calculation of basic earnings

| | GROUP 30 June 2016 R'000 | GROUP 10 months ended 30 June 2015 R'000 |
|---|---|---|
| *The earnings used in the calculation of basic earnings per share is as follows:* | | |
| (Loss) profit for the year | **(24 048)** | 37 669 |
| Non-controlling interest | **231** | (43) |
| (Loss) profit attributable to ordinary shareholders | **(23 817)** | 37 626 |

### 44.2 Reconciliation between basic earnings and headline earnings

| | 2016 Gross R'000 | 2016 Net R'000 | 2015 Gross R'000 | 2015 Net R'000 |
|---|---|---|---|---|
| *Headline earnings is determined as follows:* | | | | |
| (Loss) profit attributable to ordinary equity holders of the parent | | **(23 817)** | | 37 626 |
| Net loss (profit) on revaluation of investment properties | **31** | **38** | (657) | (514) |
| Loss (profit) on disposal of property, plant and equipment | **261** | **188** | (7) | (4) |
| Impairment of associates | **13 075** | **16 090** | 1 071 | 1 071 |
| Profit on disposal of joint ventures | **(1 478)** | **(1 202)** | – | – |
| Headline (loss) earnings | | **(8 703)** | | 38 179 |

## 44. (LOSS) EARNINGS PER SHARE (continued)

| | GROUP 30 June 2016 R'000 | GROUP Restated[1] 10 months ended 30 June 2015 R'000 |
|---|---|---|
| **44.3 Shares in issue** | | |
| **44.3.1 Number of shares ('000)** | | |
| – Shares in issue | **331 380** | 256 380 |
| – Shares held as treasury shares | **(3)** | (3) |
| | **331 377** | 256 377 |
| **44.3.2 Weighted average number of shares ('000)** | | |
| – Shares in issue | **297 363** | 256 380 |
| – Bonus issue for rights offer[1] | **12 751** | 28 113 |
| – Shares held as treasury shares | **(3)** | (3) |
| | **310 111** | 284 490 |
| **44.3.3 Diluted weighted average number of shares ('000)** | | |
| – Shares in issue | **297 363** | 256 380 |
| – Bonus issue for rights offer[1] | **12 751** | 28 113 |
| – Shares held as treasury shares | **(3)** | (3) |
| | **310 111** | 284 490 |
| **44.4 (Loss) earnings per share (cents)** | | |
| **44.4.1** Basic (loss) earnings per share | **(7.7)** | 13.2 |
| **44.4.2** Diluted (loss) earnings per share | **(7.7)** | 13.2 |
| **44.4.3** Headline (loss) earnings per share | **(2.8)** | 13.4 |
| **44.4.4** Diluted headline (loss) earnings per share | **(2.8)** | 13.4 |

[1] *As required by IAS 33: Earnings per share, the weighted average number of shares in the comparative numbers has been restated by the Bonus issue amount due to the rights offer that took place on 14 December 2015.*

## 45. NOTES TO THE CASH FLOW STATEMENTS

### 45.1 The following convention applies to figures other than adjustments:

Outflows of cash are represented by amounts in brackets, while inflows are represented by amounts without brackets.

### 45.2 Reconciliation of (loss) profit before taxation to cash (utilised) generated by operations

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **30 June 2016 R'000** | 10 months ended 30 June 2015 R'000 | **30 June 2016 R'000** | 10 months ended 30 June 2015 R'000 |
| (Loss) profit before taxation | **(21 409)** | 46 916 | **18 633** | 13 242 |
| Adjustments for: | | | | |
| Depreciation and amortisation | **1 765** | 1 086 | **49** | 48 |
| Dividend income | **(2 572)** | (1 923) | **(13 600)** | (13 200) |
| Financial assets: Impairment and write-off (reversal) | **5 420** | 48 | **(325)** | – |
| Impairment of associates | **13 075** | 1 071 | **–** | – |
| Profit on sale of joint ventures | **(1 478)** | – | **–** | – |
| Finance charges | **924** | 212 | **147** | 195 |
| Interest income | **(17 157)** | (12 600) | **(3 636)** | (1 194) |
| Loss (profit) on disposal of property, plant and equipment | **261** | (7) | **–** | – |
| Revaluation of investment property | **(294)** | (815) | **–** | – |
| Investment profits | **15 010** | (29 826) | **(700)** | – |
| Equity accounted income | **(13 153)** | (14 015) | **–** | – |
| Operating cash flows before working capital changes | **(19 608)** | (9 853) | **568** | (909) |
| Working capital changes | **(29 401)** | 52 772 | **(112)** | 1 501 |
| (Increase) decrease in trade and other receivables | **(59 783)** | (2 028) | **(94)** | 995 |
| Increase (decrease) in trade and other payables | **59 774** | 54 889 | **(18)** | 506 |
| (Decrease) increase in policyholder liabilities | **(6 619)** | 12 084 | **–** | – |
| Decrease in insurance assets | **35 564** | 18 772 | **–** | – |
| Decrease in insurance liabilities | **(58 337)** | (30 945) | **–** | – |
| Cash (utilised) generated by operations | **(49 009)** | 42 919 | **456** | 592 |

### 45.3 Taxation paid

| | | | | |
|---|---|---|---|---|
| Opening balance | **1 949** | 3 729 | **–** | – |
| Statement of comprehensive income movement | **(3 139)** | (8 488) | **–** | – |
| Dividend withholding tax | **(43)** | – | **–** | – |
| Closing balance | **(7 816)** | (1 949) | **–** | – |
| | **(9 049)** | (6 708) | **–** | – |

## 46. INVESTMENT IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

### 46.1 The following information relates to the Group's investment in associate companies (including those held for sale):

| | Nature of business | Country of incorporation | Number of shares held 2016 | Number of shares held 2015 | Interest 2016 % | Interest 2015 % | Book value of investment 2016 R'000 | Book value of investment 2015 R'000 | Indebtedness to Group 2016 R'000 | Indebtedness to Group 2015 R'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directly owned** | | | | | | | | | | |
| Anthony Richards & Associates Proprietary Limited | Credit recovery and call centre services | RSA | **100** | 100 | **40** | 40 | **110 000** | 122 846 | **–** | – |
| Liciaflash Proprietary Limited | Procurement | RSA | **60** | – | **40** | – | **–** | – | **3** | – |
| **Held through a subsidiary** | | | | | | | | | | |
| Administration Plus Proprietary Limited | Underwriting manager | RSA | **4 000** | 4 000 | **40** | 40 | **130** | 1 240 | **–** | – |
| Auto Trade Underwriting Managers Proprietary Limited | Underwriting manager | RSA | **–** | 30 | **–** | 30 | **–** | 325 | **–** | – |
| Wheels Underwriting Managers Proprietary Limited (in liquidation) | Underwriting manager | RSA | **20** | 20 | **20** | 20 | **–** | – | **–** | – |
| | | | | | | | **110 130** | 124 411 | **3** | – |

*Note:*
*All associates of the Group are unlisted companies.*

### 46.2 Allocated as follows:

| | GROUP 30 June 2016 R'000 | GROUP 30 June 2015 R'000 | COMPANY 30 June 2016 R'000 | COMPANY 30 June 2015 R'000 |
|---|---|---|---|---|
| Book value of investment reflected as associates (note 20) | **133** | 124 411 | **3** | 11 568 |
| Book value of investment reflected as held for sale (note 27) | **110 000** | – | **11 568** | – |
| Total investment in associates (notes 20 and 27) | **110 133** | 124 411 | **11 571** | 11 568 |

### 46.3 The following information relates to the Group's investment in joint ventures:

| | Nature of business | Country of incorporation | Number of shares held 2016 | Number of shares held 2015 | Interest 2016 % | Interest 2015 % | Book value of investment 2016 R'000 | Book value of investment 2015 R'000 | Indebtedness to (by) Group 2016 R'000 | Indebtedness to (by) Group 2015 R'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Held through a subsidiary** | | | | | | | | | | |
| Riverstone Insurance Brokers Proprietary Limited | Insurance broker | RSA | **–** | 50 | **–** | 50 | **–** | 542 | **–** | (317) |
| | | | | | | | **–** | 542 | **–** | (317) |

*Note:*
*The Group's joint ventures are all unlisted companies.*

### 46.4 Allocated as follows:

| | GROUP 30 June 2016 R'000 | GROUP 30 June 2015 R'000 | COMPANY 30 June 2016 R'000 | COMPANY 30 June 2015 R'000 |
|---|---|---|---|---|
| Book value of investment | – | 542 | – | – |
| Indebtedness by the Group | – | (317) | – | – |
| Investment in joint ventures (note 21) | – | 225 | – | – |

### 46.5 The following information relates to the Company's investment in subsidiary companies:

| | Nature of business | Country of incorporation | Issued ordinary share capital 2016 | Issued ordinary share capital 2015 | Interest 2016 % | Interest 2015 % | Shares at cost less amounts written off 2016 R'000 | Shares at cost less amounts written off 2015 R'000 | Indebtedness to (by) Conduit Capital 2016 R'000 | Indebtedness to (by) Conduit Capital 2015 R'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directly owned** | | | | | | | | | | |
| Conduit Fund Managers Proprietary Limited | Asset manager | RSA | 1 | 1 | 100 | 100 | – | – | 10 | (315) |
| Conduit Management Services Proprietary Limited | Management services; equities trading | RSA | 140 000 | 140 000 | 100 | 100 | 140 | 140 | 142 308 | 42 278 |
| Copper Sunset Trading 186 Proprietary Limited | Holding company | RSA | 100 | 100 | 100 | 100 | 2 | 2 | 132 705 | 102 686 |
| Marble Gold 213 Proprietary Limited | Holding company | RSA | 100 | 100 | 100 | 100 | 1 490 | 790 | (162) | (174) |
| On Line Lottery Services Proprietary Limited | Dormant | RSA | 150 | 150 | 80 | 80 | 585 | 585 | – | 25 |
| **Held through a subsidiary** | | | | | | | | | | |
| Black Ginger 92 Proprietary Limited | Investment company | RSA | 100 | 100 | 100 | 100 | – | – | 13 393 | 12 121 |
| Cherry Creek Trading 88 Proprietary Limited | In deregistration | RSA | – | 100 | – | 100 | – | – | – | – |
| Constantia Insurance Holdings Proprietary Limited | Investment company | RSA | 120 | 120 | 100 | 100 | – | – | – | – |
| Constantia Risk and Insurance Holdings Proprietary Limited | Holding company | RSA | 200 | 200 | 100 | 100 | – | – | – | – |
| Constantia Insurance Company Limited | Short-term insurer | RSA | 2 244 500 | 2 244 500 | 100 | 100 | – | – | – | – |
| Constantia Life and Health Assurance Company Limited | Long-term insurer | RSA | 13 772 380 | 13 772 380 | 100 | 100 | – | – | – | – |
| Constantia Life Limited | Long-term insurer | RSA | 696 000 | 696 000 | 100 | 100 | – | – | – | – |
| General Legal and Administration Services Limited | Administration services provider | RSA | 1 002 | 1 002 | 100 | 100 | – | – | – | – |

## 46. INVESTMENT IN SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

### 46.5 The following information relates to the Company's investment in subsidiary companies: (continued)

| | Nature of business | Country of incorporation | Issued ordinary share capital | | Interest | | Shares at cost less amounts written off | | Indebtedness to (by) Conduit Capital | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | | | | | % | % | R'000 | R'000 | R'000 | R'000 |
| Goodall and Bourne Properties Proprietary Limited | Property company | RSA | 2 000 | 2 000 | 100 | 100 | – | – | – | – |
| Goodall and Bourne Trust Company Proprietary Limited | Holding company | RSA | 200 | 200 | 100 | 100 | – | – | – | – |
| Goodall and Co Undertakers Proprietary Limited | In deregistration | RSA | – | 2 000 | – | 100 | – | – | – | – |
| Hurriclaim Proprietary Limited | Claims administrator | RSA | 352 000 | 352 000 | 100 | 100 | – | – | – | – |
| IMR 11 Proprietary Limited | In deregistration | RSA | – | 100 | – | 100 | – | – | – | (1 834) |
| IMR Share Trust | Share trust | RSA | – | – | – | – | – | – | (3 065) | (2 905) |
| Internetwork Property Services Proprietary Limited | Administrative company | RSA | 100 | 100 | 100 | 100 | – | – | – | – |
| Inventory and Risk Surveys Proprietary Limited | Risk surveyor | RSA | 100 | 100 | 61 | 61 | – | – | – | – |
| TGI Investment Holding Proprietary Limited | Investment company | RSA | 9 680 036 | 9 680 036 | 100 | 100 | – | – | – | – |
| The Goodall and Company Funeral Assurance Society Limited | In deregistration | RSA | – | 5 000 000 | – | 100 | – | – | – | – |
| Transqua Administrative Services Proprietary Limited | Underwriting manager | RSA | 500 000 | 500 000 | 100 | 100 | – | – | – | – |
| | | | | | | | 2 217 | 1 517 | 285 189 | 151 882 |

*Notes:*

- *All subsidiaries in the Group are unlisted companies.*
- *The loan to Black Ginger 92 Proprietary Limited is unsecured, attracts interest at prime and no specific repayment date has been set.*
- *The loan to Conduit Management Services Proprietary Limited is designated an equity loan, is unsecured, attracts no interest and is repayable at the election of the borrower.*
- *The loan to Copper Sunset Trading 186 Proprietary Limited is designated an equity loan, is unsecured, attracts no interest and is repayable at the election of the borrower.*
- *The loan to (from) Conduit Fund Managers Proprietary Limited is unsecured, attracts no interest and no specific repayment date has been set.*
- *The loan payable to Marble Gold 213 Proprietary Limited is unsecured, attracts no interest and is repayable by mutual consent.*
- *The loan payable to the IMR Share Trust is unsecured, attracts interest at rates linked to prime and is repayable before 31 August 2017.*

### 46.6 Allocated as follows:

| | COMPANY | |
|---|---|---|
| | **30 June 2016 R'000** | 30 June 2015 R'000 |
| Shares at cost less impairment | **2 217** | 1 517 |
| Equity loans | **275 023** | 144 964 |
| Other amounts due by subsidiaries | **13 393** | 12 146 |
| Investment in subsidiaries (note 22) | **290 633** | 158 627 |
| Loans payable | **(3 227)** | (5 228) |
| | **287 406** | 153 399 |

## 47. RISK MANAGEMENT

### 47.1 Currency risk

Currency risk is the risk that the value of a financial instrument denominated in a foreign currency will fluctuate against the Rand ("ZAR") as a result of changes in foreign exchange rates.

The Group is exposed to currency risk with regards to its reinsurance operations in Africa. Premium income from these operations, which contributed approximately 10.0% to the Group's gross premium income for the 2016 financial period, was earned in US Dollar ("USD") and fluctuations in the ZAR/USD exchange rate may influence underwriting results and asset values (as it relates to USD denominated assets) to a material extent.

As at the reporting date the Group had the following USD exposure:

| | Exposure in USD '000 | Converted to ZAR '000 | Rand weakens 10% | Rand strengthens 10% |
|---|---|---|---|---|
| **30 June 2016** | | | | |
| Assets | **8 403** | **124 149** | **136 564** | **112 863** |
| Liabilities | **(8 965)** | **(132 450)** | **(145 695)** | **(120 409)** |
| Net | **(562)** | **(8 301)** | **(9 131)** | **(7 546)** |
| **30 June 2015** | | | | |
| Assets | 9 765 | 118 618 | 130 480 | 107 834 |
| Liabilities | (11 744) | (142 650) | (156 915) | (129 682) |
| Net | (1 979) | (24 032) | (26 435) | (21 848) |

The Company had no foreign currency exposure.

Management believes the currency risk to be fairly negligible and has elected not to hedge against any losses. Assets and liabilities exposed to currency risks are however assessed regularly and forward cover positions would be considered should the need arise.

### 47.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates.

The Group has some investments and borrowings that are subject to interest rate risk. Details of these investments and borrowings are set out in note 23 . Additional exposure to interest rate risk is in the form of cash balances held at call with banks (see note 26), which earn interest at rates that vary on a daily basis, loans receivable that earn interest at rates that are linked to the prime lending rate (note 17), as well as the effect that interest rate fluctuations have on the value of debt securities and listed property units held by the Group (note 23).

# 47. RISK MANAGEMENT (continued)

## 47.2 Interest rate risk (continued)

### 47.2.1 An increase or decrease of 2% in the respective interest rates would result in the following changes in the fair values of these financial instruments of the Group:

| | 2016 | 2015 | 2016 | 2015 |
|---|---|---|---|---|
| | 2% increase | 2% increase | 2% decrease | 2% decrease |
| **Financial assets** | R'000 | R'000 | R'000 | R'000 |
| Investments in debt securities | (105) | (120) | 107 | 123 |
| Cash and interest bearing loans | 5 307 | 4 528 | (5 307) | (4 528) |
| | 5 202 | 4 408 | (5 200) | (4 405) |
| **Financial liabilities** | | | | |
| Interest bearing borrowings | (299) | (78) | 299 | 78 |

### 47.2.2 An increase or decrease of 2% in the respective interest rates would result in the following changes in the fair values of the financial instruments of the Company:

| | 2016 | 2015 | 2016 | 2015 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and interest bearing loans | 1 178 | 438 | (1 178) | (438) |
| **Financial liabilities** | | | | |
| Loans payable | (60) | (92) | 60 | 92 |

The Group and the Company monitor and manage this risk through its Investment Committee and the Board's oversight.

## 47.3 Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices, property prices and foreign currency exchange rates, besides those disclosed more specifically under currency and interest rate risks.

Key areas where the Group is exposed to market risk are:

- listed investments in equity and debt securities;
- unlisted investments in equity; and
- investment properties and property holding subsidiaries.

The Group regularly reviews and actively manages these risks through its Investment Committee.

## 47.4 Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

Key areas where the Group is exposed to credit risk are:

- cash and cash equivalents;
- investments in debt securities;
- unlisted investments;
- amounts due from insurance policyholders and intermediaries;
- amounts due from reinsurers and reinsurers' share of insurance liabilities;
- loans receivable; and
- trade and other receivables.

The Group determines counterparty credit quality by reference to ratings from independent ratings agencies or, where such ratings are not available, by internal analysis. The Group seeks to avoid concentration of credit risk by counterparty, business sector, product type and geographical segment.

The following tables provide information regarding the aggregated credit risk exposure for financial assets with external credit ratings as at:

| | | Credit rating | | | |
|---|---|---|---|---|---|
| | | A R'000 | BBB R'000 | Not rated R'000 | Carrying value R'000 |
| **47.4.1** | **GROUP** | | | | |
| | **30 June 2016** | | | | |
| | Investments in debt securities held at fair value | **–** | **1 911** | **–** | **1 911** |
| | Loans receivable | **–** | **–** | **19 148** | **19 148** |
| | Trade and other receivables | **–** | **–** | **11 238** | **11 238** |
| | Cash and cash equivalents | **51** | **259 423** | **12 999** | **272 473** |
| | | **51** | **261 334** | **43 385** | **304 770** |
| | **30 June 2015** | | | | |
| | Investments in debt securities held at fair value | 2 505 | 9 067 | – | 11 572 |
| | Unlisted investments held at fair value | – | – | 5 215 | 5 215 |
| | Loans receivable | – | – | 17 184 | 17 184 |
| | Trade and other receivables | – | – | 16 391 | 16 391 |
| | Cash and cash equivalents | 162 | 297 348 | 15 422 | 312 932 |
| | | 2 667 | 306 415 | 54 212 | 363 294 |
| **47.4.2** | **COMPANY** | | | | |
| | **30 June 2016** | | | | |
| | Trade and other receivables | **–** | **–** | **313** | **313** |
| | Cash and cash equivalents | **–** | **37 521** | **–** | **37 521** |
| | | **–** | **37 521** | **313** | **37 834** |
| | **30 June 2015** | | | | |
| | Trade and other receivables | – | – | 267 | 267 |
| | Cash and cash equivalents | – | 6 470 | – | 6 470 |
| | | – | 6 470 | 267 | 6 737 |

Loans and other receivables consist mainly of accounts receivable from the Group's customer base. Group companies and contracted underwriting managers monitor the financial position of their customers, which include insurance clients, on an ongoing basis. Credit, other than in the insurance division, is extended in terms of an agreement and provisions are made for both specific and general bad debts.

Investments held in listed shares (note 23) have not been rated as these represent investments in equities of entities listed on JSE Limited.

The carrying amount of assets included on the statement of financial position represents the maximum credit exposure. At the reporting date management did not consider there to be any material credit risk exposure that was not already covered by a doubtful debt allowance.

## 47. RISK MANAGEMENT (continued)

### 47.4 Credit risk (continued)

**Impairment history**

The following tables provide information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that have not been impaired:

| | Neither past due nor impaired R'000 | Financial assets that are past due but not impaired 2-3 months R'000 | 3-6 months R'000 | Financial assets that have been impaired R'000 | Allowance for impairment R'000 | Carrying value R'000 |
|---|---|---|---|---|---|---|
| **47.4.3 GROUP** | | | | | | |
| **30 June 2016** | | | | | | |
| Investments in debt securities held at fair value | **1 911** | **–** | **–** | **–** | **–** | **1 911** |
| Loans receivable | **19 148** | **–** | **–** | **5 000** | **(5 000)** | **19 148** |
| Trade and other receivables | **11 146** | **52** | **40** | **121** | **(121)** | **11 238** |
| Cash and cash equivalents | **272 473** | **–** | **–** | **–** | **–** | **272 473** |
| | **304 678** | **52** | **40** | **5 121** | **(5 121)** | **304 770** |
| **30 June 2015** | | | | | | |
| Investments in debt securities held at fair value | 11 572 | – | – | – | – | 11 572 |
| Unlisted investments held at fair value | 5 215 | – | – | – | – | 5 215 |
| Loans receivable | 17 184 | – | – | – | – | 17 184 |
| Trade and other receivables | 16 234 | 72 | 85 | – | – | 16 391 |
| Cash and cash equivalents | 312 932 | – | – | – | – | 312 932 |
| | 363 137 | 72 | 85 | – | – | 363 294 |
| **47.4.4 COMPANY** | | | | | | |
| **30 June 2016** | | | | | | |
| Trade and other receivables | **313** | **–** | **–** | **–** | **–** | **313** |
| Cash and cash equivalents | **37 521** | **–** | **–** | **–** | **–** | **37 521** |
| | **37 834** | **–** | **–** | **–** | **–** | **37 834** |
| **30 June 2015** | | | | | | |
| Trade and other receivables | 267 | – | – | – | – | 267 |
| Cash and cash equivalents | 6 470 | – | – | – | – | 6 470 |
| | 6 737 | – | – | – | – | 6 737 |

## 47.5 Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management monitors this risk on a daily basis through a review of available cash resources and expected and possible future commitments.

The following maturity analysis provides details on expected settlement of financial liabilities recognised at reporting date:

| | Within 1 year R'000 | Total R'000 |
|---|---|---|
| **47.5.1 GROUP** | | |
| 2016 | | |
| Trade and other payables | **21 399** | **21 399** |
| | **21 399** | **21 399** |
| 2015 | | |
| Trade and other payables | 13 373 | 13 373 |
| | 13 373 | 13 373 |
| **47.5.2 COMPANY** | | |
| 2016 | | |
| Loans payable | **162** | **162** |
| Trade and other payables | **826** | **826** |
| | **988** | **988** |
| 2015 | | |
| Loans payable | 2 323 | 2 323 |
| Trade and other payables | 844 | 844 |
| | 3 167 | 3 167 |

## 47.6 Insurance risk

The insurance division has a risk management function and a portfolio management function that manage and continuously monitor and report the risks relating to the Group's insurance operations to the division's Risk and Compliance Committee and to management.

### 47.6.1 Types of insurance policies

The Group writes both short-term and long-term insurance business. The long-term business consists mainly of funeral cover, comprising both individual business and group schemes. Several lines of short-term business are written, providing cover to individuals and insuring business risks. The main short-term lines of business are as follows:

*Guarantee:*

The insurer assumes obligations in the event that a specified party fails to discharge certain specified obligations, financial or otherwise.

*Liability:*

The insurer assumes obligations for liabilities incurred by the insured which are not more specifically defined in the contract.

*Motor:*

The insurer assumes obligations for damage to or theft of the insured vehicle and for damage caused by the vehicle to third party property or other legal liability arising from the use or ownership of the vehicle. This class of business encompasses light vehicles used for both personal and commercial purposes as well as heavy commercial vehicles.

## 47. RISK MANAGEMENT (continued)

### 47.6 Insurance risk (continued)

#### 47.6.1 Types of insurance policies (continued)

*Accident and Health:*

The insurer assumes obligations linked to the occurrence of certain health events and on death or disability of the insured resulting from the occurrence of certain personal accidents.

*Property:*

The insurer assumes obligations arising from damage to or loss of property of the insured or other liability arising from the ownership of the property.

#### 47.6.2 Concentration of insurance risk

The Group limits its exposure to any one risk through a reinsurance strategy combining both proportional and non-proportional elements.

The insurance division has no specific concentration of insurance risk by policy type or geographic area, except for liabilities that would arise in the event of a natural disaster. The Group mitigates such risk through reinsurance catastrophe cover.

Using gross earned premium as an indicator, the table below illustrates the division's distribution of risks underwritten across the classes of business:

| Gross premium earned per class of business | 2016 R'000 | 2015 R'000 |
|---|---|---|
| **Short term** | | |
| Property | 105 665 | 155 344 |
| Motor | 42 751 | 45 163 |
| Accident/Health | 601 574 | 392 729 |
| Guarantee | 24 902 | 21 124 |
| Miscellaneous (including legal expenses, retrenchment cover) | 60 497 | 93 513 |
| **Long term** | 170 197 | 82 621 |
| | 1 005 586 | 790 494 |

#### 47.6.3 Management of insurance risk

The acceptance of insurance risk is the core activity of the insurance division. As a result the risk management approach is to ensure that risks are within acceptable limits rather than totally nullified. The principal risk is that the frequency or severity of claims are greater than expected or that premiums have not been correctly rated for the level of risk adopted.

The underwriting results of each underwriting manager or scheme and of each risk class are monitored on a regular basis by the portfolio management function and management and corrective measures are actioned where applicable. This can include the review of underwriting manager procedures for the acceptance of new business, rating procedures and claims administration, the re-rating of existing business, where applicable, or the cancellation of contracts with underwriting managers or policyholders when justified. There are clearly defined limits within which business may be written.

The Group has a programme for the regular internal audit of underwriting activities to identify potential risk areas proactively.

Underwriting risk is further mitigated by a clear reinsurance policy that incorporates both proportional and non-proportional reinsurance programs which are reviewed and monitored by management by individual lines of business. As part of the Group's risk management regime, it annually reviews its reinsurance program to ensure that an appropriate level of risk is retained in the Group.

The Group's short-term insurance risks are spread across various geographical areas and amongst various lines of business, both personal and commercial, including guarantee, liability, motor, accident and health, and property cover. In respect of long-term policies, a reputable actuary is utilised to ensure that adequate premiums are being levied and that the Capital Adequacy Reserve is well covered by assets.

### 47.6.4 Key insurance risks

*Reinsurance credit risk*

There is a risk that a reinsurer does not perform in accordance with the reinsurance contract. The risk is limited as risk premiums are paid quarterly to reinsurers and claims can be offset against risk premiums.

The risk is mitigated by the choice of reinsurers. The Group currently deals with the following reputable reinsurers:

– African Reinsurance Corporation (SA) Limited;
– Guardrisk Insurance Company Limited;
– Hannover Reinsurance Africa Limited;
– Munich Reinsurance Company of Africa Limited;
– SCOR Africa Limited; and
– Infinity Re: A division of Infinity Insurance Limited.

*Claims risk*

Claims risk is the risk that the Group may pay claims not legitimately incurred. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims, including reviews of individual claims by the claims centre and claims forum, where required. Claims costs are further mitigated by the activities of salvages and recoveries and claims procurement department.

*Lapse risk*

Lapse risk relates to the risk of financial loss due to negative lapse experience, particularly as it impacts the actuarially assessed policyholder liabilities. Lapse experience is monitored to ensure that negative experience is timeously identified and corrective action taken.

*Expense risk*

Expense risk is the risk of loss due to actual expense experience being worse than that assumed in premium rates and actuarially calculated policy liabilities. Expenses are continuously monitored and managed through the Group's budgeting and financial reporting processes.

*Pricing and Underwriting risk*

Pricing and Underwriting risks are the risks that inappropriate business is accepted or that business is not correctly priced relative to the level of risk assumed. These risks are mitigated by an ongoing review of underwriting activities, claims experience and financial performance, as well as periodic reviews of product rating by the Group's actuarial resource.

## 47.7 Capital risk management

The Group's objectives when managing capital are:

- to safeguard the Group's ability as a going concern in order to provide returns for shareholders and benefits for other stakeholders; and
- to maintain an optimal capital structure that balances the required returns on shareholders' capital with the risks associated with the entity's business.

The capital structure of the Group consists of invested share capital, retained earnings and non-controlling shareholders' interest as disclosed on the Group's statement of financial position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, raise additional capital from shareholders, sell assets to reduce debt or review the quantum of risk carried by the Group by passing on risk to reinsurers through proportional reinsurance structures.

Consistent with others in the industry, the Group monitors capital in its insurance businesses on the basis of solvency and the capital adequacy ratio ("CAR"). Over the medium to long term the Group targets:

- an international solvency ratio of in excess of 45% and a CAR in excess of 1.25 for its short-term insurance business; and
- a CAR of 1.5 for its long-term insurance businesses.

The solvency ratio is calculated as the short-term insurer's net assets divided by net written premium, while the CAR is calculated as the insurer's statutory net assets divided by its capital adequacy requirement as calculated:

- on the Financial Soundness Valuation basis disclosed in the Actuary's Report for the long-term insurance business; and
- in terms of the SAM Interim Requirements for the short-term insurance business.

## 47. RISK MANAGEMENT (continued)

### 47.7 Capital risk management (continued)

Constantia Insurance Company Limited's solvency on the international basis at the reporting date was 107.8% (2015: 69.3%), while its CAR at the reporting date was 2.62 overall and 3.00 on its domestic business. Constantia Life and Health Assurance Company Limited and Constantia Life Limited's CARs were 3.7 and 1.97 respectively (2015: 1.16 and 2.93).

The Group's insurance businesses are required by law to maintain a minimum level of solvency and a prescribed spread of assets in terms of the Long- and Short term Insurance Acts, respectively, and submits returns on a quarterly and annual basis to the Financial Services Board. Solvency for this purpose is calculated in terms of the Act.

The current regulatory framework is presently under review and a new risk-based approach to determining the capital to be held by the Group is expected to be implemented by 2016.

## 48. DIRECTORS' INTEREST IN SHARES AND SHARE OPTIONS

### 48.1 Beneficial interest in shares

| | Direct | Indirect | Total |
|---|---|---|---|
| **30 June 2016** | | | |
| Harpur, D | – | – | – |
| Louw, L E | 4 125 000 | – | 4 125 000 |
| Mahlangu, J | – | – | – |
| Moodley, T* | – | – | – |
| Napier, R | – | – | – |
| Riskowitz, S* | – | – | – |
| Scott, B | 65 000 | – | 65 000 |
| Toet, G | 2 051 236 | – | 2 051 236 |
| Xaba, R | – | – | – |
| | 6 241 236 | – | 6 241 236 |

There were no movements in any of the above shareholdings between the year-end and the date of this report.

| | Direct | Indirect | Total |
|---|---|---|---|
| **30 June 2015** | | | |
| Bruyns, S R | – | – | – |
| Harpur, D | – | – | – |
| Louw, L E | 3 800 000 | – | 3 800 000 |
| Mahlangu, J | – | – | – |
| Moodley, T* | – | – | – |
| Napier, R | – | – | – |
| Riskowitz, S* | – | – | – |
| Scott, B | – | – | – |
| Shaw, R L | 516 688 | – | 516 688 |
| Toet, G | 1 841 236 | – | 1 841 236 |
| Xaba, R | – | – | – |
| | 6 157 924 | – | 6 157 924 |

** Although Messrs S M Riskowitz and T C Moodley have no direct or indirect beneficial interest in Conduit Capital Shares, they are shareholders in entities which they control, including Midbrook Lane, Protea Asset Management (which, although itself not a beneficial Shareholder, advises certain funds and managed accounts) and Riskowitz Capital Management (which is the General Partner of Ithuba Investments and the Riskowitz Value Fund LP), which between them own or control an aggregate of 54 283 235 Conduit Capital Shares.*

### 48.2 Interest in share options

No director had an interest in any share options at any stage during the year under review (2015: Nil).

## 49. RELATED PARTY TRANSACTIONS

The Company and its subsidiaries, in the ordinary course of business, entered into various transactions with related parties, as detailed below:

### 49.1 Shareholders

The principal shareholders of the Company are detailed in the section dealing with shareholder information. There were no dealings with the Company's principal shareholders, other than those who are also directors of the Company. These dealings are disclosed in note 49.3.

### 49.2 Companies within the group

#### 49.2.1 Subsidiaries

Details of investments in and loans to/from subsidiary companies are disclosed in notes 46.5 and 46.6. Additional information about the impact that these balances have on the Group and the Company's Financial Statements are disclosed in note 22. Details of trading transactions with subsidiary companies and outstanding balances are reflected in note 49.4.1.

#### 49.2.2 Joint ventures

Details of investments in joint ventures are disclosed in notes 46.3 and 46.4.

Details of trading transactions with joint ventures are reflected in notes 21 and 49.4.3.

#### 49.2.3 Associates

Details of investments in associate companies are disclosed in notes 46.1 and 46.2.

Details of trading transactions with associate companies are reflected in notes 20 and 49.4.2.

### 49.3 Directors and key management

#### 49.3.1 Dealings in capacity as a director of the company

The directors' report and the notes to the Financial Statements disclose details relating to directors' emoluments (note 40), shareholdings (note 48) and share options in the Company (notes 30 and 48).

#### 49.3.2 Companies transacted with and controlled by a director

*Mr Robert L Shaw controls:*

- Anslow Management Consultants Proprietary Limited;
- Freshfields Insurance Brokers Proprietary Limited;
- Newbridge Reinsurance Brokers Proprietary Limited;
- Shavian Investment Holdings Proprietary Limited; and
- Unison Guarantee Acceptances Proprietary Limited

*Mr Sean M Riskowitz manages:*

- Ithuba Investments LP;
- Protea Asset Management LLC; and
- Riskowitz Capital Management LLC

#### 49.3.3 Dealings in capacities other than as a director of the company

During the year ended 30 June 2016 the Group has had no dealings with directors other than in their capacity as directors or as disclosed below.

Further details of transactions with directors' companies and key management are disclosed in note 49.4.4.

## 49. RELATED PARTY TRANSACTIONS (continued)

### 49.4 Trading transactions and outstanding balances other than loan balances

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 30 June 2016 R'000 | 10 months ended 30 June 2015 R'000 | 30 June 2016 R'000 | 10 months ended 30 June 2015 R'000 |
| **49.4.1 Subsidiaries** | | | | |
| *Black Ginger 92 Proprietary Limited* | | | | |
| – Interest received | – | – | 1 261 | 891 |
| *Conduit Fund Managers Proprietary Limited* | | | | |
| – Interest paid | – | – | – | (94) |
| *Conduit Management Services Proprietary Limited* | | | | |
| – Management and administration fees received | – | – | 2 400 | 2 000 |
| – Balance due by | – | – | 228 | 209 |
| *Constantia Insurance Group* | | | | |
| – Balance due (to) by | – | – | (54) | 4 |
| *IMR Share Trust* | | | | |
| – Interest paid | – | – | (147) | (100) |
| **49.4.2 Associates** | | | | |
| *Anthony Richards and Associates Proprietary Limited* | | | | |
| – Dividend received | 13 600 | 13 200 | 13 600 | 13 200 |
| *Administration Plus Proprietary Limited* | | | | |
| – Management fees paid | (3 396) | (2 474) | – | – |
| – Profit commission paid | (260) | (1 103) | – | – |
| – Balance due by | – | 42 | – | – |
| *Autotrade Underwriters Proprietary Limited* | | | | |
| – Management fees paid | – | (2 167) | – | – |
| – Balance due by | – | 14 | – | – |
| **49.4.3 Joint ventures** | | | | |
| *Riverstone Insurance Brokers Proprietary Limited* | | | | |
| – Directors fees received | 120 | 100 | – | – |
| – Dividend received | 738 | 118 | – | – |
| – Interest paid | – | (13) | – | – |
| – Balance of interest-bearing borrowings | – | (316) | – | – |

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | 30 June 2016 R'000 | 10 months ended 30 June 2015 R'000 | 30 June 2016 R'000 | 10 months ended 30 June 2015 R'000 |
| **49.4.4** | **Directors, directors' companies and key management** | | | | |
| | *Anslow Management Consultants Proprietary Limited* | | | | |
| | – Management fees paid | **(360)** | (300) | **–** | – |
| | – Rental paid | **(746)** | (607) | **–** | – |
| | – Salary recovery | **–** | (72) | **–** | – |
| | – Balance due to | **–** | (34) | **–** | – |
| | *Shavian Investment Holdings Proprietary Limited* | | | | |
| | – Rental paid | **(858)** | (646) | **–** | – |
| | *Unison Guarantee Acceptances Proprietary Limited* | | | | |
| | – Management fees | **(4 140)** | (3 420) | **–** | – |
| | – Profit commission paid | **(1 608)** | (1 049) | **–** | – |
| | – Balance due to | **(1 608)** | (1 049) | **–** | – |
| | *Freshfields Insurance Brokers Proprietary Limited* is an insurance broker that receives brokerage fees in the ordinary course of business | | | | |
| | *Newbridge Rensurance Brokers Proprietary Limited* is being used by the Conduit Group as a reinsurance broker. Their fees are paid by reinsurers, i.e. they receive no income from the Conduit Group. | | | | |
| | *Ithuba Investments LP*, a USA based fund to which Protea Asset Management LLC is the investment adviser and to which Riskowitz Capital Management LLC is the General Partner, was the underwriter for Conduit Capital's rights offer | | | | |
| | – Underwriting fee | **(2 565)** | – | **–** | – |
| | – Rights offer shares taken up in terms of underwriting agreement | **2 953** | – | **–** | – |

# SHAREHOLDER INFORMATION
as at 30 June 2016

## SHAREHOLDER SPREAD

| | Number of shareholders | % | Number of shares | % |
|---|---|---|---|---|
| 1 – 1 000 shares | 536 | 36.00 | 166 005 | 0.05 |
| 1 001 – 10 000 shares | 554 | 37.22 | 2 565 705 | 0.77 |
| 10 001 – 100 000 shares | 313 | 21.02 | 9 063 123 | 2.73 |
| 100 001 – 1 000 000 shares | 62 | 4.16 | 16 306 854 | 4.92 |
| 1 000 001 shares and over | 24 | 1.60 | 303 278 131 | 91.53 |
| | **1 489** | **100.00** | **331 379 818** | **100.00** |

## DISTRIBUTION OF SHAREHOLDERS

| | Number of shareholders | % | Number of shares | % |
|---|---|---|---|---|
| Close corporations | 14 | 0.94 | 3 552 945 | 1.07 |
| Individuals | 1 266 | 85.03 | 32 394 927 | 9.78 |
| Nominees and trusts | 97 | 6.51 | 35 247 875 | 10.64 |
| Other persons and corporations | 59 | 3.96 | 28 561 867 | 8.62 |
| Private companies | 48 | 3.22 | 88 789 438 | 26.79 |
| Public companies | 5 | 0.34 | 142 832 766 | 43.10 |
| | **1 489** | **100.00** | **331 379 818** | **100.00** |

## PUBLIC/NON-PUBLIC SHAREHOLDERS

| | Number of shareholdings | % | Number of shares | % |
|---|---|---|---|---|
| Non-public shareholders | 9 | 0.61 | 60 488 271 | 18.25 |
| Directors and associates' holdings | 8 | 0.54 | 60 485 050 | 18.25 |
| Own holdings | 1 | 0.07 | 3 221 | – |
| Public shareholders | 1 480 | 99.39 | 270 891 547 | 81.75 |
| | **1 489** | **100.00** | **331 379 818** | **100.00** |

## BENEFICIAL SHAREHOLDERS HOLDING 5% OR MORE, OTHER THAN DIRECTORS AND THEIR ASSOCIATES

| | Number of shares | % |
|---|---|---|
| Khrom Capital Management LLC | 55 378 167 | 16.71 |
| Buckley Capital Partners | 49 385 736 | 14.90 |
| Snowball Wealth Proprietary Limited | 41 000 000 | 12.37 |
| William N Thorndike, Jr. | 21 600 000 | 6.52 |
| RAC Investment Holdings Proprietary Limited | 17 836 527 | 5.38 |
| | **185 200 430** | **55.88** |

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

**If you are in any doubt as to what action you should take in respect of the following resolutions, please consult your Central Securities Depository Participant ("CSDP"), broker, banker, attorney, accountant or other professional adviser immediately.**

Notice is hereby given that the Annual General Meeting ("Annual General Meeting") of shareholders of Conduit Capital will be held at 09:00 on Thursday, 17 November 2016 at Tulbagh, 360 Oak Avenue, Randburg, 2194, for the purpose of considering, and, if deemed fit, passing with or without modification the resolutions set out hereafter.

The board of directors of the Company ("the Board") has determined that, in terms of section 62(3)(a), as read with section 59 of the Companies Act, 2008 (Act 71 of 2008) ("the Companies Act"), as amended, the record date for the purposes of determining which shareholders of the Company are entitled to participate in and vote at the Annual General Meeting is Friday, 11 November 2016. Accordingly, the last day to trade Conduit Capital shares in order to be recorded in the Register to be entitled to vote will be Tuesday, 8 November 2016.

1. To receive, consider and adopt the annual financial statements of the Company and the Group for the financial year ended 30 June 2016, including the reports of the auditors, directors and the Audit Committee.
2. To re-elect Mr Ronald Napier who, in terms of Article 26 of the Company's Memorandum of Incorporation, retires by rotation at this Annual General Meeting but, being eligible to do so, offers himself for re-election.
3. To re-elect Ms Rosetta Xaba who, in terms of Article 26 of the Company's Memorandum of Incorporation, retires by rotation at this Annual General Meeting but, being eligible to do so, offers herself for re-election.

   An abbreviated curriculum vitae in respect of each director offering himself or herself for re-election is set out in **Annexure A** to this notice of Annual General Meeting.
4. To re-appoint Mr Jabulani Mahlangu as a member and Chairman of the Conduit Capital Audit and Risk Committee.
5. To re-appoint Mr David Harpur as a member of the Conduit Capital Audit and Risk Committee.
6. To re-appoint Ms Rosetta Xaba as a member of the Conduit Capital Audit and Risk Committee.

   An abbreviated curriculum vitae in respect of each member of the Audit and Risk Committee is set out in **Annexure A** to this notice of Annual General Meeting.
7. To confirm the re-appointment of Grant Thornton as independent auditors of the Company with Ms Serena Ho being the individual registered auditor who will undertake the audit of the Company for the ensuing financial year and to authorise the directors to determine the auditors' remuneration.

The minimum percentage of voting rights required for each of the resolutions set out in items number 1 to 7 above to be adopted is more than 50% (fifty percent) of the voting rights exercised on each of the resolutions by shareholders present or represented by proxy at the Annual General Meeting.

As special business, to consider and, if deemed fit, to pass, with or without modification, the following resolutions:

## 8. ORDINARY RESOLUTION NUMBER 1

### Approval of remuneration policy

"**Resolved that** the remuneration policy of Conduit Capital Limited ("the Company"), the salient features of which is set out in the Directors' Remuneration Report contained on pages 18 to 20 of the Integrated Annual Report, be hereby approved as a non-binding advisory vote of shareholders of the Company in terms of the King III Report on Corporate Governance."

Ordinary resolutions to be adopted at this Annual General Meeting require approval from a simple majority, which is more than 50% (fifty percent) of the votes exercised on such resolutions by shareholders present or represented by proxy at the meeting.

## 9. SPECIAL RESOLUTION NUMBER 1

### Non-Executive Directors' Remuneration

Fees paid to non-executive directors ("NED fees") for their services as directors of Conduit Capital Limited ("the Company") for the year ending 30 June 2016 were authorised in terms of a special resolution approved by shareholders on 19 May 2015. The same resolution authorised the Board of Directors ("the Board") to approve an annual increase of NED fees for the 2017 financial year by an amount not exceeding 10%.

The Board authorised NED fees to increase by 7% for the year ending 30 June 2017, resulting in the following NED fees:

| Position | Approved fee in ZAR for the year ending 30 June 2017 |
|---|---|
| Chairman of the Board | R524 300 |
| Chairman of the Audit and Risk Committees | R362 035 |
| Chairperson of the Social and Ethics Committee | R362 035 |
| Other non-executive directors | R287 295 |

"**Resolved that:**

a) the annual remuneration payable to the non-executive directors of the Company for their services as directors of the Company for the year ending 30 June 2017 be ratified;
b) in terms of the provisions of sections 66(9) of the Companies Act, 2008 (Act 71 of 2008), as amended, an annual increase, to be approved by the Board (but not exceeding 10% of the fees payable to the non-executive directors for their services as directors), be hereby approved for a period of two years from the date of passing this resolution or until its renewal, whichever is the earlier."

### Explanatory note

In terms of section 66(9) of the Companies Act, a company is required to pre-approve the payment of remuneration to non-executive directors for their services as directors for the ensuing financial year by means of a special resolution passed by shareholders of the Company within the previous two years.

Special resolutions to be adopted at this General Meeting require approval from at least 75% (seventy five percent) of the votes exercised on such resolutions by shareholders present or represented by proxy at the meeting.

## 10. ORDINARY RESOLUTION NUMBER 2

### Control of authorised but unissued ordinary shares

"**Resolved that** the authorised but unissued ordinary shares in the capital of Conduit Capital Limited ("the Company") are hereby placed under the control and authority of the directors of the Company ("directors") and that the directors be and are hereby authorised and empowered to allot and issue all or any of such ordinary shares, or to issue any options in respect of all or any of such ordinary shares, to such person/s on such terms and conditions and at such times as the directors may from time to time and in their discretion deem fit, subject to the provisions of sections 38 and 41 of the Companies Act, 2008 (Act 71 of 2008), as amended, the Memorandum of Incorporation of the Company and the Listings Requirements of JSE Limited, as amended from time to time."

Ordinary resolutions to be adopted at this Annual General Meeting require approval from a simple majority, which is more than 50% (fifty percent) of the votes exercised on such resolutions by shareholders present or represented by proxy at the meeting.

## 11. ORDINARY RESOLUTION NUMBER 3

### General issue of shares for cash

"**Resolved that** the directors of Conduit Capital Limited ("the Company") are hereby authorised, by way of a general authority, to:

- allot and issue, or to issue any options in respect of the authorised but unissued ordinary shares in the capital of the company; and/or
- sell or otherwise dispose of or transfer, or issue any options in respect of, ordinary shares in the capital of the Company purchased by subsidiaries of the Company, for cash, to such person/s on such terms and conditions and at such times as the directors may from time to time in their discretion deem fit, subject to the Companies Act, 2008 (Act 71 of 2008), as amended ("the Companies Act"), the Memorandum of Incorporation of the Company and the Listings Requirements of JSE Limited ("the JSE Listings Requirements"), as amended from time to time, and the following limitations:
  (a) the securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
  (b) any such issue may only be made to "public shareholders" as defined in the JSE Listings Requirements and not to related parties;
  (c) the securities which are the subject of a general issue for cash may not exceed 15% (fifteen percent) of the number of listed securities, excluding treasury shares, as at the date of this notice, being 49 706 490 securities. Any securities issued under this authorisation will be deducted from the aforementioned 49 706 490 listed securities. In the event of a sub-division or a consolidation the authority will be adjusted to represent the same allocation ratio;

(d) this general authority will be valid until the earlier of the company's next Annual General Meeting or the expiry of a period of 15 (fifteen) months from the date that this authority is given;

(e) an announcement giving full details, including the number of shares issued, the average discount to the weighted average price of the equity securities over the 30 business days prior to the date that the issue is agreed in writing between the issuer and the party/ies subscribing for the securities and in respect of the issue of options or convertible securities. The effects of the issue of the statement of financial position, impact on net asset value per share, net tangible asset value per share, earnings per share and headline earnings per share, or, in respect of an issue of ordinary shares, an explanation of the intended use of the funds will be published when the Company has issued ordinary shares representing, on a cumulative basis within the earlier of the Company's next Annual General Meeting or the expiry of a period of 15 (fifteen) months from the date that this authority is given, 5% (five percent) or more of the number of ordinary shares in issue prior to the issue;

(f) in determining the price at which an issue of ordinary shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE Limited of the ordinary shares over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the issuer and the party/ies subscribing for the securities; and

(g) whenever the company wishes to use ordinary shares, held as treasury stock by a subsidiary of the company, such use must comply with the JSE Listings Requirements as if such use was a fresh issue of ordinary shares."

Under the JSE Listings Requirements, Ordinary Resolution Number 2 must be passed by a 75% (seventy five percent) majority of the votes cast in favour of the resolution by all members present or represented by proxy at the annual general meeting.

## 12. SPECIAL RESOLUTION NUMBER 2

### General approval to acquire shares

"**Resolved**, by way of a general approval that Conduit Capital Limited ("the Company") and/or any of its subsidiaries from time to time be and are hereby authorised to acquire ordinary shares in the Company in terms of sections 46 and 48 of the Companies Act, 2008 (Act 71 of 2008), as amended, the Memorandum of Incorporation of the Company and its subsidiaries and the Listings Requirements of JSE Limited ("the JSE"), as amended from time to time.

The JSE Listings Requirements currently provide, *inter alia*, that:

- the acquisition of the ordinary shares must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party;
- this general authority shall only be valid until the earlier of the Company's next Annual General Meeting or the expiry of a period of 15 (fifteen) months from the date of passing of this special resolution number 2;
- in determining the price at which the Company's ordinary shares are acquired in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% (ten percent) of the weighted average of the market value at which such ordinary shares are traded on the JSE, as determined over the 5 (five) business days immediately preceding the date on which the transaction is effected;
- at any point in time, the Company may only appoint one agent to effect any acquisition/s on its behalf;
- the acquisitions of ordinary shares in the aggregate in any one financial year may not exceed 20% (twenty percent) of the Company's issued ordinary share capital, or 10% (ten percent) if acquired by a subsidiary;
- the Company may only effect the repurchase once a resolution has been passed by the board of directors of the Company ("the Board") confirming that the Board has authorised the repurchase, that the Company has passed the solvency and liquidity test ("test") and that since the test was done there have been no material changes to the financial position of the Group;
- the Company or its subsidiaries may not acquire ordinary shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements;
- an announcement will be published once the Company has cumulatively repurchased 3% (three percent) of the number of the ordinary shares in issue at the time this general authority is granted ("initial number"), and for each 3% (three percent) in aggregate of the initial number acquired thereafter."

### Explanatory note

The purpose of this special resolution number 2 is to obtain an authority for and to authorise the Company and the Company's subsidiaries, by way of a general authority, to acquire the Company's issued ordinary shares.

It is the intention of the directors of the Company to use such authority should prevailing circumstances (including tax dispensations and market conditions) in their opinion warrant it.

Special resolutions to be adopted at this Annual General Meeting require approval from at least 75% (seventy five percent) of the votes exercised on such resolutions by shareholders present or represented by proxy at the meeting.

### 12.1 Other disclosure in terms of Section 11.26 of the JSE Listings Requirements

The JSE Listings Requirements require the following disclosures, which are contained in the Integrated Annual Report of which this notice forms part:

- major shareholders of the Company – page 86; and
- directors' interests in securities – page 82.

### 12.2 Material change

There have been no material changes in the affairs or financial position of the Company and its subsidiaries since the Company's financial year-end and the date of this notice.

### 12.3 Directors' responsibility statement

The directors, whose names appear on page 21 of the Integrated Annual Report of which this notice forms part, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution number 2 and certify that to the best of their knowledge and belief there are no facts in relation to special resolution number 2 that have been omitted which would make any statement in relation to special resolution number 2 false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that special resolution number 2 together with this notice contains all information required by law and the JSE Listings Requirements in relation to special resolution number 2.

### 12.4 Adequacy of working capital

At the time that the contemplated repurchase is to take place, the directors of the Company will ensure that, after considering the effect of the maximum repurchase and for a period of 12 (twelve) months thereafter:

- the Company and its subsidiaries will be able to pay their debts as they become due in the ordinary course of business;
- the consolidated assets of the Company and its subsidiaries, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the consolidated liabilities of the Company and its subsidiaries;
- the issued share capital and reserves of the Company and its subsidiaries will be adequate for the purpose of the ordinary business of the Company and its subsidiaries; and
- the working capital available to the Company and its subsidiaries will be sufficient for the Group's requirements.

## 13. SPECIAL RESOLUTION NUMBER 3

### Loans or other financial assistance to subsidiaries and other related or inter-related companies

"**Resolved that**, as a special resolution, in terms of section 45 of the Companies Act, 2008 (Act 71 of 2008) ("Companies Act"), the shareholders of Conduit Capital Limited ("the Company") hereby approve of the Company providing, at any time and from time to time during the period of two years commencing on the date of this special resolution number 3, any direct or indirect financial assistance (which includes lending money, guaranteeing a loan or other obligation, and securing any debt or obligation) as contemplated in section 45 of the Companies Act to any present or future subsidiaries and any other related or inter-related company or corporation, provided that:

(a) the board of directors of the company ("the Board"), from time to time, determines: (i) the specific recipient or general category of potential recipients of such financial assistance; (ii) the form, nature and extent of such financial assistance and (iii) the terms and conditions under which such financial assistance is provided; and

(b) the Board may not authorise the company to provide any financial assistance pursuant to this special resolution number 3 unless the Board meets all those requirements of section 45 of the Companies Act which it is required to meet in order to authorise the company to provide such financial assistance."

### Explanatory note

The purpose of this special resolution number 3 is to grant the Board the authority to authorise the Company to provide financial assistance as contemplated in section 45 of the Companies Act to a present or future subsidiary and any other related or inter-related company or corporation.

Special resolutions to be adopted at this Annual General Meeting require approval from at least 75% (seventy five percent) of the votes exercised on such resolutions by shareholders present or represented by proxy at the meeting.

Notice given to shareholders of the Company in terms of section 45(5) of the Companies Act of a resolution adopted by the Board authorising the Company to provide such direct or indirect financial assistance in respect of special resolution number 3:

(a) By the time that this notice of Annual General Meeting is delivered to shareholders of the Company, the Board will have adopted a resolution ("Section 45 Board Resolution") authorising the Company to provide, at any time and from time to time during the period of two years commencing on the date on which special resolution number 3 is adopted, any direct or indirect financial assistance as contemplated in section 45 of the Companies Act (which includes lending money, guaranteeing a loan or other obligation, and securing any debt or obligation) to a present or future subsidiary and any other related or inter-related company or corporation;

(b) the Section 45 Board Resolution will be effective only if and to the extent that special resolution number 3 is adopted by the shareholders of the Company, and the provision of any such direct or indirect financial assistance by the Company, pursuant to such resolution, will always be subject to the Board being satisfied that (i) immediately after providing such financial assistance, the Company will satisfy the solvency and liquidity test as referred to in section 45(3)(b)(i) of the Companies Act, and (ii) the terms under which such financial assistance is to be given are fair and reasonable to the Company as referred to in section 45(3)(b)(ii) of the Companies Act; and

(c) in as much as the Section 45 Board Resolution contemplates that such financial assistance will in the aggregate exceed one-tenth of one percent of the Company's net worth at the date of adoption of such resolution, the Company hereby provides notice of the Section 45 Board Resolution to shareholders of the Company. Such notice will also be provided to any trade union representing any employees of the Company.

## 14. ORDINARY RESOLUTION NUMBER 4

### Signature of documents

"**Resolved that** each director of Conduit Capital Limited ("the Company") be and is hereby individually authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of those resolutions to be proposed at the Annual General Meeting convened to consider the resolutions which are passed, in the case of ordinary resolutions, or are passed and registered by the Companies and Intellectual Property Commission, in the case of special resolutions."

Ordinary resolutions to be adopted at this Annual General Meeting require approval from a simple majority, which is more than 50% (fifty percent) of the votes exercised on such resolutions by shareholders present or represented by proxy at the meeting.

## 15. OTHER BUSINESS

To transact such other business as may be transacted at the Annual General Meeting of the Company.

## VOTING AND PROXIES

Special resolutions to be adopted at this Annual General Meeting require approval from at least 75% (seventy five percent) of the votes exercised on such resolutions by shareholders present or represented by proxy at the meeting. Ordinary resolutions to be adopted at this Annual General Meeting require approval from a simple majority, which is more than 50% (fifty percent) of the votes exercised on such resolutions by shareholders present or represented by proxy at the meeting.

A shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy or proxies to attend and act in his/her stead. A proxy need not be a member of the Company. For the convenience of registered members of the Company, a form of proxy is attached hereto.

The attached form of proxy is only to be completed by those ordinary shareholders who:

- hold ordinary shares in certificated form; or
- are recorded on the sub-register in "own name" dematerialised form.

Ordinary shareholders who have dematerialised their ordinary shares through a CSDP or broker without "own name" registration and who wish to attend the Annual General Meeting, must instruct their CSDP or broker to provide them with the relevant Letter of Representation to attend the meeting in person or by proxy and vote. If they do not wish to attend in person or by proxy, they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

Proxy forms should be forwarded to reach the transfer secretaries, Computershare Investor Services Proprietary Limited, at least 48 hours, excluding Saturdays, Sundays and public holidays, before the time of the meeting; alternatively proxy forms can be presented at any time prior to the commencement of the meeting.

Kindly note that meeting participants, which includes proxies, are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, driver's licenses and passports.

*By order of the Board*

**CIS Company Secretaries Proprietary Limited**
*Company Secretary*

29 September 2016
Johannesburg

# ANNEXURE A

## ABBREVIATED CURRICULUM VITAE OF DIRECTORS OFFERING THEMSELVES FOR RE-ELECTION AND MEMBERS OF THE AUDIT COMMITTEE

*The occupation and relevant business experience of **Ronald Napier** is set out below:*

*Qualifications:* BA LLB, MA (Oxford)

*Role:* Independent Non-executive Director, Chairman of the Board, Chairman of the Nominations Committee, Member of the Remuneration Committee, Member of the Investment Committee.

Ronnie Napier is a former senior partner of law firm Webber Wentzel, having spent over 50 years practising law. He presently serves as a consultant to the firm having retired as a partner in 2001. Ronnie is a former Lloyd's representative in South Africa and also served on the Board of the South African Insurance Association for 20 years, having held the position of Chairman. He is the current Chairman of the Insurance Crime Bureau, Chairman of the Fire Protection Association, Chairman of Sunderland Marine Insurance Company and a Board member of Business Against Crime.

*The occupation and relevant business experience of **Jabulani Mahlangu** is set out below:*

*Qualifications:* B.Com (Acc), B.Compt (Hons), CTA, CA (SA)

*Role:* Independent Non-executive Director, Chairman of the Audit Committee, Chairman of the Risk Committee, Member of the Nominations Committee, Member of the Remuneration Committee

Jabu completed his articles with PwC in 1996. He joined the Offices for Serious Economic Offences in 1998 and in 2000 returned to the offices of PwC where he was appointed as head of the PwC Forensic Services practice in Gauteng, and was admitted as a partner in 2002. Jabu founded Ligwa Advisory Services and has a diverse client base. He has performed audit and forensic related assignment internationally and in addition carried out various statutory appointments. Jabu has served as Inspector of Companies in terms of the Companies Act, 61 of 1973, Curator in terms of the Financial Services Board Act, 97 of 1990 and Curator bonis in terms of the Prevention of Organised Crime Act, 121 of 1998.

*The occupation and relevant business experience of **David Harpur** is set out below:*

*Qualifications:* FCII, FIISA, FSRMSA, C.I.P.

*Role:* Independent Non-executive Director, Chairman of the Remuneration Committee, Member of the Nominations Committee, Member of the Audit Committee, Member of the Risk Committee

David has over 45 years of experience in the insurance industry. He has served as President of the Insurance Institute of South Africa on two occasions, in 2000/1 and 2007/8. He is the past President of the Financial Intermediaries Federation of South Africa (FIFSA), the Insurance Institute of Gauteng and the South African Financial Services Intermediaries Association (SAFSIA), now FIA. He has also served as a member of the Policy Board for Financial Services and Regulation as appointed by the Minister of Finance for 7 years. He was, until November 2008, a non-executive director of Glenrand MIB Limited, having retired as Chief Executive Officer of the group in 2005 after 16 years. He led a management buy-out of MIB from Syfrets/Nedcor in 1990, which was the largest MBO in the South African insurance industry at the time.

*The occupation and relevant business experience of **Rosetta Xaba** is set out below:*

*Qualifications:* B.Compt (Hons), CA (SA)

*Role:* Independent Non-executive Director, Chairperson of the Social & Ethics Committee, Member of the Audit Committee, Member of the Risk Committee

Rosetta has over 13 years' experience in External and Internal Auditing and Financial Management in the public and private sectors. She has worked at KPMG and Deloitte where she served as an outsourced Financial Director to various clients and was responsible for ensuring compliance with the Public Sector Finance Management Act (PFMA) and Treasury Regulations. She has further compliance experience with the South African Reserve Bank, the Financial Services Board and the National Credit Regulator. Rosetta is a director of ROSSAL 98, an independent consultancy company. She is an independent non-executive director of Finbond Group Limited and a non-executive director of the TIA and the Little Eden Society. She has previously served as a non-executive director for the HSRC, the SA Nursing Council, the SA Pharmacy Council, the International Trade Administration Commission and the Eskom Development Foundation.

# FORM OF PROXY

## CONDUIT CAPITAL LIMITED

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

For use only by ordinary shareholders who:

- hold ordinary shares in certificated form ("certificated ordinary shareholders"); or
- have dematerialised their ordinary shares ("dematerialised ordinary shareholders") and are registered with "own-name" registration;

at the Annual General Meeting of shareholders of the Company to be held at Tulbagh, 360 Oak Avenue, Randburg, 2194, at 09:00 on Thursday, 17 November 2016 and any adjournment thereof.

Dematerialised ordinary shareholders holding ordinary shares other than with "own-name" registration who wish to attend the Annual General Meeting must inform their Central Securities Depository Participant ("CSDP") or broker of their intention to attend the Annual General Meeting and request their CSDP or broker to issue them with the relevant Letter of Representation to attend the Annual General Meeting in person or by proxy and vote. If they do not wish to attend the Annual General Meeting in person or by proxy, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **These ordinary shareholders must not use this form of proxy.**

Name of beneficial shareholder ____________________

Name of registered shareholder____________________

Address ____________________

Telephone work ( )____________________ Telephone home ( ) ____________________ Cell: ____________________

being the holder/custodian of ____________ ordinary shares in the Company, hereby appoint (see note):

1. ____________________ or failing him/her,

2. ____________________ or failing him/her,

3. the Chairperson of the meeting,

as my/our proxy to attend and act for me/us on my/our behalf at the Annual General Meeting of the company convened for purpose of considering and, if deemed fit, passing, with or without modification, the special and ordinary resolutions to be proposed thereat ("resolutions") and at each postponement or adjournment thereof and to vote for and/or against such resolutions, and/or abstain from voting, in respect of the ordinary shares in the issued share capital of the Company registered in my/our name/s in accordance with the following instructions:

| | | Number of ordinary shares | | |
|---|---|---|---|---|
| | | For | Against | Abstain |
| 1. | To receive, consider and adopt the annual financial statements of the company and group for the financial year ended 30 June 2016 | | | |
| 2. | To approve the re-election as director of Mr Ronald Napier who retires by rotation | | | |
| 3. | To approve the re-election as director of Ms Rosetta Xaba who retires by rotation | | | |
| 4. | To approve the appointment of Mr Jabulani Mahlangu as member and Chairman of the Audit Committee | | | |
| 5. | To approve the appointment of Mr David Harpur as member of the Audit Committee | | | |
| 6. | To approve the appointment of Ms Rosetta Xaba as member of the Audit Committee | | | |
| 7. | To confirm the re-appointment of Grant Thornton as auditors of the Company, together with Ms Serena Ho being the individual registered auditor for the ensuing financial year | | | |
| 8. | **Ordinary resolution number 1**<br>Approval of the remuneration policy | | | |
| 9. | **Special resolution number 1**<br>Approval of the non-executive directors' remuneration | | | |
| 10. | **Ordinary resolution number 2**<br>Control of authorised but unissued ordinary shares | | | |
| 11. | **Ordinary resolution number 3**<br>General issue of shares for cash | | | |
| 12. | **Special resolution number 2**<br>General approval to acquire shares | | | |
| 13. | **Special resolution number 3**<br>Loans or other financial assistance to subsidiaries and other related or inter-related companies | | | |
| 14. | **Ordinary resolution number 4**<br>Signature of documents | | | |

Please indicate instructions to proxy in the space provided above by the insertion therein of the relevant number of votes exercisable.

A member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and act in his stead. A proxy so appointed need not be a member of the Company.

Signed at ____________________on ____________________ 2016

Signature ____________________

Assisted by (if applicable) ____________________

# NOTES TO PROXY

1. The form of proxy must only be completed by shareholders who hold shares in certificated form or who are recorded on the sub-register in electronic form in "own name".
2. Other beneficial owners who have dematerialised their shares through a CSDP or broker and wish to attend the Annual General Meeting must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.
3. A shareholder entitled to attend and vote at the Annual General Meeting may insert the name of a proxy or the names of two alternate proxies (none of whom need be a shareholder of the company) of the shareholder's choice in the space provided, with or without deleting "the Chairperson of the meeting". The person whose name stands first on this form of proxy and who is present at the Annual General Meeting will be entitled to act as proxy to the exclusion of those proxy(ies) whose names follow. Should this space be left blank, the proxy will be exercised by the Chairperson of the meeting.
4. A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each ordinary share held. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate space provided. If an "X" has been inserted in one of the blocks to a particular resolution, it will indicate the voting of all the shares held by the shareholder concerned. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholders or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or the proxy.
5. A vote given in terms of an instrument of proxy shall be valid in relation to the Annual General Meeting notwithstanding the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the ordinary shares in respect of which the proxy is given, unless notice as to any of the aforementioned matters shall have been received by the transfer secretaries not less than forty eight hours before the commencement of the Annual General Meeting.
6. If a shareholder does not indicate on this form that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the Annual General Meeting be proposed, such proxy shall be entitled to vote as he/she thinks fit.
7. The Chairperson of the Annual General Meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
8. A shareholder's authorisation to the proxy including the Chairperson of the Annual General Meeting, to vote on such shareholder's behalf, shall be deemed to include the authority to vote on procedural matters at the Annual General Meeting.
9. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
10. Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the Company's transfer secretaries or waived by the Chairperson of the Annual General Meeting.
11. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the transfer secretaries of the Company.
12. Where there are joint holders of ordinary shares:
    - any one holder may sign the form of proxy;
    - the vote(s) of the senior ordinary shareholders (for that purpose seniority will be determined by the order in which the names of ordinary shareholders appear in the Company's register of ordinary shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
13. Forms of proxy should be lodged with or mailed to Computershare Investor Services Proprietary Limited:

    **Hand deliveries to:**
    Computershare Investor Services Proprietary Limited
    Ground Floor, 70 Marshall Street
    Johannesburg, 2001

    **Postal deliveries to:**
    Computershare Investor Services Proprietary Limited
    PO Box 61050
    Marshalltown, 2107

    to be received by no later than 09:00 on Tuesday, 15 November 2016 (or 48 hours before any adjournment of the Annual General Meeting which date, if necessary, will be notified on SENS). Proxies may also be handed in prior to the commencement of the meeting
14. A deletion of any printed matter and the completion of any blank space need not be signed or initialled. Any alteration or correction must be signed and not merely initialled.

**Summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Companies Act:**

(a) A proxy appointment must be in writing, dated and signed by the shareholder appointing a proxy, and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid only until the end of the relevant shareholders' meeting.

(b) The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.

(c) The appointment of a proxy is revocable by the shareholder in question cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the Company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the Company as required in the first sentence of this paragraph.

(d) If the instrument appointing the proxy or proxies has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the Company's Memorandum of Incorporation to be delivered by the Company to the shareholder, must be delivered by the Company to (a) the shareholder, or (b) the proxy or proxies, if the shareholder has (i) directed the Company to do so in writing; and (ii) paid any reasonable fee charged by the Company for doing so.

(e) Attention is also drawn to the "Notes to proxy".

(f) The completion of a form of proxy does not preclude any shareholder from attending the Annual General Meeting.

# DIRECTORATE, ADMINISTRATION AND CORPORATE INFORMATION

## COUNTRY OF INCORPORATION AND DOMICILE
Republic of South Africa

## NATURE OF BUSINESS
Listed investment holding company

## DIRECTORS
Ronald Napier – BA LLB, MA (Oxford)
*Independent chairman and non-executive director*
Sean Riskowitz* – B Com
*Chief executive officer*
David Harpur – FCII, FIISA, FSRMSA, C.I.P.
*Independent non-executive director*
Lourens Louw – B Com
*Financial Director*
Jabulani Mahlangu – B.Compt (Hons), CTA, CA (SA)
*Independent non-executive director*
Tyrone Moodley – B Com
*Non-executive director*
Barry Scott – B.Sc. (Eng), F.Inst.D
*Independent non-executive director*
Gavin Toet
*Executive director*
Rosetta Xaba – B.Compt (Hons), CA (SA)
*Independent non-executive director*
** Dual RSA and USA*

## ADMINISTRATION
**Registered address**
Unit 9
4 Homestead Avenue
Bryanston, 2191

**Postal address**
PO Box 97, Melrose Arch, 2076
Tel: +27 10 020 3460
Fax: +27 86 522 8742

**Registration number**
1998/017351/06

**Level of assurance**
These Annual Financial Statements have been audited

**Preparer**
The Financial Statements were internally compiled by:
Lourens Louw
Financial director

## CORPORATE INFORMATION
**Bankers**
FirstRand Bank
Investec Bank
Mercantile Bank
Nedbank
Standard Bank

**Company Secretary**
CIS Company Secretaries
Proprietary Limited
(Registration number: 2006/024994/07)
70 Marshall Street
Johannesburg, 2001
PO Box 61763, Marshalltown, 2107

**Transfer Secretaries**
Computershare Investor Services
Proprietary Limited
(Registration number: 2004/003647/07)
Ground Floor, 70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107

**Sponsors**
Merchantec Proprietary Limited t/a Merchantec Capital
(Registration number: 2008/027362/07)
2nd Floor, North Block, Hyde Park Office Tower
Cnr 6th Road & Jan Smuts Avenue, Hyde Park, 2196
PO Box 41480, Craighall, 2024

**Independent auditors**
Grant Thornton
Chartered Accountants (SA)
Wanderers Office Park, 52 Corlett Drive
Illovo, 2196
Private Bag X5, Northlands, 2116

**Corporate advisor and legal advisor**
Cliffe Dekker Hofmeyr Incorporated
(Registration number: 2008/018923/21)
11 Buitengracht Street, Cape Town, 8001

**Alpha code**
CND

**ISIN**
ZAE000073128

# NOTES

CONDUIT CAPITAL

www.conduitcapital.co.za