INTEGRATED REPORT 2018

RMI
OPTIMISE
DIVERSIFY
MODERNISE

About this integrated report

RMI'S ENDURING VALUE CREATION

This integrated report of Rand Merchant Investment Holdings Limited (RMI) for the year ended 30 June 2018 was prepared for all its stakeholders, including existing and potential shareholders.

It contains comprehensive information about RMI's financial performance, stakeholders, governance, material issues, risks and opportunities and how these influence RMI's strategy. We show how we create value and how we will ensure that our value creation is enduring. The group is proud of its heritage, steeped in strong ethics. We therefore also outline how our value creation is underpinned by sound and enduring values.

HOW THIS REPORT WAS COMPILED

The report is compiled and presented in accordance with the:

- International Financial Reporting Standards (IFRS);
- Companies Act of South Africa, 71 of 2008, as amended (Companies Act);
- JSE Limited Listings Requirements (JSE Listings Requirements);
- King IV Report on Corporate Governance for South Africa, 2016 (King IV); and
- International Integrated Reporting Framework (<IR> Framework) of the International Integrated Reporting Council (IIRC).

The most material issues, being those which have the potential to substantially impact RMI's ability to create and sustain value for its stakeholders, are discussed. Management is not aware of the unavailability of any reliable information or any legal prohibitions to disclosing any material information.

FORWARD-LOOKING STATEMENTS

Certain statements in this integrated report may be regarded as forward-looking statements or forecasts but do not represent an earnings forecast. All forward-looking statements are based solely on the views and considerations of the directors. Those statements have not been reviewed and reported on by the external auditor.

ASSURANCE

Assurance was received from RMI's external auditor, PricewaterhouseCoopers Inc. on the fair presentation of the annual financial statements.

The annual financial statements are presented on **pages 110 to 219**, with the external auditor's unmodified report on **pages 103 to 109**.

The external auditor also read the integrated report and considered whether any information is materially inconsistent with the annual financial statements or their knowledge obtained during the course of their audit or otherwise appears to be materially misstated. No such misstatement was reported.

The audit and risk committee had oversight of the preparation of the integrated report and recommended it for board approval.

RESPONSIBILITY

The board is ultimately responsible for this report.

The company secretary and financial manager, Schalk Human MCom (Acc) CA(SA), prepared this report; the chief executive and financial director, Herman Bosman LLM CFA, supervised the preparation; and management convened and contracted the relevant skills and experience to undertake the reporting process and provided management oversight.

The board, after consultation with the audit and risk committee and applying its collective mind to the preparation and presentation of the report, concluded that it was presented in accordance with the <IR> Framework and approved it for publication.

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About the artist in this report

As part of its commitment to South Africa, over the years, RMI has collected and commissioned distinctive and unique works of art that are displayed at its registered office in Sandton.

This year, we feature **Nkuli Mlangeni**, an award-winning designer and multi-disciplinary collaborator, known for her creations that combine cultures, tradition and modernity. Passionate about Southern Africa's under-told narratives and visual story-telling, she founded The Ninevites – a platform that connects like-minded creatives and explores textiles, photography, archival material and design. The Ninevites is famed for its arresting rugs which are rich in history and tradition, and created from Karakul and Mohair wool. Their Sankara rug won the Most Beautiful Object award at the Design Indaba in 2017.

Nkuli's recent work is informed by her research project into cultural craft traditions, which she undertook while studying social entrepreneurship and creative leadership at the KaosPilots School in Switzerland. Engaging with artisan weavers in South America and Southern Africa, as well as extensive desktop research, she develops contemporary designs that simultaneously serve to evolve and promote a rich craft heritage.

We love that her style combines a traditional craft with modern Ndebele designs, which speaks well to our portfolio of traditional values and our 40-year legacy.

Further information about the artist can be found on RMI's website, **www.rmih.co.za**.

RMI is a strategic, active manager of a R57 billion financial services portfolio:

RMI →

Discovery	Hastings	MMI Holdings
25.0%	29.9%	26.2%

88.6%	100%	100%
OUTsurance	RMI Investment Managers	Alpha Code

RMI's effective interests in these group entities are different from the actual interests due to consolidation adjustments in respect of treasury shares. See **page 26**.

Enduring value created

COMPOUND SHAREHOLDERS' RETURN since listing in 2011	NORMALISED EARNINGS (from continuing operations)	HEADLINE EARNINGS (from continuing operations)
23.2% per annum	R4 473 million (2017: R3 927 million) (+12% to 295.1 cents per share)	R4 081 million (2017: R3 480 million) (+15% to 269.7 cents per share)
	+14%	+17%

FAREWELL MESSAGE

from GT Ferreira

I am finally, after a period of more than 40 years, breaking a bond with the group of which I was a founding member.

More importantly, I am also saying a final goodbye to a group of people, whom I not only regard as colleagues, but also as friends.

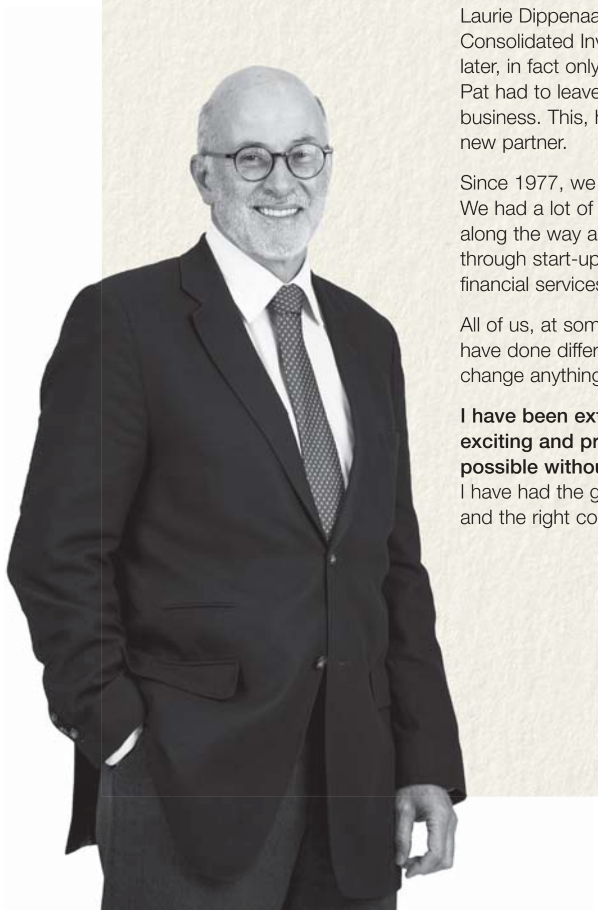
For me, it has been an incredible journey.

It started in 1977, when I went to see Pat Goss with the idea of starting a new structured finance company from scratch. Pat introduced me to Laurie Dippenaar and, on 30 June 1977, our partnership was forged and Rand Consolidated Investments was born with R10 000 in share capital. A short while later, in fact only three months after we started, Pat's father passed away and Pat had to leave the partnership to assist his mother with running their family business. This, however, created the opportunity for Paul Harris to join us as our new partner.

Since 1977, we have had many good times but also some tough times. We had a lot of fun and very few arguments. I have met some great people along the way and, collectively, we helped build, shape and cobble together, through start-ups, organic growth, mergers and acquisitions, an exceptional financial services group that we can all be very proud of.

All of us, at some time, reflect on our lives and wonder what we could or should have done differently, if given a second chance. I do not believe that I would change anything as far as my working life is concerned.

I have been extremely fortunate to have had an incredibly interesting, exciting and profitable business career, none of which would have been possible without the people who have invested so much time and effort. I have had the good fortune to have chosen the right partners, the right industry and the right colleagues, and I would like to thank and pay tribute to all of you.



Thank you:

- **Firstly, to the board members of RMH and RMI**
  Thank you for your support, understanding, contributions and encouragement over the years. You have made my job as chairman very easy.

  The most remarkable thing about these two boards – and while I am proud of it, I am not necessarily sure whether it is a good or a bad thing – is that, over a period of 40 years, we have never had an issue where it was necessary for me to call for a show of hands. We always arrived at a decision by consensus – maybe not unanimous consensus, but at least sufficient consensus. I would like to believe that the main reason for this is the fact that we have always had (and still have) enormous respect for each other and have trusted one another implicitly;
- **Secondly, to the executive management of RMH and RMI**
  Thank you for your contribution to our group. Herman, you and your team have brought new life to RMI especially and I detect a new spirit of "can do" which is both exciting (sometimes perhaps a bit too exciting for me at my age), and also encouraging. In your four years at the helm, you have not only transformed RMI, you have also added value to our investee companies and you have assisted the group to expand internationally;
- **Thirdly, Pat Goss, Laurie Dippenaar and Paul Harris**
  I would like to thank my three founding partners for 40 years of friendship and partnership. I have been incredibly fortunate. I could not have chosen better friends and partners. If I have the opportunity again, I shall choose the same; and
- **Last, but not least, a special thank you to my wife Micky**
  She is most dear to me and has supported me through thick and thin during my business career. Thank you for your support, for your understanding and for your encouragement. Without you I would not have been able to achieve half of what I had.

HANDING OVER

I have often referred to the fact that the running of an organisation should not be regarded as similar to a 100-meter race or even a marathon, but should rather be considered as a perpetual relay race.

I am handing over the chairmanship baton to Jannie Durand, in the same way that Johann Rupert handed it to me. Hopefully, in ten years' time, the board will have identified a successor to Jannie and Jannie will hand the baton over to the new chairman. Handing over the baton is not the end of the road, it is merely the end of an era, and so it should be. Personally, at this point in our perpetual relay race, I cannot think of a better person than Jannie Durand to hand over the chairmanship baton to.

The outgoing chairman should leave the new chairman and his board with a few words of wisdom. I shall confine it to four bullet points, self-evident, but very important:

- Always remember that, in the financial services game, your only real assets are the people you employ – so try and appoint the best people that you possibly can;
- The best and most simple definition of management that I have encountered in my career is "getting things done through people". Remember you do not always have to manage people, you manage things and it is sometimes more important to lead people;
- Remain humble despite your successes and try never to become arrogant, because the moment you become arrogant, you also become complacent and that is exactly what your competition is waiting for; and
- Finally, please believe me when I say that there is no limit to what we as a group can achieve, provided we do not mind who gets the credit. Always try to use the word "we" instead of "I".

In conclusion, I wish to thank you and say that I have been very privileged, proud and honoured to have been chairman of the RMI group and its bigger family over the last 40 years.

May God bless all of you.

GT Ferreira
Outgoing chairman

Who we are

RMI is a JSE-listed investment holding company with a proud track record of **investing in disruptive and entrepreneurial financial services businesses**.

The group's long-term performance has been achieved by **partnering with exceptional management teams**.

RMI positions itself as a **value-adding, stable and aspirational shareholder.**

CREATING ENDURING VALUE

RMI's primary objective is to create enduring value for its shareholders by optimising, diversifying and modernising its investment portfolio.

INVESTMENT PORTFOLIO

RMI's investments include:

- Discovery Limited (Discovery);
- Hastings Group Holdings plc (Hastings);
- MMI Holdings Limited (MMI);
- OUTsurance Holdings Limited (OUTsurance);
- RMI Investment Managers Group Proprietary Limited (RMI Investment Managers); and
- AlphaCode Proprietary Limited (AlphaCode), with its next-generation investments:
  - Entersekt Proprietary Limited (Entersekt);
  - Merchant Capital Advisory Services Proprietary Limited (Merchant Capital);
  - Prodigy Investments Limited (Prodigy); and
  - Luno Limited (Luno).

The portfolio strikes a balance between growth and return and will evolve further in line with RMI's strategy.

Refer to **page 7** for a brief description of each of our investments.

The portfolio is intended to evolve over time and to increase in size and geographic diversity, thereby ensuring the balance between growth- and return-focused investments.

We invest, build and divest depending on market opportunities to achieve our objectives of creating enduring value and maintaining a solid financial structure. RMI typically invests for the long term. We are not geographically- or size-bound.

We consider the anticipated long-term trends in financial services (such as significant regulatory change and the speed of technological developments) and evaluate where we can either build or buy businesses. We do not want to be blindsided by the dynamic evolution of financial services and will invest in new trends or businesses, even when they may compete with our current businesses.

INVESTMENT POLICY

RMI's aim is to add enduring value by being an active enabler of leadership and innovation in financial services. It acquires meaningful interests with significant influence in industry-changing businesses that can deliver superior earnings, dividends and capital growth over the long term.

DIVIDEND POLICY

RMI's dividend policy is to pay out all dividends received from underlying investments after servicing any funding commitments at holding company level and considering its debt capacity and investment pipeline. The policy seeks to achieve a sound balance between providing an attractive yield to shareholders and achieving sustained growth. Given RMI's active investment strategy, this policy will be assessed on a regular basis.

RMI's investments

RMI's significant investments as at 30 June 2018

	Discovery	Hastings	MMI Holdings	OUTsurance
Listed or unlisted	JSE-listed	LSE-listed	JSE-listed	Unlisted
Market capitalisation/ implied value (100%)	R95.4 billion	R30.4 billion	R27.0 billion	R29.8 billion
RMI's interest	25.0%	29.9%	26.2%	88.6%
RMI's ranking as shareholder	1st	1st	1st	1st
Market value/ implied value of RMI's interest	R23.9 billion	R8.6 billion	R7.1 billion	R26.4 billion
Share of RMI portfolio based on value	36%	13%	11%	40%
Normalised earnings (100%)	R5 401 million	R2 758 million	R2 809 million	R2 639 million
Embedded value/ valuation (100%)	Embedded value R65.6 billion	Valuation R30.4 billion	Embedded value R39.6 billion	Valuation R34.6 billion
Full-time employees	11 530	3 400	16 935	4 342

INVESTMENT OVERVIEW

The mature businesses in our portfolio are all businesses that applied **innovation and fresh thinking** in established industries to change the way things are done. We partner with **smart people** who have all created financial services businesses that have **rewritten the rule books** in their sectors:

In 1992, Fedsure and Medscheme had 70% of the health insurance market. Today Discovery has 56% of the open medical scheme market and has built a R95 billion company by creating a business that is centred on shared values. The group co-founded Discovery in 1992, when the Discovery management team had only the dream of doing things differently.

In 1998, there was hardly any direct short-term insurance being sold in South Africa. Mutual and Federal and Santam had 80% of the vehicle market. Today, OUTsurance has approximately 20% of this market and is a company with a value of almost R30 billion. The group co-founded OUTsurance in 1998.

LISTED INVESTMENTS

DISCOVERY

Discovery is a pioneering market-leader with uniquely-positioned businesses in the healthcare, long- and short-term insurance, wellness and financial services industries. It operates in South Africa, the United Kingdom (UK), China, Singapore, Australia, Japan, Europe and the USA through various business lines.

Its innovative shared-value business model incentivises people to be healthier, and enhances and protects their lives. This delivers superior actuarial dynamics for the insurer, and a healthier society.

Refer to **page 36** for further information on Discovery and its performance, strategy and outlook.

HASTINGS

Hastings is a UK-listed, fast-growing, agile, digitally-focused general short-term insurance provider to the UK car, van, bike and home insurance market. It has strong relationships with all the major price comparison websites, a cost-effective digital marketing model and a focus on client retention.

Hastings provides refreshingly straightforward products and services. It has 2.7 million live client policies and is a multi-award-winning business.

Refer to **page 42** for further information on Hastings and its performance, strategy and outlook.

MMI

MMI is an insurance-based financial services group which is listed on the JSE Limited.

The core businesses of MMI are long- and short-term insurance, asset management, savings, investment, healthcare administration and employee benefits. These product and service solutions are provided to all market segments through the Momentum and Metropolitan operating brands.

Refer to **page 48** for further information on MMI and its performance, strategy and outlook.

UNLISTED INVESTMENTS

OUTSURANCE

OUTsurance provides short- and long-term insurance products in South Africa and short-term insurance products in Australia, New Zealand and Namibia.

It has a client-centric approach, providing value-for-money insurance solutions backed by world-class service. Premiums are calculated according to a client's unique risk profile. Clients who remain claim-free receive a cash OUTbonus, the first such reward system in South Africa.

Refer to **page 52** for further information on OUTsurance and its performance, strategy and outlook.

RMI INVESTMENT MANAGERS

RMI Investment Managers' affiliate model enables the company to access a differentiated part of the investment management industry by investing in and partnering with independent investment managers, as well as specialist investment teams. RMI Investment Managers has taken minority equity stakes in boutique investment managers which span the asset class spectrum across active, passive, traditional and alternative. While the team is currently predominantly focused on the execution of the growth initiatives at each affiliate, they continue to look for opportunities that will complement the existing suite of managers as the company builds its share of the South African investment management market.

Refer to **page 56** for further information on RMI Investment Managers and its performance, strategy and outlook.

ALPHACODE

AlphaCode identifies, partners and grows extraordinary next-generation financial services entrepreneurs. Prior year investments:

- Merchant Capital is a provider of alternative sources of working capital for small and medium enterprises in South Africa; and
- Entersekt is a leader in authentication app security and payments-enablement technology, offering a highly scalable solution set, with a track record of success across multiple continents.

During the year, two further investments were made:

- Prodigy is an international fintech platform that offers loans to postgraduate students attending top universities; and
- Luno makes it safe and easy to buy, store and learn about digital currencies like Bitcoin and Ethereum. Luno has more than 2 million customers across 40 countries.

AlphaCode is actively seeking to fund new and disruptive, sustainable, scalable business models in the financial services industry.

AlphaCode is committed to building a pipeline of next-generation financial services businesses and has launched a number of structured learning and mentorship programmes – for different stages of business maturity – to build this pipeline.

Refer to **page 60** for further information on AlphaCode.

How RMI creates enduring value

Business activities

OUR ENDURING VALUES

govern all our activities, which are driven by three strategic initiatives:

OPTIMISE

Established relationships with the boards and management ensure that RMI participates in the strategic dialogue and activity across its portfolio.

DIVERSIFY

Geographic, business and product diversification are evaluated and implemented in RMI and across the portfolio.

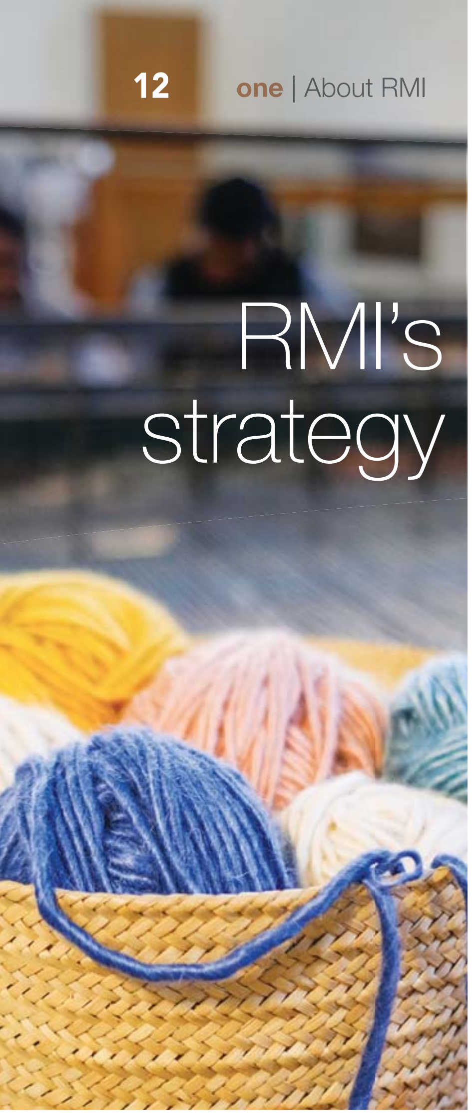
MODERNISE

New businesses, technologies and industry trends are identified and assessed to complement RMI and its investee companies.

THE OPERATING ENVIRONMENT

- A more stable political environment;
- Stable inflation and interest rates;
- Continued high unemployment rates; and
- A lack of growth.

	Inputs	Outputs – How value is created	Outputs – Enduring value created	Outcomes – Value shared
Financial capital	The capital from shareholders and the reserves generated are used to invest and generate earnings and future value for shareholders.	RMI has a moderate risk profile, contributing to a strong, stable financial sector.	**Market capitalisation** R57 billion (down 3%) **Normalised earnings from continuing operations** R4 473 million (up 14%) **Dividend** 104 cents per share (down 12%)	**Investors** Sustainable dividend and capital (share price) growth. **Dividend yield** 2.7% **Compound shareholders' return since listing in 2011** 23.2%
Manufactured capital	RMI's proven business culture, principles and physical infrastructure allow it to create value.	Comprehensive footprint, both locally and internationally.		**Clients and suppliers** Meeting the needs of the modern consumer.
Human capital	RMI's people have specialised knowledge, skills and experience, which is applied to ensure that sound, sustainable investments are made and managed in line with strategy. Our strong, enduring values serve as a guide in all our actions.	Our purpose, strategy, values and principles form our culture. We aim to attract, develop and retain the best people by creating a culture of excellence. We continue to make progress in the area of diversity.	**Employees** 36 000 people gainfully employed by investees	**Employees** We continue to challenge and develop our people and their skills.
Intellectual capital	This includes knowledge-based intangible assets, such as the RMI brand and the brands of investees, the capacity to innovate and our strong entrepreneurial reputation, which is leveraged in our activities.	The company actively pursues ways to offer its financial expertise, including sharing sector-specific knowledge and promoting social entrepreneurship.	Strong, reliable brands and reputation AlphaCode development hub International recognition	**Investees** RMI's collective skills, experience and resources unlock value in investees.
Social and relationship capital	RMI forges and maintains strong relationships with stakeholders, based on shared values and an ongoing commitment to society. Stakeholder management and the desire to be a good corporate citizen are embedded in our governance model.	RMI continues to monitor and address the public's trust in us and the economy. By actively engaging stakeholders through dialogue and acting on material issues raised, we continue to strengthen our relationships.	Long-standing reputation for ethical values R15 billion in **economic value created** See **page 34**.	**Society at large** RMI is contributing to confidence in the economy and faith in trusted leadership.
Natural capital	The renewable and non-renewable environmental resources and processes and RMI's efforts to preserve them.	RMI and its investees foster sound environmental policies.		**The environment** RMI embraces sustainable, environmentally-friendly business practices.



RMI's strategy

RMI's aim is to be a **value-adding active enabler of leadership and innovation** in financial services.

VISION

Our objective is to create a portfolio of businesses which are market leaders and can deliver sustainable earnings, an attractive dividend yield and capital growth. Hence we pursue opportunities in the changing financial services landscape which meet our stringent criteria and strong, enduring values.

ENDURING VALUES

A values-driven culture is integral to RMI's success and long-term sustainability. We are therefore committed to ensuring that the principles of good corporate governance and ethical business practice are applied consistently in interactions with all stakeholders and in a way that upholds our values, which have been formed over decades and should stand us in good stead for the future.

RMI has an "owner-manager" culture, which is shared in every business in which we are invested.

We subscribe to a set of values which seeks to foster integrity, innovation, individual empowerment and personal accountability.

OPTIMISE	RMI focuses on continuously improving the value of its investee companies to create **better enduring value** for its shareholders.
DIVERSIFY	RMI is constantly evaluating opportunities to expand the services and reach of its existing investee companies or to add new investments, thereby creating **more enduring value**.
MODERNISE	RMI is well aware of renewal in its industries and will acquire proven businesses or invest in start-ups with special opportunities and drivers, to create **new enduring value**.

On a selective basis, RMI may consider investments in businesses where partnerships with entrepreneurial and industry-disruptive management teams can add value to its shareholders.

Investments with the following attributes will be of interest:

- Financial services and related industries;
- The ability to form a partnership between the investment, RMI and its current investees;
- Unlisted;
- Digitally-oriented;
- An ability and possibility for RMI to add value; and
- Relevance in terms of the size of the enterprise and its shareholding.

RMI will dynamically assess whether investments are optimally housed in RMI or one of its existing investee companies.

RMI has a **stated strategy** to utilise its balance sheet gearing capacity to add to its existing portfolio of significant stakes in financial services companies.

INVESTMENT MANAGEMENT

RMI manages its investments on a decentralised basis and its involvement is concentrated mainly on being an influential shareholder and providing support rather than being involved in the day-to-day management of investees. The board considers it in the best interests of all the parties concerned to respect the decentralised business model and the fact that the business is conducted in separate legal entities. The support provided to investees is either in the form of strategic, financial and managerial support or the unlocking of value by means of creating the environment for possible deal-making.

As a significant shareholder of its investees, RMI also exercises its shareholder rights to ensure, as far as possible, that investees adhere to all requirements in respect of matters such as governance, internal controls, financial management, risk management, legal compliance, safety, health and environmental management, internal audit, ethics management, information management, stakeholder relationships and sustainability.

RMI partners with management in formulating a long-term strategy and capital allocation plan and providing the necessary stability in the shareholder base of investee companies.

Management is empowered to execute this strategy.

VALUE CREATION

RMI has consistently measured its performance in terms of normalised earnings, which adjusts headline earnings to take into account non-operational items and accounting anomalies.

For the detailed calculation of normalised earnings in respect of the current and prior year, refer to **page 30**.

The true value created is measured in terms of capital growth, which reflects the growth in the underlying value of our investments.

Refer to the chief executive's review on **page 27** for a detailed analysis of RMI's value.

Since changing its strategy in 2014 to become a more active investment holding company, RMI has had a stated strategy to utilise its balance sheet gearing capacity to add to its existing portfolio of significant stakes in financial services companies.

The most significant investment added since activating the investment portfolio is the investment in Hastings during the 2017 financial year. This investment is consistent with RMI's investment mandate and style, which focuses on high-quality companies offering long-term growth prospects, led by empowered and aligned management teams. Furthermore, the investment in Hastings enhanced the geographic diversification of the portfolio into the large and competitive UK short-term insurance market. The opportunity for collaboration between OUTsurance and Hastings is also a significant enhancement to the overall investment proposition. OUTsurance and Hastings employ similar business models, particularly in relation to dynamic and analytical approaches to risk underwriting and the use of modern direct distribution channels.

Smaller investments have also been made in various asset managers by RMI Investment Managers and in next-generation financial services businesses by RMI's AlphaCode initiative. These investments have contributed to the diversification and modernisation of the investment portfolio, which, although small at present, could contribute significantly to future value creation.

It is RMI's objective to provide shareholders with a consistent annual dividend flow. In extraordinary circumstances, this can be complemented by other distributions in the form of special dividends or the unbundling of investments to shareholders.

Enduring value material to stakeholders

In order to create sustainable long-term value for RMI and its stakeholders, we engage on the issues that are material to each stakeholder and respond appropriately through the delivery of our strategy.

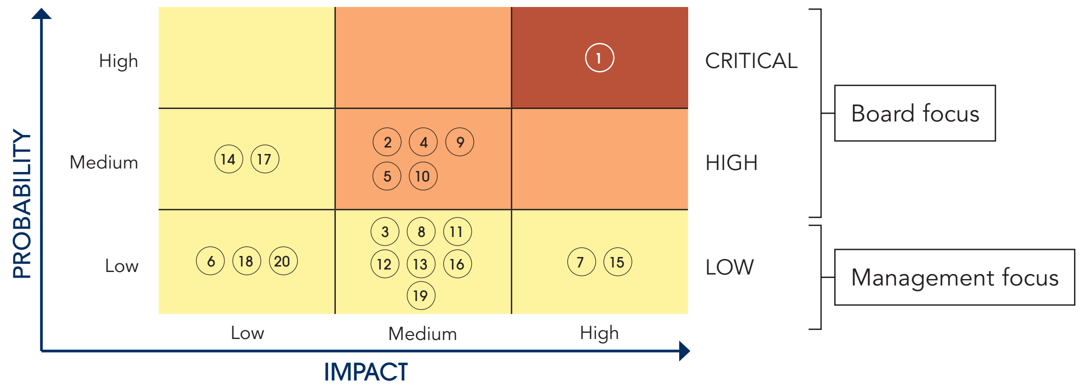
RMI strives to have meaningful, timely and open communication with its key stakeholders, based on its enduring values of transparency, accountability and integrity.

Key stakeholders	Their material requirements	RMI's interaction and strategic response	Enduring value created
Shareholders and analysts including present and potential future investors	• Clear growth strategy • Solid operational performance, irrespective of volatility in macroeconomic environment • Long-term sustainable growth • Optimal corporate structure	RMI communicates with shareholders through SENS and when it announces interim and year-end results. This is accompanied by comprehensive reports, which are sent to all shareholders. RMI's interim and final results announcements are accessible on the company's website **www.rmih.co.za**. The chief executive meets with investors and investment analysts from time-to-time.	Attractive dividend yield and long-term sustainable capital growth
Employees	• Being encouraged to innovate • Open and honest feedback	RMI's strategy is to attract, develop and retain the best industry talent. They are empowered, held accountable and rewarded appropriately, in line with shareholders' return.	Challenging and fulfilling careers in a values-driven environment
Clients	• Trust • Future-proof products and solutions • Value-for-money • Protection of information	Our investees aim to provide superior service to enable both corporate and individual clients to achieve their ambitions. The integrity of their various brands, their image and reputation, are paramount to ensure the sustainability of their businesses.	Satisfied clients, who trust the brands and contribute to economic growth
Suppliers	• Fair treatment • Broad-based black economic empowerment (BBBEE)	The group subscribes to responsible transformation and consistently improves its BBBEE procurement spend.	Reliable and empowered suppliers
Media	• Sharing expert knowledge • Transparent performance reporting	Engagement with the media is open, honest and based on facts. A trustworthy relationship has been established with the media.	Building trusted brands
Communities in which investees operate	• Financial inclusion • Enterprise development • Win-win	Our investees are committed to uplifting the societies in which they operate by following sound employment practices and meeting the real needs of the communities.	Reinforcing the importance of open and honest values
Entrepreneurial development hub (AlphaCode)	• Mentorship • Financial investment • Business support and advice	Communication is primarily through personal interaction, telecommunications and electronic communications.	Breakthrough businesses
Government and regulatory bodies Including the SA Reserve Bank, JSE, Financial Services Conduct Authority and South African Revenue Service.	• Open and honest relationship and communication • Adherence to laws • Paying taxes	RMI engages with government and regulatory bodies in a proactive and transparent manner to ensure that South African industry practice remains amongst the best in the world and builds trust and confidence with society.	Leading by example and reducing industry risk

Risks and opportunities to creating enduring value

The board, assisted by the audit and risk committee, continuously monitors the top risks to ensure timeous value creation or preservation action in line with its approved risk appetite and risk management strategy.

The residual risks facing RMI are reflected on this heat map:



The numbers on the heat map correspond with the table below:

Risks			Possible impact on enduring value creation or preservation	Strategic response in mitigation
EXTERNAL RISKS Risks associated with external factors such as economic, political or legislative change	1	Sovereign risk	Impact of country downgrades on the equity market	Constructive engagement with "SA Inc" and its stakeholders; Geographical diversification; Systematic monitoring of macroeconomic environment
	2	Regulatory risk	Inadvertent and unintentional non-compliance may cause significant loss	Proactive engagement on legislative and regulatory changes
	3	Tax risk	Unanticipated tax arising from strategic decisions or from unexpected changes in tax legislation may cause significant loss	Advice from independent tax specialists
	4	Competitor risk	Disruptive technologies cause pressure to adapt investee base, product offerings, processes, systems and policies	Optimisation, diversification and modernisation
STRATEGIC RISKS Risks resulting from the definition, implementation and continuation of the group's guidelines and strategic developments	5	Group structure	Group structure preventing maximum shareholder value creation	Regular review of the group structure
	6	Ownership structure	Concentrated shareholding could cause illiquidity	Regular review of top 20 shareholders and tracking of free flow of RMI shares
	7	Reputational risk	The risk that an action, event or transaction may compromise the brand	Protecting and enhancing the brand and reputation with the highest ethical standards
	8	Independence and conflict of interest	The possibility that a decision of the board could be seen as prejudiced and conflicted	Delegation of authority in place; Declarations of interests
	9	Investment strategy	The risk of the portfolio value being adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices	Proper understanding of the businesses of the investee companies; Appropriate RMI representatives on the boards of investee companies
FINANCIAL RISKS Risks associated with the management of cash and cash equivalents, financial instruments and financing	10	Portfolio risk	The portfolio may have a particular exposure to certain industrial sectors, geographic areas or regulations	Systematic portfolio reviews; Diversification of the portfolio; Regular meetings with investees and representation on their boards of directors
	11	Liquidity risk	The risk of not being able to meet payment obligations as they fall due, or being forced to liquidate our positions under adverse conditions	Monthly forecasting and reporting to determine liquidity requirements
	12	Underwriting risk	The unpredictable nature of insurance business can affect long-term sustainability	Documented underwriting risk policy monitored closely and regularly
	13	Counterparty default risk	Reinsurance arrangements are very important, especially during extreme weather events	Reinsurance treaties with reputable reinsurers and diversification amongst multiple reinsurers
OPERATIONAL RISKS Risks resulting from inadequacies or failures in internal procedures, staff management or systems in place. Risk of non-compliance with quality standards, contractual and legal provisions and ethical norms	14	Human resource risk	The ability to find and retain the human resources required to ensure that the business operates effectively and achieves its objectives	The remuneration policy and operating environment are designed to attract and retain skills and talent; Code of conduct and board charters
	15	Disaster recovery and business continuity	The risk of the business being unable to operate due to an unforeseen event or disaster	A comprehensive business continuity plan has been developed and tested; Alternative facilities available
	16	Treasury risk	Any loss of control over cash inflows, outflows and investments in money market instruments	Limits, rules, formal delegations of authority and segregation of duties in place
	17	Information technology (IT) risk	The risk of IT disruption, breach of information security and cyber attacks	Numerous policies, processes and systems in place to ensure the continuity and stability of systems and the security of data
	18	Process and systems risk	Exposure to potential losses caused by internal shortcomings and/or failures	Reviews by internal audit, quality assurance and risk management functions
	19	Fraud risk	Losses caused by insurance-related fraud, dishonesty, collusion and unauthorised activities	Significant prevention and detection measures in place
	20	Ineffective financial reporting	The risk that financial information is not prepared timeously and complete	Financial results reviewed internally, then by the audit and risk committee and the board of directors; External audit

We continue to evaluate and improve our management techniques and processes to build our reputation as a trusted and reliable holding company.

A more comprehensive analysis of the risk management process and financial risks, including those relating to the global economy and currencies, is disclosed in the management of insurance and financial risk on **pages 133 to 147.**

"Throughout the history of RMH, RMI and FirstRand, GT has always been a superb and wise sounding board. With his unique ability to think laterally, he has provided simple, key solutions to what often appeared to be insoluble problems.

Management have always enjoyed his total support and encouragement and found this to be invaluable. His leadership has been exemplary."

LAURIE DIPPENAAR

two

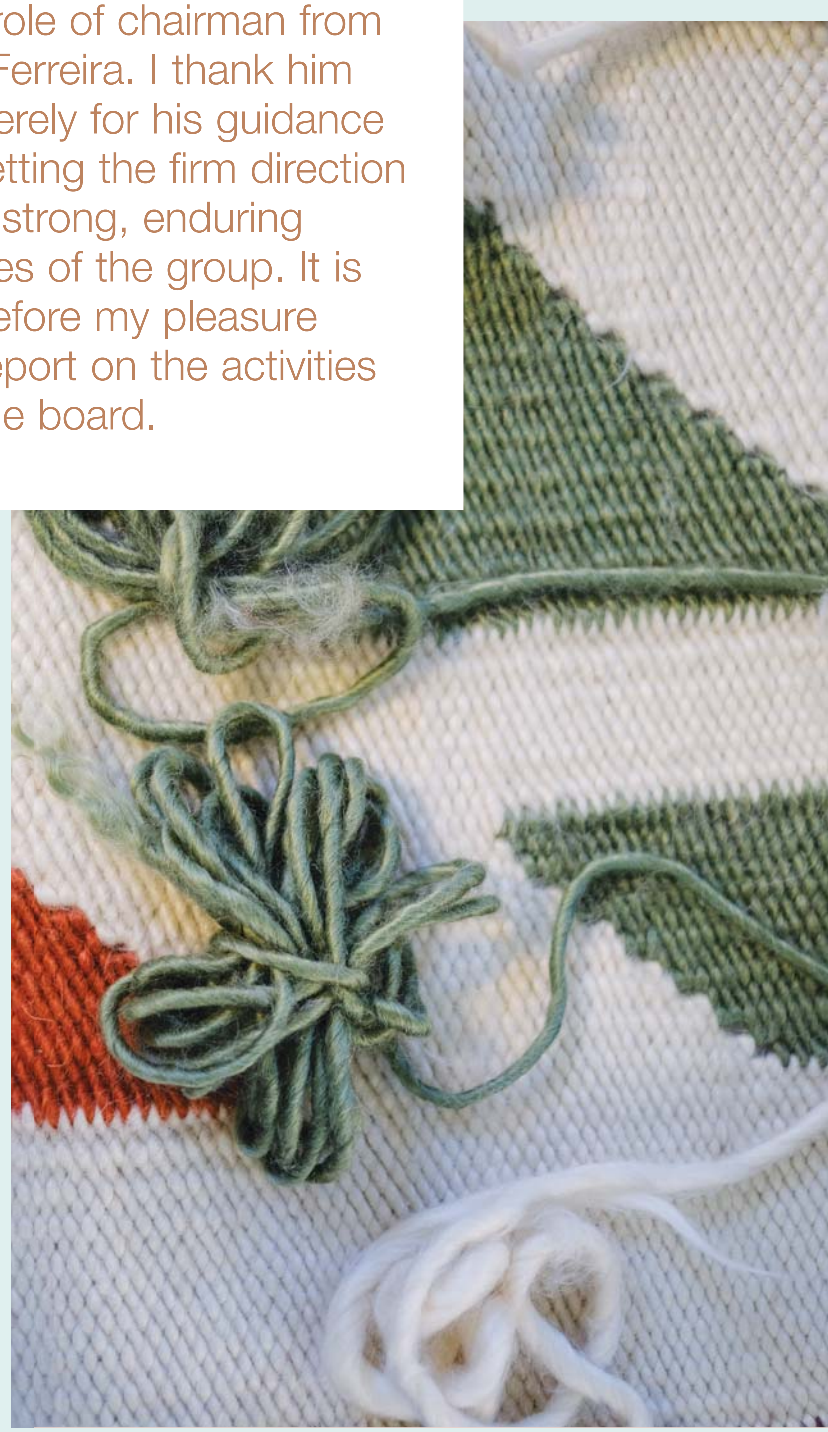
Performance and outlook

Chairman's statement

"GT's wisdom will be the one lasting thing that I remember from him. When arguments go around in circles, his take on things from a totally different angle always astonished us and ended the circular arguments that were going nowhere."

It is an honour to take over the role of chairman from GT Ferreira. I thank him sincerely for his guidance in setting the firm direction and strong, enduring values of the group. It is therefore my pleasure to report on the activities of the board.

JANNIE DURAND *Chairman*



COMMITMENT TO ENDURING VALUE CREATION

RMI is committed to creating long-term value for its stakeholders by investing in and remaining influential in businesses that can deliver capital growth and steady dividend flow. By being a shareholder of influence, RMI can enable sustainable growth and bring and hold businesses together. RMI invests with a view to long-term involvement. Our investment decisions are influenced by the external environment.

EXTERNAL ENVIRONMENT

The South African economy is experiencing:

A more stable political environment	South Africa's new president, Mr Cyril Ramaphosa, took office in February and promised to revive the economy, clamp down on corruption and attract \$100 billion in new investments. The change in the political environment marked an initial positive turning point for business and consumer confidence. In addition, rating agencies have refrained from further downgrades since November 2017.
Stable inflation and interest rates	Inflation is projected to stabilise in the middle of the 3% – 6% target range, which lessens the effect of higher international oil prices and thus the upward pressure from the VAT hike. In March 2018, the Reserve Bank reduced the repurchase rate from 6.75% to 6.5%. Investment in infrastructure and structural reforms would support growth in the medium to long term. Higher investment will be crucial for growth to translate into lower unemployment.
Continued high unemployment rates	Unemployment remains high at 27%, weighing on household consumption. Inequalities in income and opportunities continue to be high. Young people are especially vulnerable to unemployment, reflecting the low quality of the education system, which contributes to skill shortages and low productivity. This is further compounded by the stagnating economy and lack of employment opportunities.
A lack of growth	Despite a more favourable political environment, policy uncertainties remain, such as the financial turnaround of state enterprises and the revival of the mining sector. In addition, a potential land reform, allowing land expropriation without compensation, raises uncertainty about property rights, which could lead to a significant decline in investment. External downside risks relate to an increase in oil prices and to global trade tensions, in particular on commodities. In addition, higher interest rates in the United States could affect financial markets, and also the exchange rate as a result of capital outflows.

Despite the prolonged local uncertainty, it was particularly pleasing that RMI managed to produce strong results, in keeping with its commitment to creating enduring value.

The group results are discussed in the chief executive review, starting on **page 23**.

CHANGES TO THE BOARD OF DIRECTORS

Albertinah Kekana was appointed as a non-executive director (she was previously an alternate for Obakeng Phetwe) and David Wilson as an alternate non-executive director on 1 September 2017.

Along with GT Ferreira, Jan Dreyer and Khehla Shubane also retired on 31 March 2018 and Pat Goss followed on 10 April 2018. Together, these four directors had a combined service of more than 130 years to RMI and its predecessor companies. RMI would like to thank them for their wisdom, innovation and commitment to the group.

RMI welcomed the following new board members, effective from 31 March 2018, following the retirements:

- **Mamongae Mahlare** MBA (Harvard) BSc (Chemical Engineering) is the managing director of Illovo Sugar SA. Previously she was head of alternate beverages at Coca Cola Beverages South Africa, held various positions at SABMiller's operations in Tanzania and Mozambique and was an associate consultant at Bain & Company;
- **Ralph Mupita** MBA (UCT) BSc (Engineering)(Hons) is the chief financial officer and an executive director of MTN. He is the past chief executive of Old Mutual Emerging Markets, covering life insurance, asset management, general insurance, lending and banking businesses in Africa, Latin America and Asia;
- **James Teeger** BCom BAcc CA(SA) HDip Tax leads the investment activities of the Oppenheimer family. He was previously a director of De Beers and spent 12 years at RMB where he held the position of co-head of structured finance; and
- **David Frankel**, an electrical engineer with an MBA from Harvard, is managing partner and co-founder of Founder Collective. He was co-founder and chief executive of Internet Solutions and served on the board of Dimension Data plc. He has served on the board of RMB since 2007.

Johan Burger and James Teeger were appointed as members of the audit and risk committee, which is now chaired by Sonja de Bruyn. Murphy Morobe is the new chairperson of the social, ethics and transformation committee, replacing Sonja de Bruyn, who remains a member. Murphy Morobe is also the new lead independent director and chairperson of the directors' affairs and governance and nominations committees.

THE YEAR AHEAD

There are several factors that could strain RMI's earnings growth in the 2019 financial year:

- The group had an exceptionally low claims experience in the 2018 financial year, especially in the South African and Australasian operations of OUTsurance. This also contributes to lower premium inflation;
- Cyclical movements, regulatory reform and the impact of Brexit on the environment in which Hastings operates;
- MMI being in the process of repositioning its business, with a focus on getting the fundamentals in place for longer-term growth; and
- Investments into new initiatives like Discovery Bank are expected to result in significant additional expenses for Discovery in the following financial year.

RMI remains confident, however, that it will continue to create enduring value and steady returns for its shareholders over the medium to long term, given the strength of its underlying investments.

Jannie Durand
Chairman

Sandton

11 September 2018

Chief executive's review

"GT personifies the key ingredients of an entrepreneur: drive, innovation, competitiveness, creativity, enthusiasm for "a deal" and the ability to motivate high-calibre professionals. As easily, he is able to play the role of the charismatic, consensus-building statesman in the boardroom. RMI will miss his leadership and insight."

NORMALISED EARNINGS FROM CONTINUING OPERATIONS

R4 473 million
(2017: R3 927 million)

+14%

Normalised earnings from continuing operations per share amounted to **295.1 cents per share** (2017: 263.6 cents per share).

HEADLINE EARNINGS FROM CONTINUING OPERATIONS

R4 081 million
(2017: R3 480 million)

+17%

Headline earnings from continuing operations per share amounted to **269.7 cents per share** (2017: 234.2 cents per share).

DIVIDENDS FOR THE YEAR DISTRIBUTED TO SHAREHOLDERS AMOUNTED TO

104 cents per share
(2017: 118 cents per share)

HERMAN BOSMAN
Chief executive

SOURCES OF NORMALISED EARNINGS

RMI regards normalised earnings as the appropriate basis to evaluate business performance as it eliminates the impact of non-recurring items and accounting anomalies. The total normalised earnings of RMI's investee companies for the year under review are listed in the table below:

R MILLION	For the year ended 30 June 2018	2017	% change
Continuing operations			
Discovery	**5 401**	4 656	16
Hastings[1]	**2 758**	1 918	44
MMI	**2 809**	3 208	(12)
OUTsurance (excluding Hastings)	**2 639**	2 463	7
– OUTsurance (including Hastings)	**3 012**	2 476	22
– Hastings included in OUTsurance	**(373)**	(13)	>(100)
Other[2]	**(25)**	(5)	>(100)
Discontinued operation			
RMB Structured Insurance (excluding Truffle)	**–**	(38)	100

1. The comparative for Hastings represents its normalised earnings for the full year ended 30 June 2017. Its normalised earnings for the period from 1 March 2017 (the acquisition date of RMI's 29.9% equity stake) to 30 June 2017 were R828 million.
2. Other includes RMI Investment Managers and AlphaCode investments.

A detailed reconciliation between reported headline earnings and normalised earnings of the respective investee companies is provided in note 41 to the annual financial statements on **page 194**.

The annual financial statements of these investee companies are available on their respective websites.

RMI's consolidated normalised earnings for the year under review are listed in the table below:

R MILLION	For the year ended 30 June 2018	2017	% change
Continuing operations	**4 473**	3 927	14
Discovery	**1 356**	1 167	16
Hastings	**778**	246	>100
MMI	**715**	816	(12)
OUTsurance (excluding Hastings)	**2 333**	2 092	12
– OUTsurance (including Hastings)	**2 661**	2 103	27
– Hastings included in OUTsurance	**(328)**	(11)	>(100)
Other[1]	**(25)**	(5)	>(100)
Funding and holding company costs	**(684)**	(389)	(76)
Discontinued operation			
RMB Structured Insurance (excluding Truffle)	**–**	(30)	>100
Normalised earnings	**4 473**	3 897	15
Normalised earnings per share (cents) (continuing operations)	**295.1**	263.6	12
Normalised earnings per share (cents) (continuing and discontinued operations)	**295.1**	261.6	13

1. Other includes RMI Investment Managers and AlphaCode investments.

A reconciliation of the adjustments made to headline earnings to derive normalised earnings is presented on **page 30**.

OVERVIEW OF RESULTS

Despite the low economic growth environment across most markets, the RMI group delivered a pleasing 14% increase in normalised earnings from continuing operations for the year ended 30 June 2018.

Discovery delivered a strong performance, with normalised earnings increasing by 16% to R5.4 billion. The established businesses delivered combined growth in operating profit of 14%, which is well above the target of CPI + 5%, with Discovery Vitality (132% growth), VitalityHealth (108% growth) and Discovery Invest (19% growth) being the main drivers of earnings growth. In addition, the emerging businesses exceeded their targeted earnings growth of CPI + 30%, with both Discovery Insure (excluding the newly launched commercial offering) and the Vitality Group turning a loss position in the prior year into profits. In total, 7% of earnings was invested in new initiatives, including Discovery Bank, the recently launched UK investment business, Vitality Invest, the commercial offering in Discovery Insure and the Umbrella Fund offering in Discovery Invest. The core new business annualised premium income (excluding the take-on of new closed medical schemes and gross revenue of the Vitality Group) increased by 10% to R16.1 billion. The Discovery group maintained a within-guidance cash buffer of R1.7 billion as at 30 June 2018 and the financial leverage ratio of 25.8% remained below the limit set at 28%.

RMI included normalised earnings of R778 million from Hastings for the year ended 30 June 2018. **Hastings** announced its interim results for the six months ended 30 June 2018 on 8 August 2018. Gross written premiums increased by 5% and normalised earnings by 22% in Pound Sterling terms for the six-month period. The claims ratio of 73.8% was better than the target range of 75% to 79%, despite the impact of adverse weather conditions experienced in the first quarter of the calendar year. Hastings recorded a sustained increase in clients, with live client policies increasing by 6% to 2.7 million and market share growing to 7.5% of the UK private car insurance market. The Solvency II coverage ratio strengthened to 171% (31 December 2017: 167%) and the reduction in the net debt leverage multiple continued to improve to 1.1 times adjusted operating profit (31 December 2017: 1.4 times). Hastings declared an interim dividend of 4.5 pence per share, an increase of 10% on the interim dividend in the prior year of 4.1 pence per share.

Although the continued challenging macroeconomic environment negatively impacted **MMI's** financial results for the year ended 30 June 2018, operational shortcomings also played a part in the disappointing set of results. MMI recorded a 12% decrease in normalised earnings to R2.8 billion, despite strong improvements in Momentum Corporate's group underwriting results, solid mortality and disability results across the group and improved results from the international operations. These positive factors were more than offset by increased investment in client engagement activities and specific technology investments to improve intermediary and client experience, the impact of a reinsurance loss, including an allowance for higher future reinsurance premiums on Momentum Retail risk products, lower profits from the Momentum Retail legacy life products and a weaker early duration lapse experience in Metropolitan Retail. MMI's share of losses from its new initiative investments in India and aYo increased by R90 million, in line with business plans. MMI's capital position remains strong, with a buffer of R2.4 billion on an internal basis and a capital adequacy requirement (CAR) cover ratio of 2.6 times as at 30 June 2018.

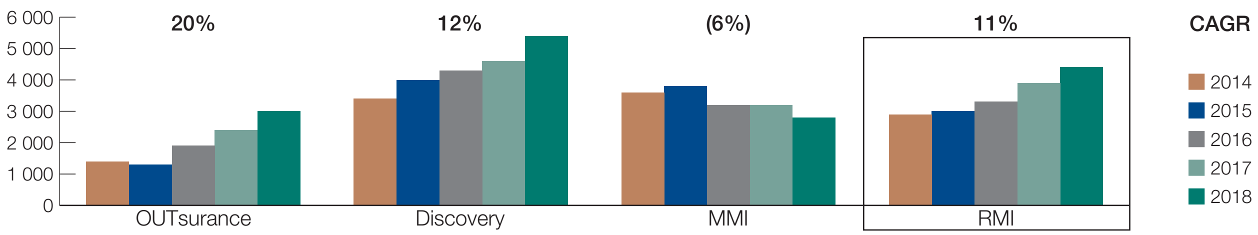
Normalised earnings from **OUTsurance**, including its shareholding in Hastings, increased by 22% to R3 billion, mainly due to favourable claims conditions throughout all major operations and higher associate earnings from its indirect interest in Hastings. Excluding Hastings, normalised earnings increased by 7% to R2.6 billion. The cost-to-income ratio improved from 25.8% to 25.6%, primarily attributable to cost-efficiency in Youi. OUTsurance achieved a normalised return on equity of 31.4% and a claims ratio of 49.8%. The claims ratio benefitted from lower motor claims and favourable weather conditions. Youi Australia will be paying its maiden dividend. The adoption of the new Solvency Assessment and Management (SAM) prudential regulations, effective from 1 July 2018, is beneficial to the South African regulated entities. Youi is unaffected as the Australian prudential regulations enjoy Solvency II equivalence.

RMI Investment Managers is in its third year of operations, with overall financial performance in line with expectations. Revenue improved across the affiliate portfolio, despite the challenging economic and political environment in South Africa. The affiliates continued to strengthen their investment and operational capabilities and are close to reaching operating leverage. Assets under management across the portfolio remained consistent over the past six months at R105 billion. This is a positive outcome in the face of South Africa being impacted by the global "risk-off" sentiment.

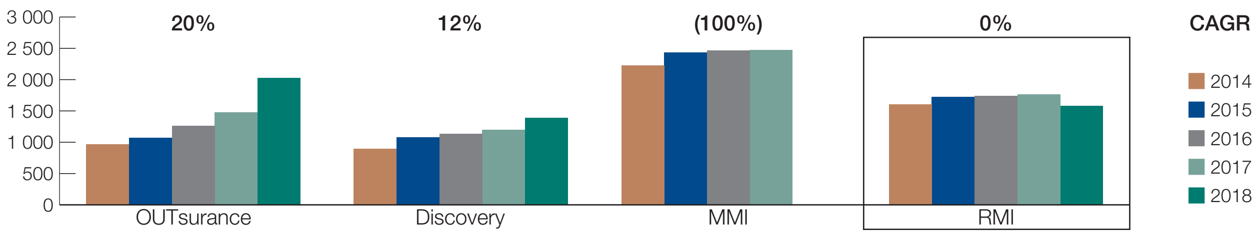
Royal Investment Managers is a joint venture between RMI Investment Managers and Royal Bafokeng Holdings (RBH). The portfolio performed in line with expectations during the year.

Funding and holding company costs amounted to R684 million, compared to R389 million in the prior year due to the debt incurred to fund the acquisition of the group's 29.9% stake in Hastings. The net funding and holding company costs were positively impacted by the return on higher cash balances compared to the prior year following the scrip dividend and cash proceeds on the sale of 49% of the group's stake in Hastings to OUTsurance.

EARNINGS HISTORY (R million)



DIVIDEND HISTORY (R million)



EFFECTIVE INTEREST

RMI's effective interest in the group entities is different from the actual holdings as a result of the following consolidation adjustments:

- Treasury shares held by group entities;
- Shares held by consolidated share incentive trusts;
- "Deemed" treasury shares arising from broad-based black economic empowerment (BBBEE) transactions entered into; and
- "Deemed" treasury shares held by policyholders and mutual funds managed by them.

The effective interest held by RMI can be compared to the actual interest in the statutory issued share capital of the companies as follows:

	As at 30 June 2018		As at 30 June 2017	
AUDITED	Effective	Actual	Effective	Actual
Discovery	25.1%	25.0%	25.1%	25.0%
Hastings	29.9%	29.9%	29.9%	29.9%
MMI	26.5%	26.2%	25.7%	25.5%
OUTsurance	89.7%	88.6%	88.5%	87.7%
RMI Investment Managers	100.0%	100.0%	100.0%	100.0%
Merchant Capital	25.1%	25.1%	25.1%	25.1%
Entersekt	25.1%	25.1%	25.1%	25.1%

FINAL DIVIDEND FOR THE 2018 FINANCIAL YEAR

As conveyed in our interim results announcement, MMI has reviewed its dividend policy to ensure that it remains consistent with its capital deployment plans and the need to maintain steady capital ratios under the SAM regime. MMI opted to buy back shares of up to R2 billion in 2018 in lieu of paying out dividends, given that its shares are valued at a discount to embedded value (EV). MMI has subsequently bought back 47 million shares, valued at R974 million, between March 2018 and June 2018. RMI has not sold any of its MMI shares, thereby increasing its holding in MMI from 25.5% to 26.2%.

MMI expects the current buyback programme to be finalised by December 2018. The decision to continue with the share buyback programme, rather than paying a cash dividend, will be reviewed during MMI's next interim results cycle and will depend on the price-to-EV rating, the capital position and shareholder requirements at the time.

OUTsurance increased its final dividend by 45% to 33 cents per share, mainly due to Youi paying its maiden dividend. RMI will also receive a further R236 million special dividend from OUTsurance, being surplus capital arising from the implementation of the SAM regime.

The policy of paying out all dividends received from underlying investments, after servicing any funding commitments at holding company level and considering RMI's debt capacity and investment pipeline, remains in place.

The RMI board resolved to declare a final dividend of 65.0 cents (2017: 65.0 cents) per ordinary share with an option to elect scrip in lieu of cash or to reinvest all or part of the cash dividend (net of any applicable taxes) in RMI ordinary shares. The total dividend for the year of 104.0 cents (2017: 118.0 cents) per ordinary share is covered 2.8 times (2017: 2.2 times) by the normalised earnings of 295.1 cents (2017: 261.6 cents) per share.

Since 2014, RMI has actively pursued a strategy to optimise, diversify and modernise its portfolio of financial services assets. Its ambition to diversify geographically, add to its existing portfolio of significant stakes in financial services companies and to facilitate ongoing growth initiatives in its existing portfolio companies, imply additional investment and use of financial leverage. The RMI board has decided that, in addition to the cash dividend, it would offer the scrip distribution alternative and a reinvestment option to prudently manage RMI's capital structure. The RMI board will continuously assess RMI's dividend policy through its investment phase and may, if appropriate, continue to utilise the scrip distribution alternative and the reinvestment option to support investment activity.

MARKET VALUE OF INVESTMENTS

During the 2018 financial year, RMI's share price decreased by 4% (2017: decreased by 5%), compared to a 14% increase in the life insurance index and a 23% increase in the non-life insurance index. RMI has delivered a total annual compound return to shareholders of 23.2% since its listing in March 2011.

The individual investment performances during the 2018 financial year are outlined below:

- **Discovery's** share price increased by 15% (2017: increased by 4%);
- **Hastings'** share price decreased by 19% in Pound Sterling terms and by 14% in Rand terms; and
- **MMI's** share price decreased by 13% (2017: decreased by 11%).

On a "look-through" basis, based on share prices as at 30 June 2018, the value attributed to RMI's unlisted investments decreased by 9% (2017: decreased by 12%) to R27.2 billion (2017: R29.8 billion). These unlisted investments include OUTsurance (excluding OUTsurance's 49% stake in the group's holding in Hastings) (88.6% held), RMI Investment Managers (100% held) and the AlphaCode investments.

	30 June		
R MILLION	2018	2017	% change
Market value of listed investments	**39 540**	38 690	2
Discovery	**23 887**	20 716	15
Hastings (RMI's effective holding)	**8 566**	9 857	(13)
– 29.9% holding	**9 072**	10 491	(14)
– Attributable to non-controlling interest of OUTsurance	**(506)**	(634)	20
MMI	**7 087**	8 117	(13)
Market value of unlisted investments	**27 195**	29 806	(9)
RMI Investment Managers and AlphaCode at cost	**834**	619	35
Implied market value of RMI's stake in OUTsurance (excluding Hastings)	**26 361**	29 187	(10)
Gross market value of portfolio	**66 735**	68 496	(3)
Net liabilities of holding company	**(9 709)**	(9 789)	1
RMI market capitalisation	**57 026**	58 707	(3)
RMI closing share price (cents)	**3 745**	3 899	(4)

OUTLOOK AND FUTURE VALUE CREATION

The investment team continues to investigate potential investment opportunities, both locally and globally, that conform to RMI's investment philosophy and generate superior returns for shareholders.

In addition to optimising its existing portfolio, RMI plans to diversify and modernise its investment portfolio through opportunities across a wide spectrum of scale and life cycles of financial services businesses.

OPTIMISE

OPTIMISATION OF OUR ESTABLISHED INVESTMENTS

Management will continue its strategic dialogue and activity across the portfolio. It will assist in creating leadership, stability and succession planning.

MAJOR MILESTONES

- Increased shareholding in OUTsurance and MMI;
- Exploration of new products and strategic projects to diversify revenue streams for OUTsurance; and
- Ongoing strategic dialogue with Discovery, MMI and Hastings.

DIVERSIFY

DIVERSIFICATION OF INCOME STREAM AND DISTRIBUTION OF ASSETS

RMI will evaluate expanding its geographic footprint further, either independently and/or through the existing portfolio.

MAJOR MILESTONES

- Supported Discovery in diversifying into banking;
- Acquired the following affiliates in RMI Investment Managers in the year:
  - 30% in Ethos Private Equity; and
  - 30% in Balondolozi Investment Services; and
- Continuing to evaluate later-stage, capital-lite business models with organic growth potential.

MODERNISE

MODERNISATION

RMI will continue to identify new businesses, technologies and industry trends to complement RMI and its investee companies.

MAJOR MILESTONES

- Ongoing substantial investment by Discovery, Hastings, MMI and OUTsurance in latest technology;
- AlphaCode has established itself as a centre of fintech excellence in South Africa and a source of innovation and next-generation thinking for the broader RMI portfolio;
- Acquired the following investments during the year:
  - 3.5% in Prodigy Finance; and
  - 7.5% in Luno; and
- Pipeline of potential future investment opportunities created.

In the portfolio review, which commences on **page 35**, more detail is provided on the outlook and future plans of RMI's investee companies.

Over the longer term, RMI remains confident that its clear strategy, in conjunction with its solid investment portfolio that is underpinned by **unwavering values**, will allow it to continue delivering on its primary objective of creating enduring value for shareholders.

Herman Bosman
Chief executive

Sandton

11 September 2018

Key performance indicators

		2014	2015	2016	2017	2018	% change for 2018	5-year % CAGR[1]
Equity	R million	16 377	18 083	19 726	20 490	**23 704**	**16**	10
Normalised earnings from continuing operations	R million							
Discovery		3 457	4 027	4 312	4 656	**5 401**	**16**	12
MMI		3 621	3 836	3 206	3 208	**2 809**	**(12)**	(6)
OUTsurance (excluding Hastings)		1 448	1 388	1 985	2 463	**2 639**	**7**	14
Hastings		–	–	–	1 918	**2 758**	**44**	–
Other		–	1	(11)	(5)	**(25)**	**>(100)**	–
Group normalised earnings from continuing operations	R million	2 944	3 097	3 342	3 927	**4 473**	**14**	11
Discovery		866	1 012	1 079	1 167	**1 356**	**16**	12
MMI		899	956	805	816	**715**	**(12)**	(6)
OUTsurance (excluding Hastings)		1 219	1 166	1 664	2 092	**2 333**	**12**	18
Hastings		–	–	–	246	**778**	**>100**	–
Funding and holding company costs		(40)	(38)	(195)	(389)	**(684)**	**(76)**	>(100)
Other		–	1	(11)	(5)	**(25)**	**>(100)**	–
Earnings and dividends per share from continuing operations	cents							
Earnings		200.5	217.8	200.5	226.5	**257.6**	**14**	6
Diluted earnings		198.3	215.7	197.1	223.0	**252.9**	**13**	6
Headline earnings		188.8	215.5	197.6	234.2	**269.7**	**15**	9
Diluted headline earnings		186.7	213.5	194.3	230.6	**265.0**	**15**	9
Normalised earnings		198.2	208.4	225.0	263.6	**295.1**	**12**	10
Diluted normalised earnings		196.1	206.9	221.6	259.7	**290.0**	**12**	10
Ordinary dividend		108.0	116.0	118.0	118.0	**104.0**	**(12)**	(1)
Dividend cover	times							
– Headline earnings		1.8	1.9	1.7	2.0	**2.6**		
– Normalised earnings		1.9	1.8	1.9	2.2	**2.8**		
Share price	cents							
– Closing		3 278	4 247	4 120	3 899	**3 745**	**(4)**	3
– High		3 450	4 894	4 554	4 599	**4 740**	**3**	8
– Low		2 333	3 101	3 149	3 760	**3 539**	**(6)**	11
Market capitalisation	R million	48 701	63 097	61 210	58 707	**57 026**	**(3)**	4
Volume of shares traded	million	273	442	525	494	**427**	**(14)**	12

1. Compound annual growth rate.

Financial review

OVERVIEW OF RESULTS

This discussion is intended as a brief explanatory addendum to the chief executive's review and consolidated annual financial statements.

The audited annual financial statements are included in this integrated report. Refer **page 93**.

COMPUTATION OF HEADLINE AND NORMALISED EARNINGS

The following adjustments were made to arrive at normalised earnings for the year:

R MILLION	2018 Audited	2017 Audited	% change
Earnings attributable to equity holders	3 897	3 327	17
Adjustment for:			
– Intangible asset impairments	86	91	
– Loss on dilution of shareholding	80	28	
– Loss/(profit) on sale of subsidiary	5	(20)	
– Impairment of available-for-sale financial assets	17	9	
– Impairment of owner-occupied building to below cost	–	7	
– Realised profit on sale of available-for-sale financial assets	(5)	(2)	
– Loss on disposal of property and equipment	5	1	
– Release of foreign currency translation reserve	(4)	–	
Headline earnings attributable to equity holders	4 081	3 441	19
RMI's share of normalised adjustments made by associates:	416	456	
– Amortisation of intangible assets relating to business combinations	332	238	
– Basis and other changes and investment variances	167	117	
– Non-recurring and restructuring expenses	38	63	
– Deferred tax timing difference related to new adjusted IFRS tax basis	(30)	–	
– Unrealised gains on foreign exchange contracts not designated as a hedge	(19)	–	
– Rebranding and business acquisition expenses	–	25	
– Net realised and fair value losses on shareholders' assets	10	13	
– Deferred tax on assessed losses	(88)	–	
– BBBEE cost	6	–	
Group treasury shares	(24)	–	
Normalised earnings attributable to equity holders	4 473	3 897	15
Headline earnings from continuing operations	4 081	3 480	17
Headline loss from discontinued operation	–	(39)	100
Headline earnings from continuing and discontinued operations	4 081	3 441	19
Normalised earnings from continuing operations	4 473	3 927	14
Normalised loss from discontinued operation	–	(30)	100
Normalised earnings from continuing and discontinued operations	4 473	3 897	15

KEY AUDIT MATTERS

The independent auditor's report on **page 103** highlights the matters that, in their professional judgment, were of most significance during their audit.

The audited annual financial statements are included in this integrated report. Refer **page 93**.

The report also outlines the steps that were taken in addressing the key audit matters. The following items were identified and addressed:

- Valuation of insurance contract liabilities relating to short-term insurance contracts in OUTsurance;
- Equity accounted earnings of MMI; and
- Equity accounted earnings of Discovery.

SEGMENTAL REPORT

The segmental analysis is based on the management accounts prepared for the group.

AUDITED R MILLION	Discovery	MMI	OUTsurance	Hastings	Other[1]	RMI group
Year ended 30 June 2018						
Net income	–	–	14 757	–	237	14 994
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 056)	–	–	(7 056)
Depreciation	–	–	(136)	–	(4)	(140)
Amortisation	–	–	(99)	–	(2)	(101)
Other expenses	–	–	(3 506)	–	(158)	(3 664)
Finance costs	–	–	–	–	(765)	(765)
Fair value adjustment to financial liabilities	–	–	(193)	–	–	(193)
Share of after-tax results of associates	1 418	280	305	370	(45)	2 328
Profit/(loss) before taxation	1 418	280	4 072	370	(737)	5 403
Taxation	–	–	(1 108)	–	(28)	(1 136)
Result for the year	1 418	280	2 964	370	(765)	4 267
Hastings included in OUTsurance	–	–	(294)	294	–	–
Profit/(loss) for the year	1 418	280	2 670	664	(765)	4 267
Normalised earnings	1 356	715	3 012	405	(1 015)	4 473
Hastings included in OUTsurance	–	–	(373)	373	–	–
Normalised earnings	1 356	715	2 639	778	(1 015)	4 473
As at 30 June 2018						
Assets	–	–	15 254	–	2 984	18 238
Investments in associates	10 268	5 964	4 125	5 367	689	26 413
Intangible assets	–	–	124	–	–	124
	10 268	5 964	19 503	5 367	3 673	44 775
Hastings included in OUTsurance	–	–	(3 996)	3 996	–	–
Total assets	10 268	5 964	15 507	9 363	3 673	44 775
Total liabilities	–	–	8 359	–	12 712	21 071

1. Other includes RMI, RMI Investment Managers, AlphaCode investments and consolidation entries.

SEGMENTAL REPORT continued

AUDITED R MILLION	Discovery	MMI	OUTsurance	Hastings	Discontinued operations	Other[1]	RMI group
Year ended 30 June 2017							
Net income	–	–	14 703	–	–	142	14 845
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 210)	–	–	–	(7 210)
Depreciation	–	–	(131)	–	–	(5)	(136)
Amortisation	–	–	(86)	–	–	(2)	(88)
Other expenses	–	–	(3 523)	–	–	(139)	(3 662)
Finance costs	–	–	(1)	–	–	(413)	(414)
Fair value adjustment to financial liabilities	–	–	(199)	–	–	–	(199)
Gain on derivative relating to acquisition of associate	–	–	750	–	–	(750)	–
Share of after-tax results of associates	1 097	378	29	189	–	9	1 702
Profit/(loss) before taxation	**1 097**	**378**	**4 332**	**189**	**–**	**(1 158)**	**4 838**
Taxation	–	–	(1 079)	–	–	(5)	(1 084)
Result for the year from continuing operations	**1 097**	**378**	**3 253**	**189**	**–**	**(1 163)**	**3 754**
Discontinued operation	–	–	–	–	(49)	–	(49)
Result for the year	1 097	378	3 253	189	(49)	(1 163)	3 705
Gain on derivative related to inter-group transaction	–	–	(750)	–	–	750	–
Hastings included in OUTsurance	–	–	(10)	10	–	–	–
Profit/(loss) for the year	**1 097**	**378**	**2 493**	**199**	**(49)**	**(413)**	**3 705**
Normalised earnings	1 167	816	2 476	233	(38)	(757)	3 897
Hastings included in OUTsurance	–	–	(13)	13	–	–	–
Normalised earnings	**1 167**	**816**	**2 463**	**246**	**(38)**	**(757)**	**3 897**
As at 30 June 2017							
Assets	–	–	14 234	–	–	2 636	16 870
Investments in associates	8 938	5 956	3 842	5 108	–	611	24 455
Intangible assets	–	–	89	–	–	1	90
	8 938	5 956	18 165	5 108	–	3 248	41 415
Hastings included in OUTsurance	–	–	(3 793)	3 793	–	–	–
Total assets	**8 938**	**5 956**	**14 372**	**8 901**	**–**	**3 248**	**41 415**
Total liabilities	**–**	**–**	**8 341**	**–**	**–**	**12 584**	**20 925**

1. Other includes RMI, RMI Investment Managers, AlphaCode investments and consolidation entries.

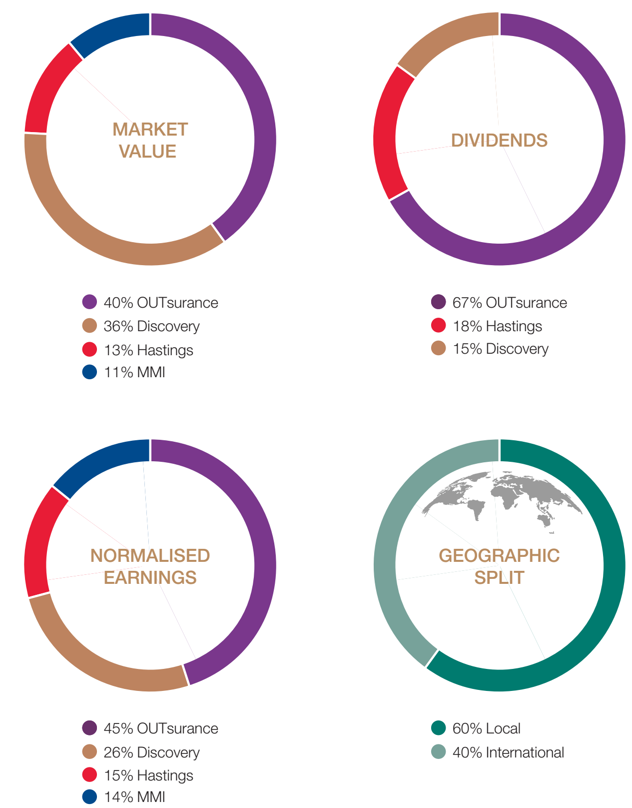
GEOGRAPHICAL SEGMENTS

AUDITED R MILLION	South Africa	Australia	New Zealand	United Kingdom	Total
Year ended 30 June 2018					
Net income	**8 694**	**6 152**	**148**	**–**	**14 994**
Policyholder benefits and transfer to policyholder liabilities	**(3 795)**	**(3 226)**	**(35)**	**–**	**(7 056)**
Other expenses	**(2 927)**	**(1 830)**	**(106)**	**–**	**(4 863)**
Share of after-tax results of associates	**1 413**	**–**	**–**	**915**	**2 328**
Profit before taxation	**3 385**	**1 096**	**7**	**915**	**5 403**
Taxation	**(822)**	**(314)**	**–**	**–**	**(1 136)**
Profit for the year	**2 563**	**782**	**7**	**915**	**4 267**
As at 30 June 2018					
Assets					
Property and equipment	**392**	**714**	**3**	**–**	**1 109**
Investments in associates	**17 050**	**–**	**–**	**9 363**	**26 413**
Financial assets	**6 680**	**6 925**	**291**	**–**	**13 896**
Other assets	**2 170**	**816**	**371**	**–**	**3 357**
Total assets	**26 292**	**8 455**	**665**	**9 363**	**44 775**
Liabilities					
Insurance contract liabilities	**2 069**	**4 494**	**162**	**–**	**6 725**
Other liabilities	**10 603**	**924**	**99**	**2 720**	**14 346**
Total liabilities	**12 672**	**5 418**	**261**	**2 720**	**21 071**
Year ended 30 June 2017					
Net income	8 220	6 432	193	–	14 845
Policyholder benefits and transfer to policyholder liabilities	(3 658)	(3 514)	(38)	–	(7 210)
Other expenses	(2 355)	(1 927)	(217)	–	(4 499)
Share of after-tax results of associates	1 367	–	–	335	1 702
Profit/(loss) before taxation	3 574	991	(62)	335	4 838
Taxation	(779)	(305)	–	–	(1 084)
Profit/(loss) from continuing operations	2 795	686	(62)	335	3 754
Discontinued operations	(49)	–	–	–	(49)
Profit/(loss) for the year	2 746	686	(62)	335	3 705
As at 30 June 2017					
Assets					
Property and equipment	941	41	18	–	1 000
Investments in associates	15 554	–	–	8 901	24 455
Financial assets	5 346	6 722	314	–	12 382
Other assets	2 181	1 157	240	–	3 578
Total assets	24 022	7 920	572	8 901	41 415
Liabilities					
Insurance contract liabilities	1 961	4 697	183	–	6 841
Other liabilities	10 588	828	117	2 551	14 084
Total liabilities	12 549	5 525	300	2 551	20 925

Value-added statement

R MILLION	2018	2017
Economic value created		
Premium income and reinsurance recoveries	14 557	14 876
Income from associates, investment income, fees and other income	3 149	2 482
Non-claims payments to outside service providers	(1 472)	(1 610)
Payments relating to profit sharing arrangements	(193)	(199)
Finance costs	(765)	(414)
Discontinued operation	–	(49)
Total economic value created	15 276	15 086
Total economic value distributed amongst stakeholders		
Employees		
– Salaries and other benefits	2 292	2 140
Policyholders	7 440	8 022
– Policyholder claims and increase in reserves	7 045	7 623
– Cash bonuses on insurance contracts	395	399
Government (in the form of taxes)	1 181	933
Providers of capital	1 941	2 131
– Ordinary dividends paid to shareholders	1 571	1 753
– Earnings attributable to non-controlling interests	370	378
Reinvested to support future growth	2 422	1 860
– Retained earnings	2 281	1 724
– Depreciation	141	136
Economic value distributed	15 276	15 086
Percentage of economic value distributed		
Employees (%)	15%	14%
Policyholders (%)	49%	53%
Government (%)	8%	6%
Providers of capital (%)	28%	27%
Total	100%	100%

Relative contribution analysis



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Portfolio overview

Discovery

VALUE CREATED

MARKET CAPITALISATION

R95.4 billion

2017: R82.7 billion

+15%

NORMALISED EARNINGS

R5 401 million

2017: R4 656 million

+16%

DIVIDENDS PAID

215 cents per share

2017: 186 cents per share

+16%

ADRIAN GORE
Chief executive

ABOUT DISCOVERY

Discovery is a South African-founded financial services organisation with operations in the healthcare, life insurance, short-term insurance, savings and investment and wellness markets. Founded in 1992 as a specialist health insurer, Discovery today operates in South Africa, the UK, China, Singapore, Australia, Japan, Europe and the USA through various business lines.

Discovery designs innovative insurance products that emphasise the importance of prevention and of wellness. Relying on a strong data analytics capability to understand and refine the incentives that contribute to positive behaviour change, this behavioural-linked insurance model addresses the shortcomings of traditional insurance systems by incentivising better health and driving and channelling the resultant risk savings into the incentives required to deliver these behaviour changes. This contributes to better health and value for clients, superior actuarial dynamics for the insurer and a healthier society at large.

By using powerful financial and behavioural structures that meet peoples' needs in sustainable ways, Discovery is able to provide superior returns for shareholders.

The group invested in Discovery in 1992, when the Discovery management team had only the dream of doing things differently and when it was still a product offering in Momentum.

TOTAL SHAREHOLDER RETURNS SINCE RMI'S LISTING IN MARCH 2011: 22.7%

PERFORMANCE

	30 June		
R MILLION (unless stated otherwise)	2018	2017	% change
Discovery Health	**2 777**	2 505	11
Discovery Life	**3 837**	3 588	7
Discovery Invest	**885**	744	19
Discovery Vitality	**58**	25	>100
VitalityHealth	**589**	283	>100
VitalityLife	**515**	485	6
Development and other	**(395)**	(582)	32
Normalised profit from operations	**8 266**	7 048	17
Earnings per share			
Normalised headline earnings per share (cents)	**837.4**	722.2	16
Normalised diluted headline earnings per share (cents)	**836.9**	721.5	16
Dividends			
Ordinary dividend per share (cents)	**215.0**	186.0	16
Dividend yield (%)	**1.46**	1.45	
Embedded value			
Embedded value per share (Rand)	**101.73**	88.83	15
Return on embedded value (%)	**16.9**	10.2	
Price to embedded value ratio (times)	**1.4**	1.4	

Discovery's brands and businesses – South Africa

Discovery Health	Discovery Health is the leading medical scheme administrator in South Africa, providing administration and managed care services to over 3.5 million beneficiaries. The business has a share of over 44% in the overall medical scheme market in South Africa, and manages 18 restricted medical schemes on behalf of leading corporate clients, as well as Discovery Health Medical Scheme, South Africa's largest open medical scheme.
Discovery Life	Discovery Life provides individual and business clients with comprehensive life, capital disability, income protection, severe illness, funeral and other risk protection cover.
Discovery Invest	Discovery Invest aims to deliver superior returns to investors by offering innovative investment products that are aligned to the Vitality Shared-Value Insurance model and are both tax- and fee-efficient.
Discovery Insure	Discovery Insure is a provider of short-term vehicle and home insurance, insuring assets of R213 billion, including over 200 000 vehicles. Its innovative driver-behaviour programme, Vitality Drive, encourages safer driving by measuring driver behaviour and rewarding good driving.
Discovery Card	DiscoveryCard is a joint venture with First National Bank, attracting clients exhibiting a substantially better risk profile than the market average. Discovery is currently taking steps towards owning 100% of the venture.
Discovery Vitality	Discovery Vitality is the largest scientifically-based wellness programme globally, with 1.9 million lives positively impacted in South Africa in 2018. It forms the foundation of the Vitality Shared-Value Insurance model globally. This model, developed through Discovery's experience in wellness and insurance over the past 22 years, acts as a catalyst for change in the insurance industry. It simultaneously provides material benefits to members, insurers and society, and is being scaled through the Global Vitality Network of leading global insurers who are using the model in their markets to transform their offerings and the healthy longevity of their clients.

Discovery's brands and businesses – United Kingdom

Vitality HEALTH INSURANCE	VitalityHealth offers an integrated medical insurance and wellness proposition to individuals and predominantly small and medium enterprise (SME) clients in the UK.
Vitality LIFE INSURANCE	VitalityLife provides individual and business clients in the UK with life, capital disability, severe illness and income protection cover.
Vitality INVEST	Vitality Invest combines behavioural economics, savings and wellness to incentivise people to save sooner, invest for longer, manage their income drawdown and take steps to look after their health.

Discovery's brands and businesses – Partner markets

Vitality	The Vitality Group, a wholly-owned subsidiary of Discovery Limited in the USA, provides wellness programmes to corporate clients. Through its corporate offering, The Vitality Group reaches more than 1.5 million clients across large and mid-size groups.
中国平安 PING AN	In China, Discovery has a 25% equity stake in Ping An Health, the largest comprehensive medical insurer in the country. Ping An Health provides private healthcare policies to corporates and individuals in the Chinese market.
AIA Vitality	The Vitality Shared-Value Insurance model is now available in Singapore, Australia, Hong Kong, the Philippines, Thailand, Malaysia, Sri Lanka, Vietnam and Korea. There is an opportunity to introduce Vitality Shared-Value Insurance to additional AIA markets. AIA and a local Australian health insurer launched myOwn Health Insurance, which was integrated with Vitality in July 2017.
GENERALI Vitality	In Europe, Discovery has progressed rapidly since signing an agreement with Generali in 2014. Generali Vitality launched to the public in Germany in June 2017.
John Hancock Vitality	In the USA market, the relationship with John Hancock continues to flourish. John Hancock Vitality has received numerous awards and garnered significant media attention for its transformative approach to life insurance.
Manulife Vitality	John Hancock's parent company, Manulife, launched Manulife Vitality in Canada in September 2017, pioneering the Vitality Shared-Value Insurance model in Canada. Manulife has more than 20 million clients in 22 countries.
SUMITOMO LIFE Vitality	Discovery recently concluded a partnership with Sumitomo Life Insurance Company in Japan, a substantial and respected life insurer, with over 10 million policies in force and $18.1 billion in annualised premiums. Japan is the second-largest life insurance market globally, after the USA. It has an ageing population, with 80% of mortality related to non-communicable diseases. There is substantial opportunity to influence behaviour positively and improve health outcomes. In addition, the Japanese insurance market faces rising medical costs and the government is eager for initiatives that will alleviate this burden.

STRATEGY AND VALUES

Discovery set its core purpose at inception 26 years ago, namely to make people healthier and enhance and protect their lives.

This was crystallised into its strategic goal: To be the best insurer in the world and a powerful force for social good.

SHORT-TERM GOALS

In order to achieve its next goals, Discovery believes that it has to:

- Ensure a brilliant performance by businesses in South Africa, which includes successfully launching Discovery Bank;
- Build an excellent insurer in the UK and grow VitalityInvest;
- Continue to support Ping An Health's growth;
- Continue to build the Vitality platform and behaviour-linked financial services offering to optimise the network; and
- Expand its partnerships.

Discovery's people and technology development play a major part in their delivery, and therefore they have focused employment and systems, and technology development plans.

LONGER-TERM FOCUS AREAS

Discovery's longer-term focus remains on driving performance in the business and its social and financial impact. To ensure a roadmap to reach future goals, it has developed new stretch targets for the next three to five years to ensure it continues its ambitious growth in a focused way.

Discovery has the following focus areas in order to deliver on its long-term goals:

- Continue to scale the businesses and the business model to diversify earnings;
- In its primary markets of South Africa and the UK, it will focus on growing emerging and new businesses it launched in adjacencies, which include Discovery Bank and VitalityInvest;
- In Vitality Group, it will continue to expand by entering into new partnerships and new markets, whilst growing existing businesses and identifying latent opportunities.

VALUES

The strong, clear values cultivated by Discovery's strong leadership are:

- Business astuteness and prudence;
- Innovation and optimism;
- Liberating the best in people;
- Integrity, honesty and fairness;
- Intellectual leadership;
- Tenacity, urgency and drive and
- The ability to dazzle clients.

RMI supports Discovery in the successful delivery of its strategy.

2018 performance

- Gross inflows under management increased by 9% to R125.6 billion;
- Net insurance premium revenue was R32.3 billion, an increase of 9%;
- Total new business annualised premium income (excluding new closed schemes and gross revenue from the Vitality Group) increased by 10% to R16.1 billion;
- Normalised profit from operations is up 17% to R8.3 billion;
- Normalised headline earnings is up 16% to R5.4 billion;
- Embedded value increased by 15% to R65.6 billion; and
- The total dividend for the year increased by 16% to 215 cents per share.

Discovery entered a 15-year lease agreement for its new head office, which comprises two phases of development. It has started taking occupancy of the buildings on a phased approach.

Discovery Bank's licence was approved subject to the condition that FirstRand Bank's shareholding be reduced over five years. In response to this, Discovery and FirstRand have reached an agreement, subject to regulatory approvals, that Discovery will acquire:

- The remaining 25.01% of the economic interest in the DiscoveryCard joint venture;
- The rights to the DiscoveryCard book and related assets, which will be transferred to Discovery Bank; and
- The remaining 25.01% ultimate shareholding that FirstRand would have retained in Discovery Bank.

The purchase consideration payable in relation to this acquisition is R1.8 billion.

Discovery's credit card base is less sensitive to negative market conditions due to a substantially better risk profile. Both its percentage of non-performing loans and cost-to-income ratio are significantly below the average of other South African banks. This bodes well for the Bank.

RMI included R1 356 million of Discovery's earnings in its normalised earnings (2017: R1 167 million).

For an in-depth review of Discovery's performance, RMI's shareholders are referred to **www.discovery.co.za**.

OUTLOOK

Discovery has built a strong portfolio of businesses at different maturity levels, all meeting stringent actuarial, market competitiveness and client service metrics. The established businesses are of significant scale and continue to grow, with Discovery Health leading in open scheme market share, Discovery Life leading in new business market share, Discovery Invest in the top ten retail asset takers and VitalityHealth and VitalityLife in the top five market leaders. In addition, these businesses entered adjacent industries over the year, manifesting in the launch of Discovery for Business in South Africa and the introduction of the long-term savings business, VitalityInvest in the UK, further building the Vitality UK composite model.

The emerging businesses of Discovery Insure, Vitality Group and Ping An Health, while taking longer than expected to grow, all turned profitable over the year and demonstrated their potential. Discovery Insure is the fastest-growing short-term insurer in South Africa, Vitality Group is building a leading global behavioural insurance platform and Ping An Health is the leading private health insurer in China. All three businesses continued to scale and innovate while maintaining positive actuarial dynamics, offering substantial value to the Global Vitality Platform.

Due to the scale and growth rate of the established businesses, the growth model is proving to be less linear as time progresses. This is driving the need to invest in large strategic initiatives with significant growth potential, which is the rationale behind launching Discovery Bank and VitalityInvest. Excluding the effect of the Bank, Discovery expects continued growth without recourse to additional capital. The Bank will flatten earnings for the 2019 year, as post-launch, the amortisation of the build cost will emerge. Thereafter, organic growth is expected.

STRATEGY IN ACTION

UNLOCKING FURTHER VALUE FOR DISCOVERY

Discovery has enjoyed rapid growth since its inception 26 years ago, broadening its product offering beyond medical aid into insurance and financial products. It is set to continue its innovative growth strategy with the launch of more exciting products in the next year.

Discovery Bank will target the mass affluent market in South Africa, well beyond its already loyal client base.

DISCOVERY BANK TO LAUNCH THIS YEAR

On 16 October 2017, Discovery advised that it had been granted a banking licence by the Registrar of Banks.

Discovery started live-testing its banking capabilities, testing system infrastructure, operating processes and regulatory engagement earlier in the year.

During the year, DiscoveryCard's performance was excellent, and bodes well for the Bank. Profits for the DiscoveryCard joint venture with FNB grew by 17% to R414 million and revenue increased by 6% to R1 billion. DiscoveryCard, with its 300 000-strong client base, is widely regarded as one of the best-performing credit card books in South Africa due to the low risk profile of its clients. It is therefore less sensitive to negative market conditions. Both its percentage of non-performing loans and cost-to-income ratio were significantly below the average of other South African banks. DiscoveryCard has a cost-to-income ratio of 40%, well below the 56% average. At the half year mark, its credit loss ratio stood at 1.5%, compared with a 6% market average for tier-1 credit providers.

The bank is expected to grow well beyond the credit card client base as it can sell into the captive health and life clients. It is not expected to offer vehicle finance and mortgages from the launch date, to allow the bank time to gain scale and become self-sustaining.

The approval from the Registrar contained certain conditions. This included that the 25.01% ultimate cross-holding in Discovery Bank by FirstRand Investment Holdings Limited (FirstRand) should be reduced and ultimately exited over a period of time. FirstRand's involvement with Discovery is through the DiscoveryCard product, a 15-year joint venture which was a precursor to the group's banking ambitions, offering clients limited banking services underwritten by FNB.

Discovery and FirstRand agreed that it would be preferable for FirstRand to exit entirely, as soon as practically possible, as the two parties will be competitors. The total combined acquisition price payable by Discovery to FirstRand will be R1.8 billion. The transaction is subject to approval by certain regulatory authorities including the Prudential Authority and the Competition Authorities.

Although these developments have delayed the process slightly, the bank build is progressing well and remains within budget, and the launch is expected before the end of 2018.

The bank will be consumer-orientated at launch and may expand into the corporate and investment sectors in the future.

DISCOVERY INSURE STILL GROWING STRONGLY AND NOW PROFITABLE

Discovery Insure is the fastest-growing short-term insurer in South Africa. It turned profitable in 2018, delivering gross premium income of R2.7 billion and profit of R68 million, and has significant latent potential. It continued to scale and innovate while maintaining positive actuarial dynamics, adding value to the group.

Discovery Insure's strong performance over the year was driven by the continued success of the Vitality Shared-Value Insurance model, which incentivises and rewards good driving behaviour. Loss ratios are highly correlated to engagement, resulting in an improving book over time, with a 7.1% absolute reduction in loss ratio over the past 24 months.

Based on the proven efficacy of the model, Discovery Insure entered the commercial insurance market in 2018. The commercial offering deals with traditional physical risks as well as modern risks such as reputational and cyber, and uses technology to enhance risk assessment techniques.

In terms of global strategy, Discovery Insure continues to explore the opportunity to extend the model into international markets as an extension of the Global Vitality Network.

VITALITY INVEST

Discovery's most ambitious project other than the bank is the launch of Vitality Invest in the UK, a very similar offering to Discovery Invest. It will focus on the retail market for now, offering brokers an array of algorithms to facilitate financial planning.

Hastings

VALUE CREATED

MARKET CAPITALISATION

£1 674 million

2017: £2 063 million

(19%)

NORMALISED EARNINGS

£81.9 million

Six months ended 30 June 2017: £66.9 million

+22%

DIVIDENDS PAID

4.5 pence per share

Six months ended 30 June 2017: 4.1 pence per share

+10%

TOBY VAN DER MEER
Chief executive

ABOUT HASTINGS

Hastings is a UK-listed short-term insurer. It commenced operations in 1997 and listed on the London Stock Exchange in 2015. It is a fast-growing, agile digital general insurance provider operating principally in the UK motor market. It provides private car and other forms of personal insurance cover (home, van and bike). Hastings has a 7.5% market share of the UK private car insurance market and has 2.7 million live client policies. The group's success in capturing market share has been combined with consistently strong underwriting performance and growing retail profitability. The group is headquartered in Bexhill-on-Sea with offices in Newmarket, Leicester and Gibraltar.

TOTAL SHAREHOLDER RETURNS SINCE ACQUISITION: 12.4%

PERFORMANCE

	30 June		
£ MILLION (unless stated otherwise)	30 June 2018	30 June 2017	% change
Underlying trading profit after tax	**81.9**	66.9	22
Profit after tax	**72.9**	57.9	26
Key financial ratios			
Earnings per share (pence)	**11.1**	8.8	26
Dividend declared per share (pence)	**4.5**	4.1	10
Key performance metrics			
Gross written premiums	**485.6**	462.0	5
Net revenue	**376.3**	345.2	9
Number of live client policies (million)	**2.70**	2.54	
UK private car insurance market share (%)	**7.5**	7.0	
Adjusted operating profit margin (%)	**27.9**	25.1	
Loss ratio (%)	**73.8**	73.4	
Expense ratio (%)	**15.5**	15.5	
Combined operating ratio (%)	**89.3**	88.9	
Solvency coverage ratio (%)	**171**	173	
Net debt leverage multiple (times)	**1.1**	1.7	

Hastings has a 31 December year-end. The latest published results are for the six months ended 30 June 2018. All amounts and commentary relate to the six-month period ended 30 June 2018.

Hastings' brands and businesses

Hastings DIRECT	Hastings' largest and best-known brand, delivering great value car, bike, home and van insurance in a refreshingly straightforward way.
Hastings PREMIER	Premium cover, delivering all the benefits of Hastings Direct plus roadside breakdown cover and motor legal expenses included as standard.
Hastings ESSENTIAL	The no-frills car and home insurance, providing just the essentials.
Hastings DIRECT smartmiles	A telematics brand that measures and rewards good driving behaviour, helping young and inexperienced drivers save money on their car insurance.
insure Pink	InsurePink provides competitive car insurance, donating £10 from every policy sold to breast cancer charities.
People's Choice	People's Choice car insurance provides great benefits at a competitive price.

STRATEGY IN ACTION

OPTIMISING THE RELATIONSHIP BETWEEN OUTSURANCE AND HASTINGS

Hastings is a fast-growing digital insurer operating in the UK with a unique digitally-enabled business model. Hastings provides personal lines insurance cover through direct and price comparison website channels.

On 1 March 2017, RMI acquired an effective 29.9% of Hastings. In June 2017, RMI disposed of 49% thereof to OUTsurance, who thereby acquired a 14.7% indirect stake in Hastings.

During the year, OUTsurance established an outsourced call centre for Hastings at its Centurion campus. This call centre is designed to complement the local UK call centre to allow for improved after hours' service delivery.

COLLABORATION SEEN FROM HASTINGS' PERSPECTIVE

When Hastings announced RMI as its new major shareholder, it told investors that it would explore potential areas of co-operation with RMI and OUTsurance, given their experience in the general insurance market.

The approach blends in with Hastings' 4Cs ways of working: To support colleagues and clients in early 2018, Hastings started working in partnership with OUTsurance to take calls primarily over evenings and weekends. This is in addition to the large-scale recruitment across its UK sites, which will allow Hastings to improve shift patterns for staff (colleagues), making them more flexible and reducing the number of evenings and weekends they are asked to work. This news was well received internally.

Hastings has also introduced a new homeworking model for some of its frontline colleagues and plans to use OUTsurance more this year to support both its colleagues and clients, primarily over evenings and weekends.

The collaboration supports Hastings' strategic pillars of growth, agility and expansion.

OUTSURANCE ONLY TOO HAPPY TO HELP OUT

OUTsurance is excited about the local job creation associated with this initiative and continues to explore further collaborative opportunities with the Hastings management team.

The parties are in the process of establishing a long-term outsourcing arrangement.

OUTsurance, through this initiative, has delivered on its strategic objectives to both shareholders, who expect sustainable profitability enabled by a competitive and diversified business model, and the community.

The high rate of unemployment is one of the most pressing challenges in the South African economy and, by beginning to optimise the relationship between Hastings and OUTsurance, the partnership has already provided a significant contribution to society.

STRATEGY AND VALUES

Hastings has a clearly defined growth strategy. In order to sustain its growth momentum, it remains committed to implementing the strategic drivers that have been at the heart of its development to date:

GROW – DRIVING PROFITABLE GROWTH BY TARGETING THREE MILLION CLIENT POLICIES DURING 2019

Hastings' simple, straightforward business model, coupled with its digitally-focused distribution, ensures it is well positioned to benefit from increasing price comparison website (PCW) penetration amongst clients. Capitalising on this natural momentum will drive sustainable, profitable growth in live client policies (LCP) whilst strong client retention rates allow the business to benefit from a naturally maturing portfolio as it develops long-standing relationships with its clients.

DISCIPLINE – FOCUS ON PRUDENT UNDERWRITING

Hastings has demonstrated its focus on prudent underwriting while growing the number of LCP. Combining its dynamic footprint selection, extensive use of data, advanced pricing process and rigorous fraud detection systems will support its current growth trajectory whilst maintaining its target through the cycle calendar year net loss ratio of between 75% and 79%.

FOCUS – CONTINUED FOCUS ON CASH GENERATION AND DELEVERAGING

Hastings is strategically-focused on the private car market, utilising its own sophisticated risk selection through the PCW digital distribution model. As the business maintains its growth trajectory, its focus remains on continuing to improve the cash efficiency of its model utilising its highly cash-generative Retail business with the strategic use of reinsurance in Underwriting to deliver ongoing deleveraging.

AGILE – ABILITY TO RESPOND QUICKLY TO MARKET CHANGES

The group's agile and digital business model means it is well placed to respond to changing market conditions driving a significant competitive advantage. The separate structure of the Retail and Underwriting businesses, coupled with the innovative use of data and continuous market analysis, allows the business to benefit from being able to rapidly adjust pricing presented to clients to support market share growth.

INVEST – INVEST IN DIGITAL CAPABILITY AND MOBILE DISTRIBUTION CHANNELS

Hastings continues to invest in complementary digital and mobile channels to further support LCP growth. Applications are being developed for phone and tablet devices, providing enhanced policy management functionality in order to improve the overall client experience. Investment continues within its infrastructure through the end-to-end implementation of Guidewire for both the Claims and Broking platforms.

EXPAND – EXPAND THE PRODUCT OFFERING AND INVEST IN A COMPETITIVE POSITION

The group sees significant opportunities to increase LCP volumes and overall profitability by increasing its footprint within in its core private car market with multi-car and telematics two key areas of focus. In addition, Hastings is set to continue its expansion into the home insurance market, where its business model is well placed to benefit from increased PCW penetration.

In order to deliver on its strategy, Hastings leverages its key differentiators, namely:

- Straightforward service proposition;
- Sophisticated data capture;
- Refined and optimised pricing strategies;
- A differentiated product portfolio;
- Disciplined risk selection and counter-fraud processes; and
- Leading-edge technology.

2018 performance

Hastings posted strong results and continued profitable growth in a competitive market, demonstrating its agility, digital focus and underwriting discipline:

- Continued growth, with gross written premiums up 5% to £485.6 million (2017: £462.0 million) and net revenue up 9% to £376.3 million (30 June 2017: £345.2 million);
- Sustained increases in clients, with live client policies up by 6% to 2.7 million (2017: 2.54 million);
- Growing market share to 7.5% of UK private car insurance (2017: 7.0%);
- Loss ratio of 73.8% is below the target range of between 75% and 79% (30 June 2017: 73.4%);
- Consistent growth in profitability, with normalised earnings increasing by 22% to £81.9 million (30 June 2017: £66.9 million);
- Ongoing cash generated from operating activities of £80.2 million (30 June 2017: £121.9 million) and net debt leverage multiple reduced to 1.1 times adjusted operating profit (31 December 2017: 1.4 times);
- Diversification of debt structure, with a successful seven-year £250 million investment grade senior bond issue, replacing funds drawn under the revolving credit facility and providing longer-term financing and protection from interest rate increases;
- Strong solvency position, with a Solvency II coverage ratio of 171% (31 December 2017: 167%);
- Interim dividend for 2018 of 4.5 pence per share (2017: 4.1 pence per share);
- Introduction of a new mobile app and enhanced functionality on its client portal, enabling 80% of policy changes to be made online as of May 2018. Digital client contacts now exceed telephone contacts; and
- Additional digital capability for total loss claims processing rolled out notification is currently in testing.

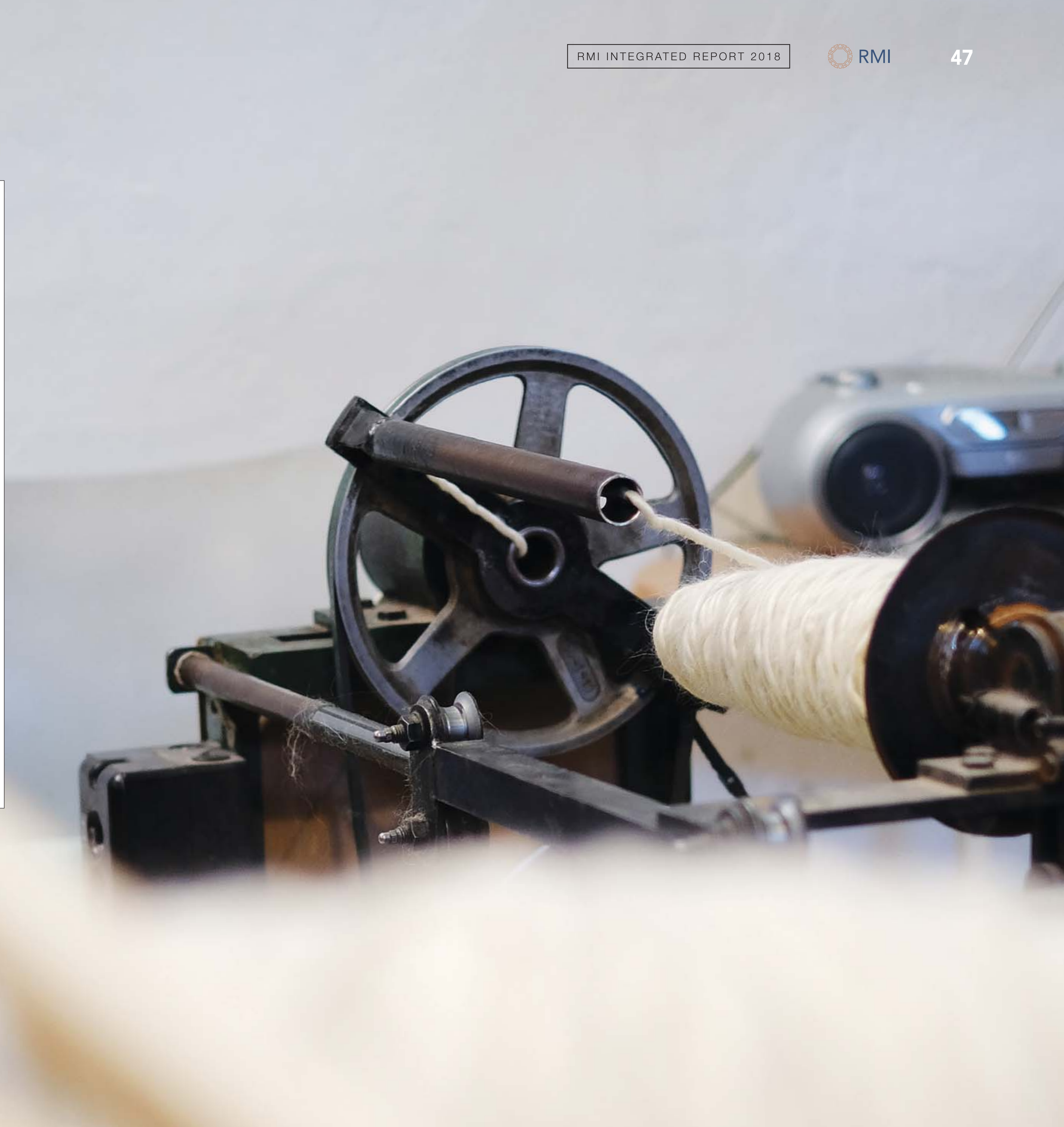
RMI included R778 million of Hastings' earnings in its normalised earnings (2017: R246 million).

For an in-depth review of Hastings' performance, RMI's shareholders are referred to **www.hastingsplc.com**.

OUTLOOK

A fast-moving and increasingly digital landscape plays to Hastings' strengths. Its capabilities in agile pricing, analytics and anti-fraud platforms combined with its disciplined underwriting and strong capital position means it is well-placed to continue to identify and grow in profitable parts of the market. These core attributes have transformed the business from a small disruptor in 2011 into a household name in the UK short-term insurance market, a market with over 50 million car and home policies.

Looking forward, Hastings will continue to invest in technology. It is continuing with the phased roll-out of the next-generation Guidewire platform, with home policies now live on selected price comparison websites and car renewals migration underway. Guidewire will enable continued delivery of operational efficiencies. Hastings also developed new digital capabilities over the last few months and launched a new Hastings mobile app. Hastings is continuously developing its pricing and anti-fraud platforms and announced its participation in a mobility and vehicle technology research programme, alongside a range of other partners from the automotive and mobility sectors.



MMI HOLDINGS

VALUE CREATED

MARKET CAPITALISATION

R27.0 billion

2017: R31.9 billion

(15%)

NORMALISED EARNINGS

R2 809 million

2017: R3 208 million

(12%)

DIVIDENDS PAID (REPLACED BY SHARE BUY-BACK IN 2018)

0 cents per share

2017: 157 cents per share

(100%)

HILLIE MEYER
Chief executive

ABOUT MMI

MMI was formed through the merger of Momentum and Metropolitan. The core businesses of MMI are long- and short-term insurance, asset management, investment, healthcare administration and employee benefits. Product solutions are provided to all market segments. It provides for the insurance needs of individuals in the lower, middle- and upper-income markets, principally under the Momentum and Metropolitan brand names.

MMI's vision is to be the preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness. Its strategic focus areas are growth, client-centricity and excellence.

The group invested in Momentum in 1992. In 2010, Momentum merged with Metropolitan to create MMI.

TOTAL SHAREHOLDER RETURNS SINCE RMI'S LISTING IN MARCH 2011: 8.3%

PERFORMANCE

	30 June		
R MILLION (unless stated otherwise)	2018	2017	% change
Momentum Retail	920	1 271	(28)
Metropolitan Retail	570	660	(14)
Corporate and Public Sector	903	835	8
International	(48)	(166)	71
Operating divisions core earnings	2 345	2 600	(10)
Shareholder capital	464	608	(24)
Core headline earnings	2 809	3 208	(12)
Earnings per share			
Diluted core headline earnings per share (cents)	176.0	200.0	(12)
Dividends			
Ordinary dividend per share (cents)	–	157	(100)
Dividend yield (%)	–	7.8	
Embedded value			
Present value of new premiums	42 177	41 595	1
Value of new business	301	547	(45)
Value of new business margin (%)	0.7	1.3	
Embedded value per share (cents)	2 543	2 651	(4)
Return on embedded value (%)	(1.1)	4.7	
Price to embedded value ratio (times)	0.7	0.8	

MMI Holdings' brands and businesses

momentum	Momentum Retail provides innovative financial wellness solutions to the middle, upper and high net-worth segments. This is underpinned by appropriate financial planning and advice. MMI's International business operates in the rest of Africa, India and the UK.
METROPOLITAN	Metropolitan Retail focuses on the South African emerging and middle market. The segment aims to improve the financial wellness of its clients through empowerment and education.
GUARDRISK	Guardrisk provides structured insurance products, traditional cell captive facilities and access to a broad and diversified panel of related services and professional reinsurance markets through its businesses in South Africa (headquarters), Mauritius and Gibraltar.
ERIS PROPERTY GROUP	Eris Properties is a property development and services group which provides a range of commercial property skills in the South African and sub-Saharan African markets. Eris manages a property portfolio of R24.3 billion.

MMI Holdings' brands and businesses

multiply	Multiply's wellness and rewards programme is the primary engagement platform that MMI uses to connect with clients to encourage both financial and physical wellness. Multiply rewards members for doing the everyday things that ensure a healthy and happy life. Through Multiply, MMI clients gain access to physical and financial fitness partners and tools at discounted rates, making it easier to follow a physically and financially healthy lifestyle.
hello doctor	Hello Doctor is a mobile health service that provides preventative care and gives people the ability to connect with a doctor to make informed decisions about their health and wellness. The Hello Doctor interactive platforms are designed to give instant access to personalised health, wellness and medical information – all reviewed and approved by a team of doctors.
CareCross HEALTH	CareCross, with a national network of around 2 000 general practitioners and 4 000 associated healthcare professionals such as specialists, dentists and optometrists, currently delivers managed care and administration services to approximately 200 000 medical scheme beneficiaries. MMI also holds a majority share in Occupational Care South Africa (OCSA). OCSA is widely considered a market leader in workplace health and wellness solutions.

STRATEGY AND VALUES

MMI's purpose is to enhance the lifetime financial wellness of people, their communities and their businesses. Closely aligned is MMI's vision for the organisation – to be the preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness.

MMI has three strategic focus areas:

- **Client-centricity**
  MMI wants to create superior client and intermediary experiences, whilst helping them achieve their financial goals and life aspirations. The Multiply wellness and rewards programme plays an important role in providing outstanding experiences for clients and encourages and rewards behaviours that drive holistic wellbeing, both financially and physically. This also increases the lifetime value of clients, who consequently use more of MMI's products and remain clients for longer.
- **Growth**
  This is a critical strategic focus and is underpinned by three strategic objectives:
  - **Increase the value of existing clients**
    This is done through cross-selling. The Multiply wellness and rewards programme is a key initiative to advance this objective;
  - **Increase the client base**
    This is done through channel growth, by improving the productivity of intermediaries, increasing the size of the face-to-face sales force and developing alternative distribution channels; and
  - **Growth through geographical diversification**
    MMI is creating value outside South Africa, in selected countries in Africa and in India.
- **Excellence**
  MMI focuses on delivering superior and excellent experiences, as well as on efficiency in delivery.

Realising MMI's client-centric strategy relies on four key enablers:

- A world-class data analytics capability that enables the proactive creation of a superior client experience;
- Flexible and modular systems that take advantage of ongoing technology advances;
- A collaborative and client-centric culture that supports MMI's strategy; and
- Innovation as a way of business.

2018 performance

- New business volumes are up 1% to R42.2 billion on a present value of new business premiums basis;
- The value of new business decreased by 45% to R301 million. New business margins declined from 1.3% to 0.7%, due to additional expenses relating to initiatives aimed at improving client and intermediary experience during the new business process;
- Diluted core headline earnings of R2 809 million were down 12%;
- Diluted headline earnings were R1 341 million lower than diluted core headline earnings, with R685 million arising from changes to actuarial assumptions and R77 million from the decision to reduce the footprint in Africa and the UK;
- At 30 June 2018, 47 million shares have been bought back for R974 million, thereby acquiring R1.2 billion in embedded value; and
- Group embedded value declined by 7% to R39.6 billion (2017: R42.5 billion) or R25.43 per share (2017: R26.51 per share). MMI's capital position remains strong on the current statutory basis, with a buffer of R2.4 billion (2017: R3.7 billion). The CAR cover ratio was 2.6x (2017: 2.7x). On a SAM basis, MMI is also well-capitalised after considering all capital deployment initiatives and planned capital distributions.

RMI included R715 million of MMI's earnings in its normalised earnings (2017: R816 million).

For an in-depth review of MMI's performance, RMI's shareholders are referred to **www.mmiholdings.co.za.**

OUTLOOK

The group strategy, which focuses on client-centricity, growth and excellence, remains intact. However, the specific strategic objectives will be set in more practical and meaningful terms, with an increased focus on execution and delivery. To this end, MMI has made good progress during the year. The reset in priorities was done to enable improved performance and future growth. Key activities include encouraging a more entrepreneurial culture, increased focus on successfully growing core businesses in South Africa and exiting marginal operations outside South Africa. MMI has simplified its operating model and empowered its businesses with end-to-end accountability from sales to service. Centralised functions need to demonstrate clear efficiency or standardisation benefits. MMI will also be increasingly vigilant in not attempting too many new initiatives at any given time.

The maturity of the South African insurance markets and modest short-term macroeconomic growth prospects continue to put pressure on MMI's revenue growth expectations. MMI will, therefore, also focus on financial discipline, cost-efficiencies and streamlining infrastructure. Building the foundation for longer-term prosperity will depend on a strong distribution and service culture and relevant digital enablement.

VALUE CREATED

NET ASSET VALUE

R11.1 billion

2017: R9.8 billion

+13%

NORMALISED EARNINGS

R3 012 million

2017: R2 476 million

+22%

DIVIDENDS PAID

53.5 cents per share

2017: 40.2 cents per share

+33%

MARTHINUS VISSER
Chief executive

ABOUT OUTSURANCE

OUTsurance provides short- and long-term insurance products in South Africa, and short-term insurance products in Australia, New Zealand and Namibia.

OUTsurance's business model is built on a philosophy of scientific underwriting and pricing, innovative product design, a robust and efficient information technology platform and a high-performance culture driven by great people.

The client-centric business strategy to provide value-for-money insurance and exceptional client service continues to drive consistent shareholder returns.

The group co-founded OUTsurance in 1998.

TOTAL SHAREHOLDER RETURNS SINCE RMI'S LISTING IN MARCH 2011: 24.4%

LESSONS LEARNT FROM GT FERREIRA

MARTHINUS VISSER – Chief executive from 1 January 2018:

"If you become a large company, you are generally considered a sinister influence, but if you don't you are considered a failure. As such you don't have an option but to find new ways to grow."

WILLEM ROOS – Chief executive until 31 December 2017 and co-founder of OUTsurance:

"During 1996, the founders of OUTsurance presented the business plan to the then RMH board in order to secure funding. After approving the funding, GT turned to us and reminded us that more than 90% of new business ventures fail. "Therefore, you have to run and run fast!" This made it clear that we had an enormous challenge ahead of us, and it helped form a part of the culture at OUTsurance, which is to be action-orientated."

PERFORMANCE

R MILLION (unless stated otherwise)	30 June 2018	2017	% change
OUTsurance	**1 909**	1 784	7
Youi Group	**803**	578	39
OUTsurance Life	**53**	112	(53)
Earnings from associates	**385**	32	>100
Central (including consolidation adjustments)	**(138)**	(30)	>(100)
Normalised earnings	**3 012**	2 476	22
Key financial ratios			
Normalised return on equity (%)	**31.4**	33.7	
Normalised earnings per share (cents)	**80.1**	65.8	22
Diluted normalised earnings per share (cents)	**76.7**	63.3	21
Dividend declared per share (cents)	**53.5**	40.2	33
Special dividend per share (cents)	**7.0**	–	–
Key performance metrics			
Gross written premiums	**15 027**	14 908	1
Net earned premiums	**14 174**	14 064	1
Operating profit	**3 538**	3 252	9
Claims ratio (%)	**49.8**	51.3	
Cost-to-income ratio (%)	**25.6**	25.8	
Combined ratio (%)	**77.3**	79.0	

OUTsurance brands and businesses

OUTsurance provides short-term insurance cover directly to the South African public. Its product range includes personal lines and commercial insurance products.

Clients receive a cash OUTbonus – the first reward system in South Africa to return cash to clients who remain claim-free.

OUTsurance Life is a direct life insurer offering fully underwritten life insurance products that provide comprehensive death, disability and critical illness cover options.

OUTsurance Life has a new approach to life insurance – after 15 claim-free years, policyholders get all their premiums paid back.

OUTsurance Namibia was established in 2006 and provides personal lines and commercial lines short-term insurance products directly to the Namibian public.

OUTvest helps investors to set and reach their goals by making it easy to build personal investment plans. It combines state-of-the-art investment technology and human expertise to make investing simple.

OUTsurance brands and businesses

youi SOUTH AFRICA	Youi is short for "You Insure" and is underwritten by OUTsurance. It offers car and home insurance. Youi.Rewards is a loyalty bonus that rewards policyholders with a cash payout after being a client for three years and every three years thereafter, even if they claim. This payout amount is based on the average premiums paid over a period of three years.
youi AUSTRALIA	Youi is a sister short-term car insurance company of OUTsurance that operates in Australia. It follows the same client-orientated approach that has made OUTsurance successful in South Africa. Youi is primarily geared to selling insurance for cars, buildings, contents and business liability directly to consumers through an interactive website. It also operates a call centre to offer prospective and current clients professional personal advice.
youi NEW ZEALAND	Youi New Zealand was launched in August 2014 and provides personal lines insurance cover directly to the New Zealand public.

STRATEGY AND VALUES

OUTsurance has clear strategic objectives for growth in response to its main stakeholders, as follows:

Shareholders – Ensuring sustainable profitability, enabled by a competitive and diversified business model, disciplined underwriting and responsible financial risk-taking.

- Return Youi Australia to growth whilst maintaining a focus on underwriting discipline;
- Continued expansion of OUTsurance's commercial insurance distribution capacity;
- Refocus OUTsurance Life's product offering and steer the newly launched funeral product towards profitability;
- Optimise client experience and operational efficiency by investing in digital capabilities;
- Expand the product range to include ancillary financial services that will enable long-term earnings diversification; and
- Consider international expansion opportunities suitable to the underwriting and service model.

Employees – The unique business culture is the cornerstone of OUTsurance's success. It thrives in an environment where its people are empowered to contribute to the success of the business and serve clients with passion and excellence.

- Accelerate academic and managerial skills development to grow people and build future organisational leadership;
- Continually drive the gender and racial transformation of the management team and workforce to be representative of the societies served; and
- Enrich and grow participation in the wellness initiatives, OUTlive and YourLife.

Clients – OUTsurance is a client-centric organisation striving to achieve industry-leading client outcomes. The business philosophy is centred on value-for-money insurance and investment products underpinned by a promise of superior service.

- Improve the digital channel offering to offer more service functionality and product access;
- Grow the penetration and participation in the YouiRewards loyalty programme;
- Continually refine the claims philosophy to ensure industry-leading claims service;
- Ensure the highest level of alignment with societal expectations of fair conduct and compliance with new regulations;
- Innovate and optimise to drive incremental improvement across all client service metrics;
- Expand the commercial insurance and Australian CTP product offerings to provide clients with choice and value;
- Expand the OUTvest product offering to include retirement and single premium endowment products.

Communities – OUTsurance's supplier networks are key business partners in achieving its client service objectives. Through Staff Helping SA OUT and Youi@Hand, OUTsurance's passionate employees drive various community upliftment and support initiatives.

- Contribute constructively to South Africa's economic growth and transformation debate within the insurance sector and broader economy;
- Improve the BBBEE transformation of the supplier network through the OUTsurance Kwande programme;
- Grow the prominence and reach of the Staff Helping SA OUT and Youi@Hand initiatives through increased resource allocation; and
- Actively reduce the carbon footprint and contribute to a better environment.

2018 performance

OUTsurance delivered 22% growth in normalised earnings to R3 012 million, driven by favourable claims conditions throughout all major operations and higher associate earnings from its indirect interest in Hastings:

- Net earned premiums grew by 1% to R14.2 billion, of which the Australasian operations contributed 43%;
- The claims ratio decreased from 51.3% to 49.8%;
- The cost-to-income ratio decreased from 25.8% to 25.6%; and
- The total dividend for the year increased by 33% to 53.5 cents per share. In addition to this, OUTsurance will pay a special dividend of 7 cents per share.

OUTsurance's South African short-term operations increased normalised earnings by 7% to R1 909 million. The motor book recorded historically low premium inflation, impacted by reduced claims frequencies. The 5% higher gross written premium revenue was largely due to volume growth, as all business units delivered good policy growth. Business OUTsurance continues to benefit from the claims ratio benefitted from lower motor claims and favourable weather conditions to decrease from 49.2% to 46.9%. The cost-to-income ratio increased from 19.1% to 21.1% as a result of low premium inflation, increased IT spend and the impact of the expansion of the Business OUTsurance tied-agency force.

Youi grew normalised earnings by 39% to R803 million, driven by a favourable claims environment and cost efficiency. New business volume growth remained contained in both the Australian and New Zealand operations. Premium inflation was at a record low as premium adjustments reflected low claims cost inflation, rating optimisations and the favourable weather environment. The cost-to-income ratio reduced from 30.4% to 30.2% and the claims ratio reduced from 55.5% to 53.2%, benefitting from lower natural perils claims. Youi New Zealand generated an operating profit of R7 million on the back of reduced costs.

OUTsurance Life grew gross written premium income by 7% to R469 million amid challenging macroeconomic conditions. Normalised earnings were 53% lower at R53 million, impacted by yield volatility and higher than expected lapses.

OUTsurance Namibia increased normalised earnings by 5% to R41 million on the back of a claims ratio improvement from 53.8% to 49.7%.

Normalised earnings from **associates** increased from R32 million to R385 million, of which R333 million is attributable to the 14.7% effective stake in Hastings. The group acquired a 30% interest in AutoGuru Australia, a new Australian online car service booking platform, in February 2018.

The new SAM prudential regulations became effective on 1 July 2018. Overall, OUTsurance achieved a ratio of 2.4 (2017: 2.5) against a target of 1.2, with all operations exceeding their targets.

RMI included R2 661 million of OUTsurance's earnings in its normalised earnings (2017: R2 103 million).

For an in-depth review of OUTsurance's performance, RMI's shareholders are referred to **www.outsurance.co.za**.

OUTLOOK

OUTsurance's strategic focus includes:

- **Growing its market share and product range in Australia**
  Over the last two years, Youi's new business growth has slowed, resulting in a stagnating market share. The successful delivery of various operational improvements and product innovation can steer the business back to growth. Youi's entry into the bodily injury market has been successful and continues to grow its commercial insurance capability, which is an exciting long-term growth proposition;
- **Enhancing digital capabilities and infrastructure**
  OUTsurance has materially increased its investment in the group's technological capability and digital skills as it aims to more rapidly digitise its client experience across all products;
- **Establishing a leading tied-agent distribution capability**
  The commercial insurance strategy is the primary growth initiative of the South African operation and will continue to receive significant focus in 2019 and beyond. The agency-force is also expected to make a significant contribution to the distribution of personal lines products;
- **Grow the product footprint of OUTsurance Life**
  OUTsurance has recently entered the South African funeral insurance market, which is large, competitive and profitable. The team is also working to refocus the underwritten life operation to ensure its competitiveness and strength of its client proposition;
- **Earnings diversification**
  The disruptive threat of autonomous vehicles, ride-sharing and continuous improvements in vehicle safety is material to the size of the vehicle insurance profit pool. Although this threat is of a long-term nature, it is important that the group's future dependency on motor insurance is reduced. OUTsurance will continue to consider various opportunities to expand within the financial services sector; and
- **Regulatory environment**
  Regulatory changes within the financial services landscape remain a constant. OUTsurance remains well-positioned to adopt new regulations and to contribute positively to the design thereof.

OUTsurance remains confident that Youi's growth will recover in the short term and that it will deliver on the exciting growth initiatives of the South African operation. Expansion in the South African economy is expected to remain challenging, which, coupled with historically low premium inflation, will contain the growth prospects of the OUTsurance personal lines operation in the short term. The group will continue to maintain strict adherence to its underwriting discipline and invest in its operational capability to drive world-class client service.

RMI | INVESTMENT MANAGERS
IDENTIFY. PARTNER. GROW

ABOUT RMI INVESTMENT MANAGERS

RMI Investment Managers invests in minority equity stakes in affiliates alongside its investment teams and supports their growth as an engaged but non-interfering shareholder.

AFFILIATES

- RMI Investment Managers expanded its affiliate portfolio to include ten managers managing R105 billion across a wide range of asset classes, investment styles and client base.

ROYAL INVESTMENT MANAGERS (ROYAL)

- RMI Investment Managers, together with Royal Bafokeng Holdings, established Royal. Royal is deploying the affiliate model with a focus on acquiring asset management entities that require an empowerment partner with a strong knowledge of the asset management sector.

TEAM ESTABLISHED AND A DISTRIBUTION MODEL IN PLACE

- RMI Investment Managers' distribution and operations teams are in place with a mandate to partner and grow its affiliates. MMI is a distribution partner, enabling affiliates to access a broader client base by both size and geography, primarily in the retail market.

HOW IT WORKS

RMI Investment Managers employs an affiliate investment manager model – the first of its kind in South Africa. RMI Investment Managers' affiliate model enables the company to access a differentiated part of the investment management industry by investing in and partnering with independent investment managers, as well as specialist investment teams. RMI Investment Managers has taken minority equity stakes in boutique investment managers and will continue to evaluate opportunities that will complement RMI's existing suite of managers, as the company builds its share of the South African investment management market. This approach assists boutiques to transform from third-tier to first-tier investment managers.

LESSONS LEARNT FROM GT FERREIRA

ALIDA DE SWARDT:

"As a young dealmaker at RMB in 1999, I was struck by the inspiring leadership of our three founders and keenly observed the impact of the owner-manager entrepreneurial culture they deliberately created and lived — and how each of them brought a unique perspective to our business.

GT's distinctive leadership style manifests in his generosity of spirit and natural ability to truly connect with people from all walks of life. Anyone who has spent a minute in GT's presence knows that he's a gifted story-teller who weaves his inimitable business perspectives and wisdom into captivating analogies. His capacity to put his ego aside, focus on the business case before him, while being open to tearing up the rulebook and considering different perspectives, is a rare and formidable combination that I have been privileged to experience first-hand."

ALIDA DE SWARDT
Chief executive

RMI | INVESTMENT MANAGERS — 100% → STAND-ALONE AFFILIATES

RMI | INVESTMENT MANAGERS 70% — MMI HOLDINGS 30% → AFFILIATES WITH DISTRIBUTION PARTNER MODEL

RMI | INVESTMENT MANAGERS 49% — rbh royal bafokeng holdings 51% → BBBEE MODEL

ORIGINAL PLATFORM

Chief operating officer	Systems	Support services	Client solutions

DISTRIBUTION PLATFORM

RMI Investment Managers distribution	MMI distribution

Nearly 40% of investment management firms that started between 1990 and 2013 vanished through acquisition, merger or closure, with the average lifetime close to only five years. Reasons for this failure include lack of steadfast shareholder support, poor business models, lack of differentiation and poor investment returns.

To address this, RMI Investment Managers partners with independent investment managers in South Africa by becoming a shareholder in their businesses to help take their business to the next level. We do this by adding support through the RMI association, business acumen and strategic insight through the company's executive team and board, investment-raising capabilities through its distribution team and operational robustness and economies of scale through its operational team.

RMI Investment Managers also provides additional distribution capabilities to complement the affiliates' own distribution teams. RMI Investment Managers has started its distribution model by hiring an independent financial advisor (IFA)-focused distribution team and partnering with MMI, a distribution business that has a long history with the advisor industry. RMI Investment Managers use the insights and relationships from these sources to understand how to best service the changing advisor market.

RMI INVESTMENT MANAGERS HELPS TO ADDRESS THE CHALLENGES BOUTIQUES AND INVESTMENT TEAMS FACE

1. STRATEGIC SUPPORT
   - ALIGNMENT OF INTEREST
2. FINANCIAL SUPPORT
   - DISTRIBUTION AND MARKETING
3. OPERATIONAL

RMI Investment Managers' affiliates		Asset class: SA cash	SA credit	SA bonds	SA multi-asset	SA listed property	SA equity	Global	SA hedge funds	SA private equity
CORESHARES	Coreshares is a smart beta and passive exchange-traded fund and index fund manager. A 25% stake was acquired in Q4 2016.				✓	✓	✓	✓		
ETHOS	Ethos is an active private equity investment firm, managing investments in private equity and credit strategies in South Africa and selectively in sub-Saharan Africa. Ethos seeks to leverage its understanding of these markets to target small to mid-sized companies best positioned to benefit from the region's unique growth dynamics. RMI Investment Managers acquired a stake in Ethos in Q3 2017.									✓
GRANATE ASSET MANAGEMENT	Granate Asset Management, currently a fixed income, credit and money market active manager, was launched in April 2016.	✓	✓	✓						
NORTHSTAR ASSET MANAGEMENT	Northstar Asset Management is an active equity and multi-asset manager. A 30% stake was acquired in Q4 2015.			✓	✓		✓	✓		
Perpetua	Perpetua Investment Managers is a value equity and multi-asset manager. An option to acquire a 25% equity stake was concluded in Q4 2015.				✓		✓			
POLARSTAR MANAGEMENT	Polar Star Management is a commodity arbitrage hedge fund. A 27% equity stake was acquired in Q3 2016.							✓	✓	
SENTIO CAPITAL MANAGEMENT	Sentio Capital Management is an absolute return and active equity manager. A 30% equity stake will be acquired over a three-year period.				✓		✓		✓	
TANTALUM CAPITAL	Tantalum Capital is a multi-strategy hedge fund and absolute return-focused active asset manager. A 30% stake was acquired over a three-year period.			✓	✓				✓	
Truffle	Truffle Capital is an active equity and multi-asset manager. A 25% equity stake was acquired from RMB Structured Insurance and management in Q1 2017.			✓	✓		✓		✓	
Royal affiliates										
SESFIKILE CAPITAL Listed Property Investments	During Q4 2016, Royal Investment Managers acquired a 25% equity stake in Sesfikile Capital, an active listed property manager.					✓		✓		
BALONDOLOZI Investment Services	In December 2017, Royal Investment Managers acquired a 30% equity stake in Balondolozi Investment Services, offering quantitatively managed investment products managed on behalf of institutional and retail clients.	✓	✓	✓			✓			

✓ Affiliate has capability Passive Alternative Active

OUTLOOK

RMI Investment Managers faces a challenging South African market. However, the appetite to allocate assets to boutique managers remains in place, with a positive upward trend over the past two quarters. Many affiliates have been able to raise long-only mandates, with hedge funds remaining under pressure.

Affiliates across the portfolio remained focused on delivering good investment performance for their clients whilst continuing to strengthen their businesses with a well-diversified client base and adding to their investment and operational capabilities. RMI Investment Managers has implemented a new shareholder value map which will enhance the team's focus on six functional areas including strategic support, asset raising, thought leadership, marketing, industry 4.0 and operations, risk and finance. These aim to add targeted value to affiliates in an innovative, focused and transparent manner.

The RMI Investment Managers team is currently concentrating on the growth phase of the business, which includes the implementation of strategic growth initiatives at each affiliate. The portfolio is largely complete but the team will remain opportunistic and add potential affiliates to either solve additional or underexposure in certain asset classes or to further add value to the portfolio. RMI Investment Managers will ensure that its reputation as a trusted, value-adding but non-interfering shareholder of choice for the independent asset management industry remains a core philosophy.

ALPHA CODE

ABOUT ALPHACODE

RMI has a proud track record of seeding and backing extraordinary entrepreneurs in the financial services industry, including Adrian Gore and Barry Swartzberg from Discovery and Willem Roos and Howard Aron from OUTsurance.

RMI has recognised that the core business of its underlying portfolio companies is now, more than ever, being influenced by a new generation of disruptive ventures and visionary entrepreneurs given the rise of shaping forces such as technology, social media and the emerging millennial consumer.

As a result, RMI is actively seeking to fund and scale new and disruptive business models. In order to facilitate this, RMI launched AlphaCode in 2015, its incubation, acceleration and investment vehicle that identifies, partners and grows next-generation financial services entrepreneurs. AlphaCode provides seed and growth capital to new disruptive ventures as well as significant entrepreneurial support in the form of co-working office space, structured mentorship programmes, networking events and thought leadership.

NEXT-GENERATION FINANCIAL SERVICES

AlphaCode's goal is to find extraordinary people with extraordinary ideas that have the potential to transform the financial services landscape. Over the last year, AlphaCode has had success in partnering these next-generation businesses with its underlying portfolio companies to drive innovation and modernisation as well as building an investment portfolio of superior entrepreneur-led, early-stage fintech-focused businesses that have achieved some market traction and are poised for rapid growth.

During the year under review, AlphaCode participated in a large capital raise in Prodigy Finance, an international fintech platform that offers loans to postgraduate students accepted into business, engineering and law at the world's top universities, alongside one of Europe's leading venture capital fintech investors, Index Ventures and Balderton Capital. In August 2017, RMI invested in Luno, a crypto-currency platform that enables over 2 million clients to buy, sell and store Bitcoin and Ethereum. Luno is a global platform with operations in South Africa, Nigeria, Malaysia, Singapore and 35 countries across Europe.

AlphaCode has a strong pipeline of investment opportunities and will continue to invest in this next-generation financial services space.

After year-end, Andile Maseko was appointed as the new AlphaCode eco-system manager. Dominique Collett is the RMI senior investment executive responsible for the AlphaCode portfolio.

STRATEGY IN ACTION

MODERNISE

TECH TRENDS

The most significant transformative force in financial services today is technology, closely followed by the millennial consumer with different needs and new expectations. Technology, regulation, consumer behaviour and cyber crime will all fundamentally alter the financial services landscape in the near future. The millennial consumer, with rapidly changing needs and demands, represents a dramatically changing consumer for banks: 33% of millennials believe they won't need a bank in five years, while 50% are counting on start-ups to overhaul the banking landscape. While these clients are savvy and communicative and leave a digital footprint, the ethics around the use of client data remains a grey area. Newer entrants have a distinct advantage in their ability to analyse and utilise data, even though they may have less of it. Social media, mobile, data analytics and cloud banking, otherwise known as the Tech SMAC stack, are all issues which both incumbent financial services providers and newer entrants need to consider in a rapidly changing ecosystem.

Social media is a useful platform to market to and understand people and can reduce the cost of client acquisition, and the advent of mobile has seen the rise of the omni-digital banking consumer who is comfortable to transact over the platform. However, they still expect the service and engagement levels of traditional banking.

COLLABORATION MODEL

Fintech is on the rise globally due to its focus, the cost/benefit disruption to newer systems and the fact that they are driven by hungry entrepreneurs. However, newer entrants don't have effective distribution channels, established brands or regulated platforms. Therefore, collaboration opportunities between financial services incumbents and fintech offerings would deliver these clever, agile and cheaper solutions to the market, whilst providing the key elements the new entrants lack. The majority of fintech start-ups are enablers in the value chain that are not trying to build disruptive businesses. 25% are complementary, while only a small minority are in fact trying to build new businesses. Collaboration is important as it brings the better of the two worlds together.

Possible models for collaboration include a consortium or an equity driven partnership, or participation in entrepreneurial programmes such as AlphaCode Incubate and Accelerate.

Participants in the 2017 AlphaCode Incubate programme.

OBSTACLES TO FINTECH ADOPTION IN SOUTH AFRICA

South Africa has the potential to be a good playground for fintech due to its combination of being a high-end and a developing market, but it has been slow to change and adopt advances. This is partly due to the already sophisticated financial services sector, a lack of skills and fear of failure. The established banking system makes it difficult for new entrants to gain a foothold in the market. The stringent regulatory environment, which had protected the South African financial system from extended exposure to the 2008 financial crisis, is unlikely to be relaxed.

ALPHACODE'S STRATEGIC INITIATIVES

AlphaCode is committed to supporting and transforming the broader entrepreneurial sector in South Africa and developing and nurturing its own investment pipeline by supporting high-impact next-generation financial services entrepreneurs, with a strong emphasis on partnering with young, black entrepreneurs. As part of this commitment, AlphaCode launched three new programmes to identify, partner and grow entrepreneurs at all stages of their journey:

AlphaCode Explore, in partnership with the Explore Data Science Academy, is a fully-sponsored and tailored 12-month learnership programme which will develop and upskill 20 data scientists and enable them to build and proto-type fintech businesses. The students will spend six months learning the theory behind starting a 10x data driven, fintech business and six months working in small groups to develop a compelling business idea to pitch to the AlphaCode team for participation in the AlphaCode Incubate programme.

AlphaCode Incubate seeks to identify and partner courageous entrepreneurs with disruptive financial services business models and prepare them for their next phase of growth through leveraging RMI's scale and access to capital.

AlphaCode will select eight businesses to participate in AlphaCode Incubate, each of which will be awarded a R2 million entrepreneurial package: R1 million in grant funding and R1 million in support, including dedicated technology and business mentorship, exclusive office space in Sandton, marketing, legal and other business support services as well as access to RMI's networks. The programme is open to businesses across the financial spectrum including payments, insurance, savings and investments, advisory, data analytics and blockchain. The businesses must be no older than two years and must be at least 51% black-owned and managed. In partnership with Bank of America Merrill Lynch South Africa and Royal Bafokeng Holdings, AlphaCode Incubate has disbursed R13 million to 15 black-owned businesses over the last three years. Five of the recipients had female founders.

Previous participants of AlphaCode Incubate include Isazi Consulting, a machine learning business which used the funds to build a data visualisation tool and made a 266% return on the investment. Another beneficiary, Livestock Wealth, has been able to attract a global audience. They joined the programme having sold ten cows and have now sold more than 1 400, and have also been able to attract additional funding.

AlphaCode Accelerate is a 24-month scale-up programme that provides mentorship, expert guidance and support services to financial services businesses in the growth phase, on the path to scale and are chasing a big opportunity with an innovative offering and a significant moat. Four companies were selected for the inaugural programme Entersekt, Livestock Wealth, Click2Sure and Invoice Worx. The programme will provide access to top-class mentors and industry experts, impactful content and workshops and the opportunity to engage meaningfully with the RMI team to prime these businesses for future potential investment opportunities.

"Competitive and skillful to a fault but never unfair or greedy! Those are the values that he insisted be applied throughout the group right from its genesis. I was privileged to witness these proud character traits for all of 40 years as a fellow board member and one-time work colleague. GT is an extraordinary gentleman, of that there can be little doubt."

PAT GOSS

four

Corporate governance and sustainability

Corporate governance report

RMI is committed to the highest standards of ethics and corporate governance.

The Companies Act places certain duties on directors and determines that they should apply the necessary care and skill in fulfilling their duties. To ensure that this is achieved, the board applies best practice principles, as contained in King IV, where appropriate. As a JSE-listed entity, RMI also complies with the JSE Listings Requirements.

KING IV – APPLIED AND EXPLAINED

Principle	Applied	Explanation
OUTCOME: ETHICAL CULTURE		
The board leads ethically and effectively.	Yes	RMI's board of directors is its governing body. The directors hold one another accountable for decision-making and behave ethically, as characterised in King IV. The chairman is tasked to monitor this as part of his duties. The results of the performance assessment of individual directors in respect of the ethical characteristics they demonstrated was satisfactory. The board will make an ongoing assessment to ensure that the ethical characteristics demonstrated by the individual directors are continued.
The board governs the ethics of RMI in a way that supports the establishment of an ethical culture.	Yes	The board has a fiduciary duty to act in good faith, with due care and diligence and in the best interests of the group and its stakeholders. It is the primary body responsible for the corporate governance values of the group. Whilst control is delegated to management in the day-to-day management of the group, the board retains full and effective control over the group. A formal board charter, as recommended by King IV, has been adopted. All directors subscribe to a code of ethics. The code deals with duties of care and skill, as well as those of good faith, including honesty, integrity and the need to always act in the best interests of the company. Procedures exist in terms of which unethical business practices can be brought to the attention of the board by directors or employees. RMI's values of commitment, integrity, responsibility, innovation and connectivity guide the behaviour of how everyone goes about their daily duties. The code of ethics guides the ethical behaviour of all RMI employees. This includes interaction between colleagues, with investees, shareholders, clients, suppliers and the communities within which the company operates.
The board ensures that RMI is and is seen to be a responsible corporate citizen.	Yes	The board is the guardian of the values and ethics of the group and ensures that it is seen as a responsible corporate citizen. The responsibility for monitoring the overall responsible corporate citizenship performance of the organisation was delegated to the social, ethics and transformation committee by the board. Refer to the report of the social, ethics and transformation committee on **page 89** for more detail on how RMI addressed responsible citizenship.

Principle	Applied	Explanation
OUTCOME: PERFORMANCE AND VALUE CREATION		
The board appreciates that RMI's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	Yes	The board's paramount responsibility is to ensure that RMI creates value for its shareholders. In so doing, it takes into account the legitimate interests and expectations of stakeholders, which include the present and potential future investors in RMI. This integrated report demonstrates how performance is achieved through the strategic initiatives. RMI sets and achieves its strategic initiatives with reference to its risks and opportunities. The board assesses both the positive and negative outcomes resulting from its business model continuously and responds to it. Refer to RMI's business model and explanation of how the inseparable elements of the value creation process are linked, which is summarised on **pages 10** and **11**.
The board ensures that reports issued by RMI enable stakeholders to make informed assessments of RMI's performance and its short, medium and long-term prospects.	Yes	The board is also responsible for formulating its communication policy and ensuring that spokespeople of the company adhere to it. This responsibility includes clear, transparent, balanced and truthful communication to shareholders and relevant stakeholders. In its interim and integrated reports to stakeholders, RMI details both its historical performance and future outlook. These reports, together with further information in those and other communications, enable stakeholders to make informed assessments of RMI's prospects. RMI's ability to create value in a sustainable manner is illustrated throughout its business model. See **page 29** for RMI's five-year historical performance and **page 30 to 33** for its detailed performance over the past year. See **page 28** for RMI's outlook for the future.
OUTCOME: ADEQUATE AND EFFECTIVE CONTROL		
The board serves as the focal point and custodian of corporate governance in RMI.	Yes	The board's roles and responsibilities and the way that it executes its duties and decision-making are documented and are set out in the board charter. The board meets once every quarter. Should an important matter arise between scheduled meetings, additional meetings may be convened. Before each board meeting, an information pack, which provides background information on the performance of the group for the year-to-date and any other matters for discussion at the meeting, is distributed to each board member. At their meetings, the board considers both financial- and non-financial, or qualitative, information that might have an impact on stakeholders. Details of the board meetings held during the year ended 30 June 2018, as well as the attendance at the board meetings by individual directors, are disclosed on **page 70**. RMI has an "owner-manager" culture, which has been inculcated at every business in which it is invested. Whilst RMI's board is responsible for the maintenance of sound corporate governance, it believes that implementation is best managed at an investee company level. Investee companies therefore have their own governance structures, including boards of directors, executive teams and board committees that monitor operations and deal with governance and transformation-related issues. RMI has board representation at all investee companies and influences the governance and transformation-related issues through this strategic position.

Principle	Applied	Explanation
The board comprises the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	Yes	The board, with the assistance of the remuneration and nominations committees, considers, on an annual basis, its composition in terms of balance of skills, experience, diversity, independence and knowledge and whether this enables it to effectively discharge its roles and responsibilities. The board is satisfied that there is a balance of skills, experience, diversity, independence and knowledge needed to discharge its roles and responsibilities. The board has taken steps to strengthen its succession plan to also include an immediate and interim succession plan in the event of an unforeseen event. RMI has a unitary board with a non-executive director as chairman. The chairman is not independent, as defined in the JSE Listings Requirements. However, the board believes that Jannie Durand's specialist knowledge of the financial services industry makes it appropriate for him to hold this position. Murphy Morobe is the lead independent non-executive director. Seven of the 13 non-executive directors as at 30 June 2018 are independent. RMI believes that all board members are suitably qualified and that the composition of the board is in the best interests of all stakeholders, without prejudice to them. The roles of chairman and chief executive are separate and the composition of the board ensures a balance of authority, precluding any one director from exercising unfettered powers of decision-making. The directors are individuals of a high calibre with diverse backgrounds and expertise, facilitating independent judgment and broad deliberations in the decision-making process. New directors are subject to a "fit and proper" test. An informal orientation programme is available to incoming directors. No director has an automatic right to a position on the board. All directors are required to be elected by shareholders at an annual general meeting. In a general meeting, the company may appoint any person to be a director, subject to the provisions of the memorandum of incorporation. Non-executive directors retire by rotation every three years and are eligible for re-election. Re-appointment of non-executive directors is not automatic. The retirement age of the non-executive directors is set at 70. The boards of RMI's major investments are similarly constituted with the necessary mix of skills, experience and diversity. There is also an appropriate mix between executive and non-executive appointments. RMI believes that investee companies have a strong pipeline of executives whose natural career progression would be to serve on the RMI board. The policy on promotion of race and gender diversity is included in the nominations committee charter which requires that, when appointing new directors, the board takes cognisance of its needs in terms of different skills, experience, cultural and gender diversity, size and demographics. Whilst no specific targets have been set, the board is committed to increasing its gender and race diversity at board and top management level. For details of directors' full names, their dates of appointment and other listed directorships as well as a brief career and sphere of influence synopsis of each of the directors, refer to **pages 72 to 77**.

Principle	Applied	Explanation
The board ensures that its arrangements for delegation within its own structures promote independent judgment, and assist with balance of power and the effective discharge of its duties.	Yes	The board established six sub-committees to assist the directors in fulfilling their duties and responsibilities. Each committee has a formal charter and reports to the board at regular intervals. The charters, which set out the objectives, authority, composition and responsibilities of each committee, have been approved by the board. All the committees are free to take independent outside professional advice, as and when required, at the expense of the company. Membership of the committees is as recommended in King IV. The composition of the committees of the board and the distribution of authority between the chairman and other directors is balanced and does not lead to instances where individual(s) dominate decision-making within governance structures or where undue dependency is caused. See **page 70** for the members of each committee. It is not a requirement in terms of either the memorandum of incorporation or the board charter that directors own shares in the company. Directors' interests in the ordinary shares of the company are disclosed on **page 102**. The audit and risk committee is satisfied that the auditor is independent and the auditor firm has been appointed with the designated partner having oversight of the audit. The financial director is the head of the finance function and he has a senior manager reporting to him. Internal audit is fully outsourced and the financial director is responsible for overseeing and co-ordinating the effective functioning of the outsourcing arrangement. An assessment of the effectiveness of the financial director function is performed annually by the audit and risk committee.
The board ensures that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.	Yes	After evaluating their performance in terms of their respective charters, the directors are of the opinion that the board and the sub-committees have discharged all their responsibilities. Assessments of the performance of the chief executive are conducted annually and no major issues or concerns have been identified. The board can confirm, after consideration of a checklist, that it is satisfied that the company secretary: • Is competent, suitably qualified and experienced; • Has the requisite skills, knowledge and experience to advise the board on good governance; • Maintains an arm's-length relationship with the board of directors; and • Has discharged his responsibilities for the year under review.

Principle	Applied	Explanation
The board ensures that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.	Yes	In terms of its formal charter, the board's responsibilities include the appointment of the chief executive and the approval of corporate strategy, risk management and corporate governance. The board reviews and approves the business plans and monitors the financial performance of the group and implementation of the strategies. Board members have full and unrestricted access to management and all group information and property. They are entitled, at the cost of the group, to seek independent professional advice in the fulfilment of their duties. Directors may meet separately with management, without the attendance of executive directors. A detailed delegation of authority policy and framework indicate matters reserved for the board and those delegated to management. The board is satisfied that RMI is appropriately resourced and that its delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised. The chief executive has an employment contract that can, subject to fair labour practices, be terminated upon one month's notice. In terms of the memorandum of incorporation, the retirement age of an executive director is 60, but the board has the discretion to extend it to 65. The chief executive does not have any work commitments outside of RMI and its related companies. A succession plan for the chief executive is in place. The company secretary is Schalk Human, MCom (Accounting), CA(SA). The company secretary is appointed on a full-time basis with the requisite knowledge, experience and stature. All directors have unlimited access to his services and he is responsible to the board for ensuring that proper corporate governance principles are adhered to, including signing off on disclosure of membership of board structures, the number of meetings of each and attendance at each meeting as well as the overall content of the committee information and reporting that are in the public domain. He is not a director of RMI.
The board governs risk in a way that supports RMI in setting and achieving its strategic objectives.	Yes	The audit and risk committee assists the board with the governance of risk. The board is aware of the importance of risk management as it is linked to the strategy, performance and sustainability of RMI. The audit and risk committee implements a process whereby risks to the sustainability of the company's business are identified and managed within acceptable parameters. The audit and risk committee delegates the duty to management to continuously identify, assess, mitigate and manage risks within the existing and ever-changing risk profile of RMI's operating environment. Mitigating controls are formulated to address the risks and the board is kept up to date on progress on the risk management plan. See **page 16** for an overview of the risks to value creation in RMI.
The board governs technology and information in a way that supports RMI in setting and achieving its strategic objectives.	Yes	The audit and risk committee assists the board with the governance of information technology. The board is aware of the importance of technology and information as it is inter-related to the strategy, performance and sustainability of RMI.
The board governs compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports RMI being ethical and a good corporate citizen.	Yes	There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations.
The board ensures that RMI remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	Yes	RMI remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner. See the remuneration report on **page 83**. The individual directors' remuneration is disclosed, but not the salaries of the three highest earners who are not directors. RMI believes that this disclosure is sufficient and appropriately demonstrates alignment between remuneration and shareholders' return.
The board ensures that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of RMI's external reports.	Yes	The board is satisfied that assurance results in an adequate and effective control environment and integrity of reports for better decision-making. See **page 97** for information on assurance contained in the audit and risk committee's report.
OUTCOME: TRUST, GOOD REPUTATION AND LEGITIMACY		
In the execution of its governance role and responsibilities, the board adopts a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of RMI over time.	Yes	RMI has identified its stakeholder groups and actively balances their legitimate and reasonable needs, interests and expectations. See **page 14** for information on stakeholder relationships and engagements.
The board ensures that responsible investment is practiced by RMI to promote the good governance and the creation of value by the companies in which it invests.	Yes	RMI ensures, through active participation and representation, that it exercises its rights and obligations with regard to its investee companies.

ATTENDANCE AND BOARD COMMITTEE MEMBERSHIP

Attendance at the board and committee meetings was as follows:

	Board	Audit and risk committee	Directors' affairs and governance committee	Investment committee	Nominations committee	Remuneration committee	Social, ethics and transformation committee
Non-executive directors							
GT Ferreira (chairman until 31 March 2018)	C 3 of 3		3 of 3	4 of 4	3 of 3		
Jannie Durand (chairman from 31 March 2018)	C 4 of 4		4 of 4	5 of 5	4 of 4	2 of 2	
Peter Cooper	4 of 4		4 of 4	5 of 5	4 of 4		
Laurie Dippenaar	4 of 4		4 of 4	5 of 5	4 of 4		
Paul Harris	4 of 4		4 of 4	5 of 5	4 of 4		
Albertinah Kekana	4 of 4		4 of 4	5 of 5	4 of 4		
Obakeng Phetwe	2 of 4		2 of 4		2 of 4		
Independent non-executive directors							
Johan Burger	4 of 4		4 of 4	C 5 of 5	4 of 4	2 of 2	
Sonja de Bruyn	3 of 4	2 of 2	3 of 4		3 of 4	C 2 of 2	2 of 2
Jan Dreyer	3 of 3	C 2 of 2	3 of 3		3 of 3		1 of 1
Pat Goss	3 of 3		C 3 of 3		C 3 of 3		
Per Lagerström	4 of 4	2 of 2	4 of 4		4 of 4		2 of 2
Mamongae Mahlare	1 of 1		1 of 1		1 of 1		
Murphy Morobe	4 of 4		C 4 of 4		C 4 of 4		C 1 of 1
Ralph Mupita	1 of 1		1 of 1		1 of 1		
Khehla Shubane	3 of 3		3 of 3		3 of 3		
James Teeger	1 of 1		1 of 1		1 of 1		
Executive director							
Herman Bosman	4 of 4			5 of 5			
See the committee's report on page		96	78	80	81	82	89

Directors

RMI's board epitomises its ethical values. The members are highly skilled and vastly experienced, enabling them to oversee enduring value creation.

Non-executive chairman

1 Jan Jonathan (Jannie) Durand (51)

Chief executive and financial director

2 Hermanus Lambertus (Herman) Bosman (49)

Independent non-executive directors

3 Johan Petrus (Johan) Burger (59)

4 Sonja Emilia Ncumisa (Sonja) de Bruyn (46)

5 Per-Erik (Per) Lagerström (54)

6 Matsotso Mamongae (Mamongae) Mahlare (43)

7 Mafison Murphy (Murphy) Morobe (61)

8 Ralph Tendai (Ralph) Mupita (46)

9 James Andrew (James) Teeger (51)

Non-executive directors

10 Peter Cooper (62)

11 Lauritz Lanser (Laurie) Dippenaar (69)

12 Paul Kenneth (Paul) Harris (68)

13 Albertinah Kekana (45)

14 Obakeng Phetwe (40)

Alternate non-executive directors

15 David Andrew Frankel (47)

16 Francois (Faffa) Knoetze (55)

17 David Ronald (David) Wilson (48)

1 Jan Jonathan (Jannie) Durand (51)

BAcc (Hons) MPhil (Oxford) CA(SA)

Non-executive chairman

COMMITTEES

APPOINTED
8 December 2010

Jannie studied at the University of Stellenbosch and after obtaining his BAcc degree in 1989 and BAcc (Hons) degree in 1990, he obtained his MPhil (Management Studies) degree from Oxford in 1992. He qualified as a chartered accountant in 1995.

He joined the Rembrandt Group in 1996. He became financial director of VenFin Limited in 2000 and chief executive in May 2006. Jannie was appointed chief investment officer of Remgro Limited in November 2009 and chief executive from 7 May 2012.

OTHER LISTED DIRECTORSHIPS
- Distell Group Limited;
- FirstRand Limited;
- Mediclinic International Limited;
- RCL Foods Limited;
- Remgro Limited (chief executive); and
- RMB Holdings Limited (chairman).

2 Hermanus Lambertus (Herman) Bosman (49)

BCom (Law) LLM CFA

Chief executive and financial director

COMMITTEES

APPOINTED
2 April 2014

Herman was with RMB for 12 years and ultimately headed up its corporate finance practice between 2000 and 2006. He returned to the group in 2014 after serving as chief executive of Deutsche Bank South Africa from 2006 to 2013.

OTHER LISTED DIRECTORSHIPS
- Discovery Limited;
- FirstRand Limited;
- Hastings Group Holdings plc; and
- RMB Holdings Limited (chief executive).

3 Johan Petrus (Johan) Burger (59)

BCom (Hons) CA(SA)

Independent non-executive director

COMMITTEES
(chair)

APPOINTED
30 June 2014

Johan joined RMB in 1986, where he performed a number of roles before being appointed financial director in 1995. Following the formation of FirstRand Limited in 1998, he was appointed financial director of the FirstRand banking group and in 2002 was appointed CFO of the FirstRand group. In addition to his role as group CFO, Johan was appointed as group COO in 2009 and deputy chief executive in October 2013. He was appointed as chief executive in October 2016 and held this role until March 2018.

OTHER LISTED DIRECTORSHIPS
- FirstRand Limited; and
- RMB Holdings Limited.

4 Sonja Emilia Ncumisa (Sonja) de Bruyn (46)

LLB (Hons) LSE MA (McGill) SFA (UK) Executive Leadership Programme (Harvard)

Independent non-executive director

COMMITTEES
(chair) (chair)

APPOINTED
8 December 2010

Sonja is a principal partner of Identity Partners, an investment firm which holds equity investments, carries out advisory work and facilitates finance for SMEs by the Identity Development Fund. Sonja's areas of study included law, business and economics, which served her well as vice president of Mergers and Acquisitions and Corporate Finance of the investment banking division of Deutsche Bank. She played an integral part in WDB Investment Holdings participating in FirstRand's BBBEE transactions.

OTHER LISTED DIRECTORSHIPS
- Discovery Limited;
- Remgro Limited; and
- RMB Holdings Limited.

5 Per-Erik (Per) Lagerström (54)

BSc (Accounting) MSc (Economics) (London School of Economics)

Independent non-executive director

COMMITTEES

APPOINTED
30 June 2014

Per is the co-founder of the Energos group, specialists in big data solutions for human capital. Previously he was a partner at McKinsey & Company where he headed up the Financial Services Sector and the Organisation Practice.

OTHER LISTED DIRECTORSHIP
- RMB Holdings Limited.

6 Matsotso Mamongae (Mamongae) Mahlare (43)

BSc (Chemical Engineering) MBA (Harvard)

Independent non-executive director

COMMITTEES

APPOINTED
31 March 2018

Mamongae is the managing director of Illovo Sugar SA. Previously she was head of alternate beverages at Coca Cola Beverages South Africa, held various positions at SABMiller's operations in Tanzania and Mozambique and was an associate consultant at Bain & Company.

OTHER LISTED DIRECTORSHIP
- RMB Holdings Limited.

7 Mafison Murphy (Murphy) Morobe (61)

Diploma in Project Management MCEF (Princeton)

Lead independent director

COMMITTEES
(chair) (chair) (chair)

APPOINTED
1 August 2014

After finishing a seven-year stint as chief executive of Kagiso Media Limited, Murphy assumed the role of chairman and national director of the Programme to Improve Learner Outcomes (PILO) in 2013. PILO is currently a lead service provider to the National Education Collaboration Trust. As a committed social and development activist, Murphy has since his release from Robben Island in 1982, continued to involve himself with various social causes, mainly relating to youth development, environment and conservation, apart from roles in the public service which included being chairman of the Financial and Fiscal Commission (1994 – 2004) and other roles in the private sector. He also serves on the boards of directors of WWF-SA, the Steve Biko Foundation and City Year South Africa.

OTHER LISTED DIRECTORSHIPS
- Remgro Limited; and
- RMB Holdings Limited.

8 Ralph Tendai (Ralph) Mupita (46)

BSc (Engineering) (Hons) MBA GMP (Harvard)

Independent non-executive director

COMMITTEES

APPOINTED
31 March 2018

Ralph is the chief financial officer and an executive director of MTN. He is the past chief executive of Old Mutual Emerging Markets covering life insurance, asset management, general insurance, lending and banking businesses in Africa, Latin America and Asia.

OTHER LISTED DIRECTORSHIPS
- MTN Group Limited; and
- RMB Holdings Limited.

KEY
- Audit and risk committee
- Directors' affairs and governance committee
- Investment committee
- Nominations committee
- Remuneration committee
- Social, ethics and transformation committee

9 James Andrew (James) Teeger (51)

BCom BAcc CA(SA) HDip Tax

Independent non-executive director

COMMITTEES

APPOINTED
31 March 2018

James leads the investment activities of the Oppenheimer family. He was previously a director of De Beers and spent 12 years at RMB where he held the position of co-head of structured finance.

OTHER LISTED DIRECTORSHIP
- RMB Holdings Limited.

10 Peter Cooper (62)

BCom (Hons) CA(SA) HDip Tax

Non-executive director

COMMITTEES

APPOINTED
8 December 2010

Peter graduated from the University of Cape Town. After qualifying as a chartered accountant in 1981, he worked in the financial services sector, first as a tax consultant and later specialising in structured finance. Peter joined RMB's Special Projects division in 1992 and transferred to RMH in 1997. He is the immediate past chief executive of RMI, as well as its sister company, RMH.

OTHER LISTED DIRECTORSHIPS
- Imperial Holdings Limited;
- MMI Holdings Limited; and
- RMB Holdings Limited.

11 Lauritz Lanser (Laurie) Dippenaar (69)

MCom CA(SA)

Non-executive director

COMMITTEES

APPOINTED
8 December 2010

Laurie was a co-founder of RCI in 1977. He became an executive director of RMB in 1985 and managing director of RMB in 1988, a position he held until 1992 when RMH acquired a controlling interest in Momentum. He served as executive chairman of Momentum from 1992 until the formation of FirstRand in 1998. He was appointed as the first chief executive of FirstRand and held this position until the end of 2005, when he assumed a non-executive role. He was chairman of FirstRand from November 2008 until 31 March 2018. He is the non-executive chairman of OUTsurance.

OTHER LISTED DIRECTORSHIP
- RMB Holdings Limited.

12 Paul Kenneth (Paul) Harris (68)

MCom

Non-executive director

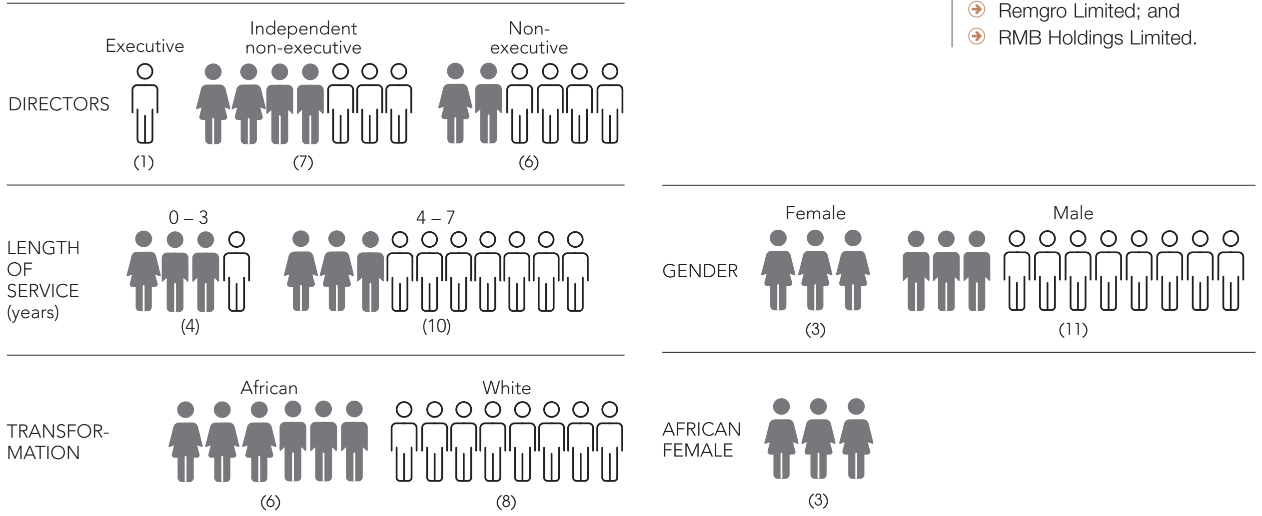
COMMITTEES

APPOINTED
8 December 2010

Paul was a co-founder of RCI in 1977 and became an executive director of RMB in 1985. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 as deputy managing director of RMB. In 1992 he took over as chief executive. Subsequent to the formation of FirstRand, he was appointed as chief executive of FirstRand Bank Holdings in 1999, a position he held until December 2005 when he was appointed as chief executive of FirstRand. He retired from his executive position at the end of December 2009 and remained on the board of FirstRand until April 2018.

OTHER LISTED DIRECTORSHIPS
- Remgro Limited; and
- RMB Holdings Limited.

COMPOSITION OF THE BOARD AS AT 30 JUNE 2018



13 Albertinah Kekana (45)

BCom (Hons) CA(SA) PGDA AMP (Harvard)

Non-executive director

COMMITTEES

APPOINTED
6 February 2013

Albertinah Kekana is the chief executive of Royal Bafokeng Holdings Proprietary Limited. She has extensive asset management, investment banking and business leadership experience. She was previously the COO of the Public Investment Corporation.

OTHER LISTED DIRECTORSHIP
- RMB Holdings Limited.

14 Obakeng Phetwe (40)

BCom (Hons) CA(SA)

Non-executive director

COMMITTEES

APPOINTED
6 February 2013

Obakeng is the chief executive of the Royal Bafokeng Nation Development Trust, which holds all the commercial assets on behalf of the Royal Bafokeng Nation.

OTHER LISTED DIRECTORSHIP
- RMB Holdings Limited.

15 David Andrew Frankel (47)

BSc (Electrical Engineering) (Hons) MBA (Harvard)

Alternate non-executive director

COMMITTEES

APPOINTED
31 March 2018

David is managing partner and co-founder of Founder Collective. He was co-founder and chief executive of Internet Solutions and served on the board of Dimension Data plc. He has served on the board of RMB since 2007.

OTHER LISTED DIRECTORSHIP
- RMB Holdings Limited (alternate).

16 Francois (Faffa) Knoetze (55)

BCom (Hons) FIA

Alternate non-executive director

COMMITTEES

APPOINTED
1 April 2016

Faffa graduated from the University of Stellenbosch in 1984 and became a fellow of the Actuarial Society of South Africa in 1992.

After starting his actuarial career at Sanlam as a marketing actuary in the life business, he spent most of his working career at Alexander Forbes, where he was the valuator and consulting actuary to a number of pension and provident funds.

He joined Remgro on 2 December 2013 and focuses on the company's interests in the financial services (insurance and banking) and sport industries.

OTHER LISTED DIRECTORSHIPS
- FirstRand Limited; and
- RMB Holdings Limited (alternate).

17 David Ronald (David) Wilson (48)

BCom Accounting CA(SA)

Alternate non-executive director

COMMITTEES

APPOINTED
1 April 2016

David is a chartered accountant by profession and is currently employed by Royal Bafokeng Holdings (RBH) as head of portfolio. He is a director of Royal Bafokeng Platinum Limited, representing RBH. Prior to joining RBH, he was a director and head of mergers and acquisitions for sub-Saharan Africa at Deutsche Bank, South Africa. Before joining Deutsche Bank in 2004, he was an associate director, corporate finance at HSBC, South Africa and vice-president, corporate finance at ING Barings, South Africa.

OTHER LISTED DIRECTORSHIPS
- RMB Holdings Limited (alternate); and
- Royal Bafokeng Platinum Limited.

KEY
- Audit and risk committee
- Directors' affairs and governance committee
- Investment committee
- Nominations committee
- Remuneration committee
- Social, ethics and transformation committee

Directors' affairs and governance committee report

The directors' affairs and governance committee has pleasure in submitting its report:

DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE MEMBERSHIP AND MEETINGS

The committee consists of all the non-executive directors. The committee is chaired by the lead independent non-executive director. The committee meets at least twice annually with additional meetings when required at the request of the board or any committee member or as often as it deems necessary to achieve its objectives. Comprehensive minutes of meetings are kept. The committee may invite any professional advisors or officers whose input may be required at the meetings. The chairman may excuse any of the attendees at a meeting or part thereof who may be considered to have a conflict of interest, or for confidentiality reasons.

As all non-executive directors are members of this committee, matters relating to the charter of this committee are normally dealt with as an integral part of the normal proceedings of the quarterly board meetings. It is usual for the chief executive to excuse himself from the meeting. The committee met four times during the year.

Attendance and membership of the committee are reflected in the table on **page 70**.

ROLES AND RESPONSIBILITIES

The committee's primary objectives are to assist the board in discharging its responsibilities relative to:

- Its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structures in the company;
- Board and board committee structures;
- The maintenance of a board directorship continuity programme;
- The self-assessment of the effectiveness of the board as a whole and of the contribution of each director; and
- Ensuring that succession plans are in place for the key positions in the greater group.

GOVERNANCE EFFECTIVENESS

During the year under review, the board conducted evaluations to measure its effectiveness and that of its members. The evaluations found no material concerns in respect of the board and board committee performance. The directors are aware of the need to convey to the chairman any concerns that they might have in respect of the performance and conduct of their peers. The performance of the chief executive is also formally evaluated at least once per year.

ETHICS

Upon joining the group, all directors are obliged to sign a code of ethics. The code of ethics addresses duties of care and skill, good faith, honesty and integrity, whistle blowing, processes for dealing with conflicts of interest and the need to always act in the best interests of the group. The soliciting or acceptance of payments other than declared remuneration, gifts and entertainment as consideration to act or fail to act in a certain way, is not allowed. The group does not make political donations.

No issues of improper or unethical behaviour on the part of any of the directors were brought to the attention of the committee during the year.

This committee oversees enduring value creation and safeguarding of the following forms of capital:

HUMAN	INTELLECTUAL

CONFLICTS

Mechanisms are in place to recognise, respond to and manage any potential conflicts of interest. Directors are required to sign a declaration stating that they are not aware of any undeclared conflicts of interest that may exist due to their interest in, or association with any other company. In addition, directors disclose interests in contracts that are of significance to the group's business and do not participate in the voting process in respect of these matters.

All information acquired by directors in the performance of their duties, which is not disclosed publicly, is treated as confidential. Directors may not use, or appear to use, such information for personal advantage or for the advantage of third parties.

All directors of the company are required to comply with the code of conduct and the JSE Listings Requirements regarding inside information, transactions and disclosure of transactions.

DEALINGS IN SECURITIES

In accordance with the JSE Listings Requirements, the company adopted a code of conduct to avoid insider trading. During the closed periods (as defined), directors and designated employees are prohibited from dealing in the company's securities. Outside closed periods, directors and designated employees may only deal in the company's securities with the authorisation of the chairman of the board. The closed periods last from the end of a financial reporting period until the publication of financial results for that period. Additional closed periods may be declared from time to time if circumstances warrant it.

DIRECTORS' INTERESTS IN ORDINARY SHARES

The directors have disclosed their direct and indirect beneficial shareholdings in the company.

The directors' report on **page 102** contains a table of all directors' interests in the ordinary shares of the company.

ACTIVITIES OF THE COMMITTEE DURING THE PAST YEAR

During the year under review, the committee has discharged all its responsibilities as contained in its charter and explained in this report.

FOCUS OF THE COMMITTEE DURING THE COMING YEAR

- Review of the board and committee charters and structures to ensure adherence to latest corporate governance practices and requirements;
- Update board self-assessments in line with best practice;
- Review of RMI's code of ethics;
- Identify any board training needs; and
- Ensuring that all responsibilities in terms of the committee charter have been discharged.

Murphy Morobe
Chairman of the directors' affairs and governance committee

11 September 2018

Investment committee report

This committee oversees enduring value creation and safeguarding of the following forms of capital:

FINANCIAL INTELLECTUAL

The investment committee reports as follows:

INVESTMENT COMMITTEE MEMBERSHIP AND MEETINGS

The investment committee meets on an ad hoc basis. The committee may invite any of the directors, professional advisors or officers whose input may be required to the meetings. Board members have the right of attendance. The chairman may excuse any of the attendees at a meeting or part thereof who may be considered to have a conflict of interest, or for confidentiality reasons. The committee met five times during the year.

Attendance and membership of the committee are reflected in the table on **page 70**.

ROLES AND RESPONSIBILITIES

The committee is mandated to consider and, if appropriate approve:

- New investments up to R500 million;
- The extension of existing investments up to R500 million;
- The disposal of existing investments up to R300 million; and
- To consider and make recommendations to the board regarding investments falling outside the scope of the committee's mandate.

ACTIVITIES DURING THE PAST YEAR

During the year under review, the committee has discharged all its responsibilities as contained in its charter and described in this report. The committee evaluated various investment proposals, which were either approved, recommended to the board for approval or declined.

FOCUS DURING THE COMING YEAR

The investment committee will continue to evaluate investment opportunities as presented by management and act within its mandate depending on the investment size of the proposal.

Johan Burger
Chairman of the investment committee

11 September 2018

Nominations committee report

This committee oversees enduring value creation and safeguarding of the following forms of capital:

HUMAN INTELLECTUAL

The nominations committee has pleasure in submitting its report:

NOMINATIONS COMMITTEE MEMBERSHIP AND MEETINGS

The committee consists of all the non-executive directors. It is chaired by the lead independent director. The committee meets at least twice annually with additional meetings when required at the request of the board or any committee member or as often as it deems necessary to achieve its objectives.

Comprehensive minutes of meetings are kept. The committee may invite any professional advisors or officers whose input may be required at the meetings. The chairman may excuse any of the attendees at a meeting or part thereof who may be considered to have a conflict of interest, or for confidentiality reasons.

As all non-executive directors are members of this committee, matters relating to the charter of this committee are normally dealt with as an integral part of the normal proceedings of the quarterly board meetings. It is usual for the chief executive to excuse himself from the meeting. The committee met four times during the year.

Attendance and membership of the committee are reflected in the table on **page 70**.

NOMINATION, SELECTION AND APPOINTMENT OF DIRECTORS

The company has a formal and transparent policy regarding the appointment of directors to the board. The nominations committee makes recommendations to the board on the appointment of new executive and non-executive directors. The board, in turn, proposes approved candidates to the shareholders for appointment at a general meeting. The committee will first consider a proposed director's CV and conduct the necessary interviews and reference checks to establish the integrity and skills of the person and to ensure that the person has not been disqualified from being a director.

The committee will ensure that all statutory requirements for the appointment are complied with and that the new director is properly briefed on his/her roles and responsibilities, time commitment, committee service and involvement outside board meetings.

ACTIVITIES DURING THE PAST YEAR

During the year under review, the committee has discharged all its responsibilities as contained in its charter and explained in this report.

With the retirement of Messrs Ferreira, Dreyer, Goss and Shubane from the RMI board in the year under review, the nominations committee had to consider a number of candidates before recommending the appointment of the new directors to the board.

Ms Kekana, who was an alternate non-executive director, was appointed as non-executive director effective from 1 September 2018. Mr Wilson was appointed as her alternate on the same date.

Ms Mahlare and Messrs Mupita and Teeger were appointed as independent non-executive directors effective from 31 March 2018, with Mr Frankel being appointed as an alternate to Mr Teeger on the same date.

King IV recommends that the board should comprise of mostly non-executive members, and that most of them should be independent. Most of RMI's directors (13 of 14) are non-executive and most of them are independent (7 of 13).

From a transformation point of view, both the racial and gender composition of the board improved during the year under review. Six out of the 14 board members are black. Three of the six black board members are female. A year ago, four of the 14 board members were black, with one board member being a black female.

FOCUS DURING THE COMING YEAR

The nominations committee will continue to evaluate new potential board members for recommendation for appointment to the board should vacancies arise, with transformation being an important objective.

Murphy Morobe
Chairman of the nominations committee

11 September 2018

Remuneration committee report

This committee oversees enduring value creation and safeguarding of the following forms of capital:

FINANCIAL	HUMAN	INTELLECTUAL

The remuneration committee has pleasure in submitting its report:

INTRODUCTION

The remuneration committee report provides an overview and understanding of remuneration principles, policies and practices with specific reference to executive directors, investment team members, employees and non-executive directors. The information in this report has been approved by the board on recommendation from the remuneration committee.

REMUNERATION COMMITTEE MEMBERSHIP AND MEETINGS

The members and chairperson of the committee are appointed by the board. The committee consists of at least three directors, with the majority being independent non-executive directors. The chairperson of the board may be a member of the committee but not the chairperson of the committee.

The committee meets at least once a year or at the request of the chairperson, any member of the committee or the board. Comprehensive minutes of meetings are kept. The committee invites, at its discretion, appropriate professional advisors whose inputs may be required. The committee met twice during the year.

Attendance and membership of the committee are reflected in the table on **page 70**.

The chairperson attends the annual general meeting to answer questions concerning remuneration.

ROLES AND RESPONSIBILITIES

The roles and responsibilities of the remuneration committee include:

- Assisting the board in exercising its responsibility of ensuring that fair, responsible and transparent reward practices are implemented in RMI that would promote the achievement of its strategic objectives in the short, medium and long term;
- Ensuring that the disclosure of remuneration is in line with King IV principles, accurate and transparent;
- Ensuring that the remuneration policy implemented aligns the interests of employees with those of shareholders and other stakeholders;
- Considering non-executive directors' fees and making recommendations to the board for approval by the shareholders; and
- Providing a channel of communication between the board and management on remuneration matters.

The committee was mandated to:

- Formulate the group's remuneration philosophy for approval by the board;
- Oversee the establishment of a remuneration policy;
- Debate and approve the annual salary adjustments;
- Ensure that remuneration in cash, share appreciation rights (SARs) and other elements are in line with the strategic objectives of RMI; and
- Delegate any of its functions and the power to implement its decisions.

ACTIVITIES DURING THE PAST YEAR

During the year under review, the committee has discharged all its responsibilities as contained in its charter and outlined in this report.

There was a specific focus in the past year to benchmark the remuneration packages of RMI employees. The performance criteria which need to be met for the vesting of the share appreciation rights were also evaluated.

FOCUS DURING THE COMING YEAR

The remuneration committee will continue with the benchmarking of remuneration packages. The appropriateness of share appreciation rights compared to conditional or forfeitable shares will also be reconsidered.

REMUNERATION REPORT

BACKGROUND

RMI's remuneration policy supports its strategy and sets forth guiding principles by which all employees are remunerated. The policy aims not only to attract and retain top talent, but is also designed to ensure that individuals within the group live its "owner-manager" culture and core values of integrity, innovation, individual empowerment and personal accountability.

Creating an environment in which employees are sufficiently challenged and appropriately rewarded based on achieving the end result, is fundamental to the overall remuneration philosophy.

It is the dedication and commitment of a stable, talented and professional management team that ultimately differentiates a holding company such as RMI and helps it fulfil its goal of creating sustainable long-term value and returns.

Human resources are very important in delivering on RMI's value proposition, albeit on a different level to that in an operating company. RMI's remuneration policy is to:

- Attract, retain and motivate employees;
- Align the rewards of employees with the risk exposure of shareholders and other stakeholders;
- Ensure that the compensation of employees is affordable and reasonable in terms of the value created for shareholders;
- Protect the rights of RMI as an employer; and
- Encourage behaviour that is consistent with the RMI code of ethics, values and long-term strategy.

REMUNERATION POLICY OVERVIEW

The RMI remuneration policy has the following overall features:

- RMI's rights are protected by means of a standard employment contract;
- To achieve RMI's remuneration objectives and align the interests of the executives and RMI, a compensation package was designed comprising the following elements:
  - (i) Fixed remuneration, set at or slightly above prevailing market rates;
  - (ii) Cash bonus, which is **not** to be paid to senior executives apart from ad hoc exceptional instances;
  - (iii) Longer-term incentives in the form of share appreciation rights; and
  - (iv) Participation in the smaller, early-stage investments.

EXECUTIVE REMUNERATION

FIXED REMUNERATION

Fixed remuneration is based on the executive's position and responsibility. The chief executive, who attends all the meetings of the remuneration committee by invitation, can propose increases to guaranteed packages, excluding his own, during these review meetings. During the current year, salary increases were linked to the inflation rate of 5%, except for adjustments made as a result of the outcome of the benchmarking exercise.

RMI SHARE APPRECIATION RIGHTS (SARs) SCHEME

RMI currently has a cash-settled SARs scheme in place. Participants are rewarded SARs that must be exercised within a period of seven years after the grant date. The earliest intervals at which SARs can be exercised are as follows:

- One third after the third anniversary of the grant date;
- Two thirds after the fourth anniversary of the grant date; and
- The remainder after the fifth anniversary of the grant date.

No specific performance criteria were stipulated for issuances made before September 2015. The September 2015 issue was the first award with performance criteria as set by the remuneration committee. The existing performance condition for 90% of the share appreciation rights is growth in normalised earnings of the established investments of at least the real GDP growth rate. The remaining 10% of the vesting of the share appreciation rights is dependent on the performance of the smaller new investments, at the discretion of the remuneration committee.

Starting from the September 2018 issuance, the remuneration committee has revised these performance conditions with 45% of vesting subject to the rolling three-year annual compound growth rate in total shareholders' return outperforming the nominal GDP growth rate, 45% of the vesting subject to the rolling three-year annual compound growth rate in normalised earnings outperforming CPI and 10% of the vesting subject to the remuneration committee's discretion on the performance of the smaller new investments.

Awards are based on a multiple of the total guaranteed package and ranges between multiples of one to eight times, based on position and level of responsibility.

Future awards will be made to maintain the agreed multiple of the guaranteed package.

RMI MANAGEMENT PARTICIPATION STRUCTURE

During the current year, a management participation structure (the scheme) was finalised and implemented by the board of directors of RMI with the chief executive, investment team members and senior executives at RMI Investment Managers and Royal Investment Managers as participants.

The decision to implement the scheme was the outcome of a process that began in 2014, aimed at, *inter alia*, achieving the active management of the portfolio, activating the portfolio through its expansion, diversifying the current exposure and modernising the portfolio by investing in disruptive financial services businesses.

In the development of the scheme in its current form, the board borrowed from private equity models of a management fee and carry structure over a certain hurdle rate. In the case of RMI, the focus was on the carry element only and is designed as management participation after RMI has been compensated for its capital invested and its cost of capital. This is an internationally recognised and proven fund management compensation model.

RATIONALE

The rationale of this scheme is to:

(i) Encourage long-term focus by aligning the objectives of management and shareholders, thereby building on the group's owner-manager culture;
(ii) Incentivise management to also focus on smaller investments (relative to the overall size of the portfolio), which may have an insignificant impact on the share price over the short- to medium term, but which could potentially contribute to significant long-term value creation; and
(iii) Retain key employees in a highly competitive market.

DESCRIPTION OF THE SCHEME

The key parameters of the scheme are as follows:

(i) Qualifying investments are approved at the discretion of the remuneration committee;
(ii) Participation is limited to 10% per investment for investments smaller than R500 million;
(iii) Currently, management's participation is capped at R150 million on qualifying next-generation/fintech investments (10% of R1.5 billion) and R87 million on qualifying investments by RMI Investment Managers (10% of R870 million), after compensating RMI for the capital invested, escalated by the hurdle rate. Thereafter, participants can participate further by investing their own money alongside RMI;
(iv) A hurdle rate set at the prevailing prime interest rate applies; and
(v) A long-term investment period applies, with the value of the shares increasing over time if the hurdle rate is outperformed.

The remuneration committee has full discretion regarding all aspects of the scheme. In particular, the remuneration committee may exercise its discretion to increase the hurdle rate on well-performing investments to compensate for investments that are underperforming and so achieve a portfolio principle.

VALUATION METHODOLOGY

The following approach is followed:

Step 1 – Determine the value of the underlying investment

Underlying investments are valued using market-accepted valuation methodologies like discounted cash flow models, where a discount rate is determined considering the specific risks of the underlying investments, or a price/earnings methodology, where a market-related ratio is applied. Investments can be valued using a combination of valuation methodologies dependent on the nature of the underlying investment.

Step 2 – Determine the value per share

The value per share is determined by dividing the proportionate value of the underlying investment by the total number of issued shares. This value is reduced by the capital invested by RMI per share, escalated by the hurdle rate. The value of the share-based payment liability recognised by RMI is the value per share multiplied by the total number of issued shares.

PRESCRIBED OFFICERS

The committee holds the view that none of RMI's employees other than the executive director are prescribed officers in the context of the Companies Act and that no meaningful benefit would be derived by other stakeholders in the specific disclosure of their remuneration. However, the remuneration packages of the chief executives of OUTsurance, Marthinus Visser (from 1 January 2018) and Willem Roos (until 31 December 2017), are disclosed as they are viewed as prescribed officers in the RMI group.

CONTRACTS OF EMPLOYMENT

Executive directors and other employees do not have fixed-term contracts, but are employed in terms of RMI's standard contract of employment. The notice period for termination of service is one calendar month and the normal retirement age ranges from 60 to 65 depending on the date of appointment. Good leaver principles apply at the termination of service of executive directors, but are at the discretion of the remuneration committee.

NON-EXECUTIVE REMUNERATION

Non-executive directors do not have employment contracts and do not receive any benefits associated with permanent employment. Furthermore, they do not participate in any long-term incentive schemes.

Non-executive directors are paid a fixed annual fee, based on an agreed number of meetings. An hourly rate is used to remunerate non-executive directors for ad hoc meetings. The fees and hourly rates are reviewed annually and are subject to approval by shareholders at RMI's annual general meeting. Fees are market-related and consider the nature of RMI's operations.

APPROVAL OF THE REMUNERATION POLICY

Shareholders approved RMI's remuneration policy at the annual general meeting on 22 November 2017.

Shareholders are provided with the opportunity to pass separate advisory endorsements of the remuneration policy and the implementation report.

In the event that shareholders exercising at least 25% of voting rights vote against either the remuneration policy or the implementation report, or both, the board shall pro-actively engage with those shareholders to address their concerns.

IMPLEMENTATION REPORT

DIRECTORS' REMUNERATION (AUDITED)

The following directors' emoluments were paid in terms of the remuneration policy:

Schedule of directors' emoluments in respect of the year ended 30 June 2018:

R'000	Services as director	Cash package	Bonus	Other benefits[1]	Total 2018
Executive					
HL Bosman[2]	–	7 101	261	970	8 332
– Paid by RMI	–	9 468	348	1 293	11 109
– Recovered from RMH	–	(2 367)	(87)	(323)	(2 777)
Non-executive					
GT Ferreira	778	–	–	–	778
JJ Durand[3]	425	–	–	–	425
JP Burger[3]	397	–	–	–	397
P Cooper	355	–	–	–	355
SEN de Bruyn	356	–	–	–	356
LL Dippenaar	355	–	–	–	355
JW Dreyer	296	–	–	–	296
DA Frankel (alternate)	64	–	–	–	64
PM Goss	205	–	–	–	205
PK Harris	355	–	–	–	355
A Kekana[3]	314	–	–	–	314
F Knoetze (alternate)	–	–	–	–	–
P Lagerström	335	–	–	–	335
MM Mahlare	64	–	–	–	64
MM Morobe	257	–	–	–	257
RT Mupita[3]	64	–	–	–	64
O Phetwe	252	–	–	–	252
KC Shubane	188	–	–	–	188
JA Teeger	76	–	–	–	76
DR Wilson (alternate)	–	–	–	–	–
Total	5 136	7 101	261	970	13 468

1. "Other benefits" comprise pension fund, provident fund and medical aid contributions.
2. Mr Bosman's executive remuneration is paid for by RMI. A portion of his remuneration is recovered from RMH.
3. Directors' fees for services rendered by Messrs Burger, Durand and Mupita and Ms Kekana were paid to FirstRand, Remgro, MTN and Royal Bafokeng respectively.

In addition to Mr HL Bosman, financial director and chief executive of RMI, Mr MC Visser, chief executive of OUTsurance from 1 January 2018, and Mr WT Roos, chief executive of OUTsurance until 31 December 2017, also meet the definition of prescribed officers as defined in the Companies Act, 71 of 2008 (2017: Messrs WT Roos and H Aron, joint chief executives of OUTsurance). Their emoluments for the year ended 30 June 2018 are set out below:

R'000	Total 2018	Salary	Performance-related[1]
MC Visser	4 120	4 120	–
WT Roos	1 980	1 980	–
Total	6 100	6 100	–

1. Performance-related bonuses are paid on a two-year cycle.

Schedule of directors' emoluments in respect of the year ended 30 June 2017:

R'000	Services as director	Cash package	Other benefits[1]	Total 2017
Executive				
HL Bosman[2]	–	6 731	917	7 648
– Paid by RMI	–	8 975	1 223	10 198
– Recovered from RMH	–	(2 244)	(306)	(2 550)
Non-executive				
GT Ferreira	574	–	–	574
JP Burger[3]	363	–	–	363
P Cooper	335	–	–	335
SEN de Bruyn	324	–	–	324
LL Dippenaar	335	–	–	335
JW Dreyer	376	–	–	376
JJ Durand[3]	339	–	–	339
PM Goss	238	–	–	238
PK Harris	335	–	–	335
A Kekana (alternate)[3]	97	–	–	97
F Knoetze (alternate)	–	–	–	–
P Lagerström	316	–	–	316
MM Morobe	238	–	–	238
O Phetwe	238	–	–	238
KC Shubane	238	–	–	238
Total	4 346	6 731	917	11 994

1. "Other benefits" comprise pension fund, provident fund and medical aid contributions.
2. Mr Bosman's executive remuneration is paid for by RMI. A portion of his remuneration is recovered from RMH.
3. Directors' fees for services rendered by Messrs Burger and Durand and Ms Kekana were paid to FirstRand, Remgro and Royal Bafokeng respectively.

Schedule of prescribed officers' emoluments in respect of the year ended 30 June 2017:

R'000	Total 2017	Salary	Performance-related[1]
H Aron[2]	9 895	5 816	4 079
WT Roos	7 522	3 761	3 761
Total	17 417	9 577	7 840

1. Performance-related bonuses are paid on a two-year cycle.
2. Mr Aron is a resident in Australia and is paid in Australian Dollars. He retired from his executive position with effect from 1 February 2017.

DIRECTORS' EMOLUMENTS PAID BY SUBSIDIARIES AND ASSOCIATES (AUDITED)

Schedule of directors' emoluments paid by subsidiaries and associates:

R'000	2018	2017
Executive		
HL Bosman[1]	**1 446**	1 446
Non-executive		
JP Burger[2]	**–**	593
P Cooper[3]	**1 322**	1 231
SEN de Bruyn[4]	**1 371**	1 256
LL Dippenaar[5]	**359**	377
F Knoetze (alternate)[6]	**168**	138
KC Shubane[7]	**786**	786
Total	**5 452**	5 827

1. Directors' fees for services rendered by Mr Bosman were paid to RMI. R1 278 000 (2017: R1 268 000) was received from Discovery and R168 000 (2017: R178 000) was received from OUTsurance.
2. Directors' fees for services rendered by Mr Burger to MMI were paid to FirstRand Limited.
3. R1 077 000 (2017: R1 009 000) was received from MMI and R245 000 (2017: R222 000) was received from OUTsurance.
4. Received from Discovery.
5. Received from OUTsurance.
6. Directors' fees for services rendered to OUTsurance by Mr Knoetze were paid to Remgro Limited.
7. Received from MMI.

DIRECTORS' PARTICIPATION IN RMI'S SHARE SCHEMES (AUDITED)

RMI SHARE APPRECIATION RIGHTS

Participant	Strike price cents	Vesting date	Balance 1 July 2017 000's	Issued 000's	For-feited 000's	Exer-cised 000's	Balance 30 June 2018 000's	Benefit derived R'000
P Cooper[1]	2 028	14/09/2015	275	–	–	(275)	–	5 893
P Cooper[1]	2 028	14/09/2016	275	–	–	(275)	–	5 893
P Cooper[1]	2 028	14/09/2017	275	–	–	(275)	–	5 893
P Cooper[1]	2 645	14/09/2016	73	–	–	(73)	–	1 112
P Cooper[1]	2 645	14/09/2017	73	–	–	(73)	–	1 112
P Cooper[1]	2 645	14/09/2017	72	–	–	(72)	–	1 112
HL Bosman	2 874	02/04/2017	631	–	–	–	631	–
HL Bosman	2 874	02/04/2018	631	–	–	–	631	–
HL Bosman	2 874	02/04/2019	631	–	–	–	631	–
HL Bosman	4 125	14/09/2018	27	–	–	–	27	–
HL Bosman	4 125	14/09/2019	27	–	–	–	27	–
HL Bosman	4 125	14/09/2020	26	–	–	–	26	–
HL Bosman	4 341	14/09/2019	167	–	–	–	167	–
HL Bosman	4 341	14/09/2020	167	–	–	–	167	–
HL Bosman	4 341	14/09/2021	167	–	–	–	167	–
HL Bosman	3 992	19/09/2020	–	179	–	–	179	–
HL Bosman	3 992	19/09/2021	–	180	–	–	180	–
HL Bosman	3 992	19/09/2022	–	180	–	–	180	–

1. All outstanding RMI share appreciation rights awarded to Mr Cooper during his executive employment matured during the 2018 financial year.

RMI MANAGEMENT OWNERSHIP PARTICIPATION STRUCTURE

Participant	Investment	Number of shares	Percentage of investment	Hurdle rate	Value R'000
HL Bosman	RMI Investment Managers	1 051	1	Prime	–
HL Bosman	RMI Invest One (Merchant Capital)	250	2.5	Prime	–
HL Bosman	RMI Invest Two (Entersekt)	250	2.5	Prime	–
HL Bosman	RMI Invest Three (Prodigy)	250	2.5	Prime	–

000's	MC Visser	WT Roos
OUTSURANCE HOLDINGS SHARE INCENTIVE SCHEME		
Strike price R5.57 with vesting dates from 1 July 2014 to 1 July 2017		
– Opening balance – 1 July 2017	500	500
– Taken up during the year	(500)	(500)
– Closing balance – 30 June 2018	–	–
– Benefit derived (R'000)	1 865	1 865
Strike price R7.15 with vesting dates from 1 July 2015 to 1 July 2018		
– Opening balance – 1 July 2017	600	600
– Forfeited during the year	–	(600)
– Closing balance – 30 June 2018	600	–
Strike price R8.48 with vesting dates from 1 July 2016 to 1 July 2019		
– Opening balance – 1 July 2017	600	600
– Forfeited during the year	–	(600)
– Closing balance – 30 June 2018	600	–
Strike price R9.30 with vesting dates from 1 July 2017 to 1 July 2020		
– Opening balance – 1 July 2017	–	–
– Granted during the year	700	750
– Forfeited during the year	–	(750)
– Closing balance – 30 June 2018	700	–

Sonja de Bruyn
Chairperson of the remuneration committee

11 September 2018

Social, ethics and transformation

This committee oversees enduring value creation and safeguarding of the following forms of capital:

HUMAN | SOCIAL | NATURAL | MANUFACTURED

The social, ethics and transformation committee has pleasure in submitting its report.

The report is prepared in accordance with the Companies Act, with specific reference to Regulation 43:

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE MEMBERSHIP AND MEETINGS

The committee comprises three suitably skilled and experienced members appointed by the board. All members are independent non-executive directors.

The committee meets at least twice a year or at the request of the chairperson, any member of the committee or the board. Comprehensive minutes of meetings are kept. The social, ethics and transformation committee met twice during the year.

The chairperson of the committee attends the annual general meeting to answer any questions that shareholders might have.

Attendance and membership of the committee are reflected in the table on **page 70**.

ROLES AND RESPONSIBILITIES

The committee's objectives are to assist the board in monitoring RMI's performance as a good and responsible citizen, which includes the following:

- Social and economic development, including the ten principles as set out in the United Nations Global Compact principles, the Organisation for Economic Co-operation and Development (OECD) recommendations regarding corruption, the Employment Equity Act, 55 of 1998, the Broad-Based Black Economic Empowerment Act, 53 of 2003, the Financial Sector Charter and the BBBEE Codes of Good Practice;
- Good corporate citizenship, including promotion of equality, prevention of unfair discrimination and corruption, contribution to the development of communities, sponsorship, donations and charitable giving;
- The environment, health and public safety, including the impact of the company's activities;
- Consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws; and
- Labour and employment, including the group's standing in terms of the International Labour Organisation Protocol on decent work and working conditions, the group's employment relationships and its contribution towards the educational development of its employees.

REPORTING FRAMEWORK

Below is a summary of the framework developed by the committee specific to RMI:

Description in terms of Regulation 43		Action taken during the current year
1	**Corporate social responsibility**	
	Corporate social investment	RMI has implemented its stand-alone strategy, which was further refined during the year under review with the assistance of an independent consulting firm.
	Employee educational development	The committee supports staff to participate in the continuing professional development programmes of the professional bodies they are members of.
	Employee wellness	Employees are members of a wellness programme.
2	**Broad-based black economic empowerment**	Performed and reviewed the calculation of RMI's BBBEE rating. An independent consulting firm has been appointed to assist RMI in formulating and refining its BBBEE strategy. RMI obtained a level four contributor rating, improving from a level six contributor in the prior year. A copy of the BBBEE1 form is available on RMI's website at **www.rmih.co.za**.
3	**Employment equity (EE) transformation**	A transformation strategy was developed in the year under review. Even though RMI has a small staff complement, it focuses on EE transformation with new appointments made. RMI also appointed two black female directors and one black male director during the 2018 financial year.
4	**Culture risk**	Undertook an informal assessment of the culture risk of RMI.
5	**Environmental and social risk governance**	As an investment holding company, environmental and social risk are mainly driven by RMI's investee companies. RMI's role is more of an overseer than a participant. RMI reviewed the environmental and social risk governance frameworks of investees.
6	**Business conduct – standards for employees**	Performed an annual review of the code of ethics, personal account trading policy and "The Company and I."
7	**Market conduct – standards for the market**	RMI monitored that no anti-trust measures were breached by its investee companies.
8	**Monitoring – internal compliance**	Assessed whether RMI required a monitoring system.
9	**Governance reporting**	Provided feedback to the RMI board after each meeting and in the integrated report.

ACTIVITIES DURING THE PAST YEAR

During the year under review, the committee has discharged all its responsibilities as contained in its charter and described in this report.

There was specific focus in the year under review to develop the transformation strategy and to identify areas to improve RMI's BBBEE rating. Through AlphaCode, RMI has put in place bespoke enterprise and social development programmes to identify, partner and grow black financial services businesses.

FOCUS DURING THE COMING YEAR

The committee's focus in the coming year will be on the implementation of the transformation strategy and the execution of the enterprise and supplier development and skills development plans.

Murphy Morobe
Chairman of the social, ethics and transformation committee

11 September 2018

five

Annual financial statements

for the year ended 30 June 2018

Consolidated annual financial statements

Contents

These annual financial statements have been audited in terms of the Companies Act, 71 of 2008, and were prepared by Schalk Human MCom(Acc) CA(SA) under the supervision of Herman Bosman LLM CFA.

Directors' responsibility statement

To the shareholders of Rand Merchant Investment Holdings Limited

The directors of Rand Merchant Investment Holdings Limited (RMI) are required by the Companies Act, 71 of 2008, to prepare audited consolidated and separate annual financial statements. In discharging this responsibility, the directors rely on management to prepare the audited consolidated and separate annual financial statements in accordance with International Financial Reporting Standards (IFRS) and for keeping adequate accounting records in accordance with the group's system of internal control. As such, the annual financial statements include amounts based on judgments and estimates made by management.

In preparing the annual financial statements, suitable accounting policies have been applied and reasonable estimates have been made by management. The directors approve significant changes to accounting policies. The annual financial statements incorporate full and appropriate disclosure in line with the group's philosophy on corporate governance.

The directors are responsible for the group's system of internal control. To enable the directors to meet these responsibilities, the directors set the standards for internal control to reduce the risk of error or loss in a cost-effective manner. The standards include the appropriate delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group.

Based on the information and explanations given by management and the internal auditors, nothing has come to the attention of the directors to indicate that the internal controls are inadequate and that the financial records may not be relied on in preparing the consolidated and separate annual financial statements in accordance with IFRS and maintaining accountability for the group's assets and liabilities. Nothing has come to the attention of the directors to indicate any breakdown in the functioning of internal controls, resulting in a material loss to the group during the year and up to the date of this report. Based on the effective internal controls implemented by management, the directors are satisfied that the consolidated and separate annual financial statements fairly present the state of affairs of the group and company at the end of the financial year and the net income and cash flows for the year. Herman Bosman LLM CFA supervised the preparation of the annual financial statements for the year.

The directors have reviewed the group's and company's budget and flow of funds forecast and considered the group's and company's ability to continue as a going concern in light of current and anticipated economic conditions. The directors have reviewed the assumptions underlying these budgets and forecasts based on currently available information. On the basis of this review, and in the light of the current financial position and profitable trading history, the directors are satisfied that the group has adequate resources to continue in business for the foreseeable future. The going concern basis therefore continues to apply and has been adopted in the preparation of the annual financial statements.

It is the responsibility of the group's independent external auditor, PricewaterhouseCoopers Inc., to report on the fair presentation of the annual financial statements. Their unqualified report appears on pages 103 to 109.

The consolidated annual financial statements of the group, which appear on pages 110 to 198 and the separate annual financial statements of the company, which appear on pages 200 to 219, were approved by the board of directors on 11 September 2018 and signed on its behalf by:

JJ Durand
Chairman

HL Bosman
Chief executive

Declaration by the company secretary

Declaration by the company secretary in respect of section 88(2)(e) of the Companies Act

I declare that, to the best of my knowledge, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

JS Human
Company secretary

11 September 2018

Audit and risk committee report

The audit and risk committee has pleasure in submitting this report, as required in terms of the Companies Act of South Africa (Companies Act).

AUDIT AND RISK COMMITTEE MEMBERSHIP AND MEETINGS

The committee is an independent statutory committee and comprises four non-executive directors who act independently, as described in section 94 of the Companies Act. The chairperson is an independent non-executive director and attends the annual general meeting.

The committee meets at least twice a year or at the request of the chairperson, any member of the committee, the board or the external auditor. Comprehensive minutes of meetings are kept. The chief executive/financial director attends the meetings. The committee invites, at its discretion, the appropriate representatives of the external auditor, other professional advisors, officers or employees whose input may be required. Board members have the right of attendance. The chairperson may excuse any of the attendees at a meeting who may be considered to have a conflict of interest.

The committee met twice during the year and membership and attendance were as follows:

	March 2018	September 2017
Jan Dreyer BCom LLB HDip Co Law HDip Tax (chairman) (retired on 31 March 2018)	✓	✓
Sonja de Bruyn LLB (Hons) LSE MA (McGill), SFA (chairperson from 25 April 2018)	✓	✓
Per Lagerström BSc (Accounting) MSc (Economics) (London School of Economics)	✓	✓
Johan Burger BCom (Hons) CA(SA) (appointed on 25 April 2018)	*	*
James Teeger BCom B Acc CA(SA) HDip Tax (appointed on 25 April 2018)	*	*

✓ Attended meeting * Not a member at time of meeting

ROLES AND RESPONSIBILITIES

At the meetings, the members fulfilled all their functions as prescribed by the Companies Act and its charter, as approved by the board. The committee's objectives are to assist the board of directors in fulfilling its fiduciary duties with regard to:

- The safeguarding of the group's assets;
- The financial reporting process;
- The system of internal control;
- The management of financial and non-financial risks;
- The audit process and approval of non-audit services;
- The group's process for monitoring compliance with the laws and regulations applicable to it;
- The group's compliance with the corporate governance practices;
- Review of the integrated report;
- The business conduct of the group and its officials;
- The accounting policies applied are consistent, appropriate in compliance with IFRS; and
- The appointment of the external auditor and the evaluation of its services and independence.

KING IV

King IV recommends that the audit and risk committee discloses the date of the first appointment of the external auditor and the date of the appointment of the predecessor firm. King IV recommends that the audit and risk committee be responsible for the auditor independence oversight as recommended by the Independent Regulatory Board for Auditors. The audit and risk committee would have to apply the independence test of the external auditor annually to ensure the reporting is reliable, transparent and a fair representation for the use of stakeholders. Audit committees are encouraged to adopt the mandatory audit firm rotation voluntarily that may affect organisations with international operations. All these matters are dealt with below.

Audit quality is enhanced by the external auditor reporting on key audit matters arising from the audit and how the matters were addressed.

See **pages 104** to **108** for an analysis of the key audit matters which arose during the audit and how they were addressed.

King IV introduces the term "risk and opportunity governance". The board is encouraged to not take excessive risks that may lead to organisational failure and to consider both negative and positive potential governance outcomes in its risk management. The board sets the risk tolerance levels relevant to the strategy and objectives.

King IV recommends organisations to pro-actively engage with regulators, legislators and industry associations to understand the compliance and regulatory universe as well as build relationships of trust.

King IV expands on the King III combined assurance model to include "five lines of assurance" to incorporate all assurance providers to enable an effective control environment to strengthen decision-making. Horizontal assurance includes internal audit, risk and compliance whilst vertical assurance includes line managers, frameworks, policies, procedures and system controls. Internal audit remains a pivotal part of governance relating to assurance and King IV therefore expects the board to apply its mind to the assurance standards expected from internal auditors.

FINANCE FUNCTION

The committee considered and satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the financial function. It also considered and satisfied itself of the appropriateness of the expertise and experience of the financial director.

EFFECTIVENESS OF COMPANY'S INTERNAL FINANCIAL CONTROLS

The committee is of the opinion that, based on enquiries made and the reports from the internal and external auditors, the risk management processes and systems of internal control of the company and its investments were effective for the year under review. No material weaknesses in financial control of the company and its subsidiaries were reported for the year under review.

INDEPENDENCE OF THE EXTERNAL AUDITOR

PricewaterhouseCoopers Inc. was re-appointed as auditor of the company until the next annual general meeting. They have been RMI's auditors since inception.

The committee believes that the auditor has observed the highest level of business and professional ethics. The committee is satisfied that the auditor has, at all times, acted with unimpaired independence. In reaching this conclusion, the committee considered the following:

- Representations made by the external auditors to the audit and risk committee;
- Independence criteria specified by the Independent Regulatory Board for Auditors and international regulatory bodies as well as criteria for internal governance processes within audit firms;
- Auditor suitability assessment in terms of paragraph 3.84(g) (iii) and section 22.15(h) of the JSE Listings Requirements;
- Previous appointments of the auditors; and
- The extent of other work undertaken by the auditors for the group.

Details of fees paid to the external auditor are disclosed in **note 27** to the annual financial statements.

The partner responsible for the audit is required to rotate every five years. The designated auditor, Francois Prinsloo, will be rotated at the conclusion of the 2018 year-end audit.

The committee meets with the auditor independently from senior management.

INTEGRATED ASSURANCE

The board does not only rely on the adequacy of the internal control embedding process, but considers reports on the effectiveness of risk management activities. The audit and risk committee ensures that the assurance functions of management and internal and external audit are sufficiently integrated.

The various assurance providers to the board comprise the following:

- Senior management considers the company's risk strategy and policy, along with the effectiveness and efficiency thereof; and
- The audit and risk committee considers the adequacy of risk management strategies, systems of internal control, risk profiles, legal compliance, internal and external audit reports and also reviews the independence of the auditor, the extent and nature of audit engagements, scope of work and findings. This committee also reviews the level of disclosure in the annual financial statements and the appropriateness of accounting policies adopted by management, the ethics register and other loss incidents reported. The board reviews the performance of the audit and risk committee against its charter.

INTERNAL AUDIT

The company outsources its internal audit function to Remgro Management Services. Internal audit is an effective independent appraisal function and employs a risk-based audit approach. The head of internal audit has direct access to the chairperson of the audit and risk committee, as well as to the chairman of the board.

EXTERNAL AUDIT

The company's external auditor attends all audit and risk committee meetings and the annual general meeting of shareholders and has direct access to the chairperson of the audit and risk committee and the chairman of the board. The external audit scope of work is adequately integrated with the internal audit function without restricting the scope.

The audit and risk committee has satisfied itself that there are effective audit committees functioning at the company's investees.

Sonja de Bruyn
Chairperson of the audit and risk committee

11 September 2018

Directors' report

NATURE OF BUSINESS

RMI is an active, listed investment holding company. Its objective is to create shareholder value over the long term, through both an attractive dividend yield and an increase in intrinsic value. To achieve this, RMI has three strategic priorities:

- **Optimise** the value created by existing investments by being an active and responsible shareholder of influence;
- **Diversify** the investment portfolio by investing in additional "traditional" financial services businesses and building an asset management business by growing and partnering with world-class asset managers and investment teams; and
- **Modernise** the investment portfolio by identifying, funding and scaling new and disruptive business models that could change the landscape of the financial services industry (next-generation financial services).

RMI aims to be a value-adding, active enabler of leadership and innovation in financial services and currently holds an investment portfolio of some of South Africa's premier insurance brands, an investment in the UK short-term insurer, Hastings Group Holdings plc (Hastings), an asset management business and investments in next-generation financial services companies.

During the 2018 financial year, the following corporate activity took place:

- RMI Investment Managers Group Proprietary Limited (RMI Investment Managers) was capitalised with a further R83.9 million.
- RMI Investment Managers 2 Proprietary Limited (Affiliates 2) acquired the following in the financial year ended 30 June 2018:
  - An additional 4.2% equity stake in Sentio Capital Management Proprietary Limited in July 2017;
  - A 9.1% equity stake in Ethos Private Equity Proprietary Limited in October 2017;
  - A further R10.2 million equity investment in Coreshares Proprietary Limited;
  - An additional 7.5% equity stake in Tantalum Capital Proprietary Limited in June 2018; and
  - A further R12 million equity investment in its 100%-owned subsidiary, Granate Asset Management Proprietary Limited.
- Royal Investment Managers Proprietary Limited acquired the following in the financial year ended 30 June 2018:
  - A 4.5% equity stake in Ethos Private Equity Proprietary Limited in October 2017; and
  - A 30.0% equity stake in Balondolozi Investment Services Proprietary Limited in December 2017.
- RMI, via Firness International Proprietary Limited, acquired an additional 1 070 796 shares in OUTsurance in October 2017 and via RMI Asset Holdings Proprietary Limited, acquired an additional 35 353 536 shares in OUTsurance in March 2018.
- In June 2018, RMI moved its investments in Discovery Limited and MMI Holdings Limited into a 100%-owned subsidiary, RMI Asset Holdings Proprietary Limited as part of its internal group restructure.
- RMI acquired a 3.5% shareholding in Prodigy Finance in July 2017 via its 100%-owned subsidiary, RMI Invest Three Proprietary Limited and a 7.5% shareholding in Luno in August 2017 via its 100%-owned subsidiary, AlphaCode Proprietary Limited.

The table below summarises the RMI group's actual interest in its investee companies as at 30 June 2018 compared to 30 June 2017:

	30 June	
%	**2018**	2017
Discovery	**25.0***	25.0*
MMI	**26.2***	25.5*
OUTsurance Holdings Limited (OUTsurance)	**88.6***	87.7*
Hastings	**29.9**	29.9
RMI Investment Managers Group	**100.0**	100.0
RMI Investment Holdings Proprietary Limited	**100.0**	100.0
RMI Asset Holdings Proprietary Limited	**100.0**	100.0
RMI Treasury Company Limited	**100.0**	100.0

* Actual interest differs from the effective interest used for financial reporting due to the consolidation of treasury shares and "deemed" treasury shares held by group companies (see note 37).

Further details regarding the investments are provided in **notes 38** and **39** of these annual financial statements.

SHARE CAPITAL

The classes of shares in terms of RMI's memorandum of incorporation (MOI) are as follows:

ORDINARY SHARES

The total authorised number of ordinary shares is 2 000 000 000, with a par value of R0.0001 per share. The total issued number of ordinary shares at the beginning of the 2018 financial year was 1 505 688 346. RMI issued the following ordinary shares during the financial year ended 30 June 2018 as a result of shareholders electing the scrip distribution alternative or the reinvestment option instead of receiving a cash dividend:

- 12 160 153 shares with a par value of R0.0001 per share and a premium of R37.9999 per share on 9 October 2017; and
- 4 870 707 shares with a par value of R0.0001 per share and a premium of R42.4999 per share on 9 April 2018.

The unissued share capital is under the control of the board of directors until the forthcoming annual general meeting.

PREFERENCE SHARES

CUMULATIVE, REDEEMABLE PAR VALUE PREFERENCE SHARES

The total authorised number of cumulative, redeemable par value preference shares is 100 000 000, with a par value of R0.0001 per share. All RMI's issued cumulative, redeemable par value preference shares were redeemed in the previous financial year.

CUMULATIVE, REDEEMABLE NO PAR VALUE PREFERENCE SHARES

The total authorised number of cumulative, redeemable no par value preference shares is 100 000 000. All RMI's issued cumulative, redeemable no par value preference shares were redeemed in the previous financial year.

CUMULATIVE, REDEEMABLE NO PAR VALUE PREFERENCE SHARES IN TERMS OF CLAUSE 7.1 OF THE MOI

The total authorised number of cumulative, redeemable no par value preference shares created in terms of the group's debt programme and outlined in clause 7.1 of the MOI, is 100 000 000. None of these shares have been issued to date.

SHAREHOLDER ANALYSIS

Based on information disclosed by STRATE and investigations conducted on behalf of the company, the following shareholders have an interest of 5% or more in the issued ordinary share capital of the company:

	30 June	
%	**2018**	2017
Financial Securities Limited (Remgro)	**30.3**	29.9
Royal Bafokeng Holdings Proprietary Limited	**14.6**	14.8
Public Investment Corporation	**6.8**	7.0
Allan Gray (on behalf of clients)	**6.0**	8.0

EARNINGS

Earnings attributable to ordinary shareholders for the year ended 30 June 2018 amounted to R3 897 million or 257.6 cents per share (2017: R3 327 million or 223.9 cents per share). Headline earnings amounted to R4 081 million or 269.7 cents per share (2017: R3 441 million or 231.5 cents per share).

DIVIDENDS

The following ordinary dividends were declared by RMI during the year under review:

- An interim dividend for the six months ended 31 December 2017 of 39.0 cents per ordinary share, declared on 12 March 2018 and paid on 9 April 2018 with an option for a scrip dividend or to reinvest the cash dividend (2017: 53.0 cents per ordinary share, declared on 13 March 2017 and paid on 3 April 2017).
- A final dividend for the year ended 30 June 2018 of 65.0 cents per ordinary share, declared on 11 September 2018 and payable on 22 October 2018 with an option for a scrip dividend or to reinvest the cash dividend (2017: 65.0 cents per ordinary share, declared on 19 September 2017 and paid on 9 October 2017, with an option for a scrip dividend or to reinvest the cash dividend).

The last day to trade in RMI shares on a cum-dividend basis in respect of the final dividend will be Tuesday, 16 October 2018, while the first day to trade ex-dividend will be Wednesday, 17 October 2018. The record date will be Friday, 19 October 2018 and the payment date Monday, 22 October 2018.

No dematerialisation or rematerialisation of shares may be done during the period Wednesday, 17 October 2018 to Friday, 19 October 2018, both days inclusive.

DIRECTORATE

The directorate comprises:

Non-executive directors

Name	Date of appointment
JJ Durand (chairman)	8 December 2010
P Cooper	8 December 2010
LL Dippenaar	8 December 2010
PK Harris	8 December 2010
A Kekana	6 February 2013
O Phetwe	6 February 2013

Independent non-executive directors

Name	Date of appointment
JP Burger	30 June 2014
SEN de Bruyn	8 December 2010
P Lagerström	30 June 2014
MM Mahlare	31 March 2018
MM Morobe (lead independent)	1 August 2014
RT Mupita	31 March 2018
JA Teeger	31 March 2018

Executive director

Name	Date of appointment
HL Bosman (chief executive)	2 April 2014

Alternate directors

Name	Date of appointment
DA Frankel	31 March 2018
F Knoetze	1 April 2016
DR Wilson	1 September 2017

Messrs GT Ferreira, JW Dreyer and KC Shubane retired on 31 March 2018 and Mr PM Goss retired on 10 April 2018. Mr JJ Durand took over as chairman from Mr GT Ferreira on 31 March 2018.

DIRECTORS' INTERESTS IN RMI

Details of individual directors' interests in the company are disclosed on **page 102**.

INTERESTS OF DIRECTORS AND OFFICERS

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the group. The directors had no interest in any third party or company responsible for managing any of the business activities of the group except to the extent that they are shareholders in RMI as disclosed in this report. Arm's length insurance transactions entered into by the company's directors with the group's associates are disclosed in note 35.

DIRECTORS' EMOLUMENTS AND SERVICE CONTRACTS

Directors' and prescribed officers' emoluments are disclosed on **pages 85** to **88**.

At each annual general meeting one third of the non-executive directors have to retire from office. If, at the date of any annual general meeting, any non-executive director has held office for a period of three years since his last election or appointment, he has to retire at such meeting. A retiring director is eligible for re-election.

The remuneration of the non-executive directors is approved annually by way of a special resolution at the annual general meeting. The company's remuneration policy is endorsed annually by shareholders at the annual general meeting.

DIRECTORS' PARTICIPATION IN GROUP SHARE INCENTIVE SCHEMES

RMI operates a cash-settled share scheme as part of its remuneration philosophy, which tracks the company's share price. Mr Bosman participates in this scheme. OUTsurance also has a cash-settled share scheme, with Youi operating an equity-settled share scheme.

INSURANCE

RMI has appropriate insurance cover against crime risks as well as professional indemnity.

COMPANY SECRETARY AND REGISTERED OFFICES

Mr JS Human is the company secretary of RMI. The address of the company secretary is that of the company's registered office. The company's registered office is 3rd Floor, 2 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, 2196.

MANAGEMENT CONTRACT

RMI and RMB Holdings Limited (RMH) rendered management services to each other during the 2018 financial year. Mr Bosman's executive remuneration was paid for by RMI. RMI charged management fees to RMH according to the time spent by Mr Bosman on the affairs of each company.

SPECIAL RESOLUTIONS

The following special resolutions were passed at the annual general meeting of RMI held on 22 November 2017:

- Approval of non-executive directors' remuneration with effect from 1 December 2017;
- General authority to repurchase company shares;
- Issue of shares, convertible securities and/or options to persons listed in section 41(1) of the Companies Act for the purposes of their participation in a reinvestment option;
- Financial assistance to directors, prescribed officers, employee share scheme beneficiaries and related or inter-related companies; and
- Adoption of a new MOI.

OUTsurance passed the following special resolutions at its annual general meeting held on 9 November 2017:

- General authority to provide financial assistance to related or inter-related companies in terms of section 45 the Companies Act; and
- Approval of the remuneration of non-executive directors.

EVENTS SUBSEQUENT TO REPORTING DATE

RMI declared a final dividend of 65.0 cents per ordinary share with an option for a scrip dividend or to reinvest the cash dividend on 11 September 2018.

DIRECTORS' INTERESTS IN ORDINARY SHARES OF RMI (AUDITED)

Directors have disclosed the following interest in the ordinary shares of RMI at 30 June 2018:

000's	Direct beneficial	Indirect beneficial	Held by associate	Total 2018
HL Bosman	–	500	–	500
JP Burger	–	1 184	–	1 184
P Cooper	795	–	3 061	3 856
SEN de Bruyn	–	–	–	–
LL Dippenaar	–	73 387	233	73 620
JJ Durand	–	–	–	–
DA Frankel (alternate)	–	–	–	–
PK Harris	–	12 000	–	12 000
A Kekana	–	–	–	–
F Knoetze (alternate)	–	–	–	–
P Lagerström	–	–	–	–
MM Mahlare	–	–	–	–
MM Morobe	–	–	–	–
RT Mupita	–	–	–	–
O Phetwe	–	–	–	–
JA Teeger	41	53	–	94
DR Wilson (alternate)	–	–	–	–
Total interest	836	87 124	3 294	91 254

Directors have disclosed the following interest in the ordinary shares of RMI at 30 June 2017:

000's	Direct beneficial	Indirect beneficial	Held by associate	Total 2017
HL Bosman	–	500	–	500
JP Burger	–	1 184	–	1 184
P Cooper	795	–	3 061	3 856
SEN de Bruyn	–	–	–	–
LL Dippenaar	–	73 387	233	73 620
JW Dreyer	1	–	–	1
JJ Durand	–	–	–	–
GT Ferreira	149	–	39 889	40 038
PM Goss	–	11 580	–	11 580
PK Harris	–	12 000	–	12 000
A Kekana (alternate)	–	–	–	–
F Knoetze (alternate)	–	–	–	–
P Lagerström	–	–	–	–
MM Morobe	–	–	–	–
O Phetwe	–	–	–	–
KC Shubane	25	10	–	35
Total interest	970	98 661	43 183	142 814

Since 30 June 2018 to the date of this report, the interests of directors have remained unchanged.

Independent auditor's report

To the shareholders of RMI Holdings Limited

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated and separate annual financial statements present fairly, in all material respects, the consolidated and separate financial position of RMI Holdings Limited (the company) and its subsidiaries (together the group) as at 30 June 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

WHAT WE HAVE AUDITED

RMI Holdings Limited's consolidated and separate annual financial statements set out on pages 110 to 219 comprise:

- The consolidated and separate statements of financial position as at 30 June 2018;
- The consolidated and separate income statements for the year then ended;
- The consolidated and separate statements of comprehensive income for the year then ended;
- The consolidated and separate statements of changes in equity for the year then ended;
- The consolidated and separate statements of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under the standards are further described in the AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS section of our report on page 109.

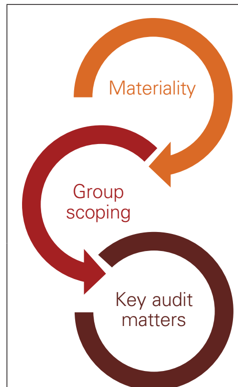
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of annual financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

OUR AUDIT APPROACH

OVERVIEW



Overall group materiality
Overall group materiality: R270 million, which represents 5% of consolidated profit before tax.

Group audit scope
The components that are in scope include the financially significant components of the group. The main indicators used to identify significant components were revenue and profit before tax.

Key audit matters
- Valuation of insurance contract liabilities relating to short-term insurance contracts – OUTsurance;
- Equity accounted earnings of MMI Holdings Limited; and
- Equity accounted earnings of Discovery Limited.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate annual financial statements. In particular, we considered where the directors made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including amongst other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

MATERIALITY

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance that the annual financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated annual financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated annual financial statements as a whole, as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the annual financial statements as a whole.

Overall group materiality	R270 million
How we determined it	5% of consolidated profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users, and is a generally accepted benchmark. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

HOW WE TAILORED OUR GROUP AUDIT SCOPE

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated annual financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

We conducted an audit of all financially significant subsidiaries and associates of the group. For the work performed by component auditors from other PwC network firms in South Africa and, for in-scope subsidiaries and associates, by auditors not part of the PwC network operating under our instruction, we issued group instructions and performed cross-reviews on their audit working papers on an ongoing basis. We determined the level of involvement we needed to have in the audit work of those component teams to be satisfied that sufficient audit evidence had been obtained for the purposes of our opinion. We kept regular communication with audit teams throughout the audit and appropriately directed their audits.

Further audit procedures were performed by the group engagement team, including analytical review procedures over the remaining balances and substantive procedures over the consolidation process. The work carried out at the component levels, together with these additional procedures performed at the group level, provided us with sufficient evidence to express an opinion on the group as a whole.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate annual financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following key audit matters relate to the consolidated annual financial statements. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate annual financial statements of the company for the current period.

Key audit matters relevant to the consolidated annual financial statements	How our audit addressed the key audit matters
VALUATION OF INSURANCE CONTRACT LIABILITIES RELATING TO SHORT-TERM INSURANCE CONTRACTS – OUTSURANCE Refer to note 8 to the consolidated annual financial statements and accounting policy notes 18 and 24.	
Insurance contract liabilities relating to short-term insurance contracts include an outstanding claims provision of R1 340 million, a claims incurred but not reported (IBNR) provision of R569 million and an insurance contract cash bonus provision of R436 million. The calculation of these insurance contract liabilities is subject to inherent uncertainty and significant estimation is required. Due to the magnitude of the liabilities and the significance of estimation required, the assessment of these insurance contract liabilities was considered a matter of most significance to our audit. The estimate for outstanding claims is assessed by OUTsurance management separately on a case-by-case basis, taking into account information available from the insured. The estimates are updated as and when new information becomes available. IBNR is calculated as a percentage of historic written premium. The required IBNR percentage is calculated with reference to the run-off period of incurred claims. The overall IBNR percentage represents the weighted average of the required IBNR per business class, weighted by the written premium generated by each business class. The estimate for outstanding claims and IBNR is held to be at least sufficient at the 75th percentile of the ultimate cost distribution. The difference between this 75th percentile and the best estimate is considered by OUTsurance management to be an appropriate risk margin. The provision for insurance contract cash bonuses is determined with reference to the contractual obligation per the contract of insurance adjusted for expected future claims and client cancellations based on historical experience. A risk margin is added to the best estimate of the future liability to allow for the uncertainty relating to future claims and cancellation experience. The risk margin is calibrated to ensure that the provision is at least sufficient at the 75th percentile of the ultimate cost distribution.	Our audit procedures included evaluating and testing the design and operating effectiveness of the controls over the data used in the calculation of the insurance contract liabilities relating to short-term insurance contracts. The procedures included tests over both manual controls as well as automated controls. To assess the validity of the population of claims information recorded on the system (e.g. loss event, claim estimate, item being claimed) and the valuation of the claims, a sample of claims was selected. Claim values were assessed against assessor reports, and the claims were traced to claim documentation which detailed the loss event. The claims were also compared to the information for the underlying policy recorded on the system to test if the claims were valid claims (e.g. if the item being claimed was included on the original policy, if the premium has been paid up). Based on the procedures performed, all claims selected were found to be valid claims. We performed an assessment of the analysis underlying the actuarial estimates for reasonability and appropriateness and taking into consideration the OUTsurance group accounting policy in respect of the IBNR, with the assistance of our actuarial experts. The work performed involved: - An assessment of the controls in respect of the data used in the valuation; - An assessment of the methodology and assumptions for reasonability and appropriateness taking into consideration historic experience, actuarial guidance and industry practice; and - A reperformance of the IBNR liability at the best estimate and 75th percentile level, on a sample basis at a portfolio, line of business or class of business, as performed by OUTsurance management. Based on the work performed: - The methodology and assumptions applied as at 30 June 2018 were found to be consistent with historic experience, actuarial guidance and industry practice and were unchanged from the previous year-end; and - Our re-performance of the IBNR liability at the best estimate and 75th percentile level on a sample basis did not identify material differences when compared to OUTsurance management's calculation. With regards to the provision for insurance contract cash bonuses, our audit work included the following: - An assessment of the reasonability and appropriateness of the methodology and assumptions applied given the nature of the business as well as our understanding of industry practice; and - Assessing whether the methodology and assumptions applied as at 30 June 2018 were consistent with OUTsurance's accounting policy and unchanged from the previous year-end. Based on the work performed: - The methodology and assumptions applied were found to be in line with the nature of the business and industry practice; and - No material changes to the underlying assumptions were noted since the last valuation.

Key audit matters relevant to the consolidated annual financial statements	How our audit addressed the key audit matters

EQUITY ACCOUNTED EARNINGS OF MMI HOLDINGS LIMITED

Refer to note 38 to the consolidated annual financial statements.

The group accounts for its investments in associates under the equity method. The group has 26.2% ownership interest in a significant associate, MMI Holdings Limited. For the purposes of this audit report, MMI Holdings Limited and its subsidiaries are collectively referred to as MMI. The group's share of the after-tax profits of MMI for the year ended 30 June 2018 was R280 million and the group's share of MMI's net assets was R5 920 million as at 30 June 2018.

MMI's equity accounted earnings contribute significantly to RMI Holdings Limited's consolidated financial results. There is also significant management judgment involved in the determination of the after-tax profits of MMI, as summarised in the following section. Due to underlying complexities in the judgment involved at the MMI level and the impact of these complexities on the income attributable to the group for the current year, we treated the equity accounted earnings of MMI as a matter of most significance to the audit of the consolidated annual financial statements of the current financial year.

In the context of our audit of the consolidated annual financial statements, the key audit matter relating to the group's share of the profits and net assets of MMI is summarised as follows:

VALUATION OF INSURANCE CONTRACT LIABILITIES

In valuing insurance contract liabilities, MMI management took into account key economic and non-economic assumptions. Economic assumptions include available market information as at year-end which amongst others, include:

- Discount rates;
- Investment returns; and
- Inflation rates.

Non-economic assumptions are typically determined using past experience as a guide, which introduces an element of judgment. These include future expected claims experience for items such as:

- Mortality;
- Morbidity; and
- Lapses.

A refinement of the assumptions used in the policyholder liabilities valuation was performed during the year with a particular focus on the future expected renewal expense assumption. This resulted in an increase in the liabilities on 30 June 2018.

The valuation of policyholder liabilities arising from insurance contracts was considered to be a matter of most significance to the current year audit of MMI because of the significant judgments and assumptions (both economic and non-economic) applied by MMI management in the valuation of policyholder liabilities.

We obtained the audited financial results of MMI, evaluated the consistency of its accounting policies with those of the group and compared them to the equity accounted results and movements recorded in the consolidated annual financial statements. We found no exceptions.

Due to the significance of the group's share of the after-tax profits in MMI, we maintained continual interaction with the MMI audit team and involvement in their work. We evaluated the identified audit risks at the MMI level and the audit approach throughout all phases of the audit process, examined working papers and performed cross-review procedures in evaluating the results of the work. We also evaluated the impact of the key audit matter relating to MMI on the group's consolidated annual financial statements.

Based on the work executed by the MMI audit team in accordance with our instructions and the procedures noted above, we have determined that the audit work performed and audit evidence obtained were sufficient for our purpose.

The procedures performed on the key audit matter related to the valuation of insurance contract liabilities included understanding MMI's actuarial control environment and governance, such as the functioning of the MMI actuarial committee, and the following.

DATA INPUTS

- The completeness and accuracy of data used by MMI management in the valuations were tested, which included:
  - Inspecting the movement reconciliations for key data fields; and
  - Reconciling the policyholder data used in the valuation to the data on the administration systems.

No material exceptions were found.

ASSUMPTIONS APPLIED

- The reasonableness of assumptions applied by MMI management were assessed by comparing them to observable market data or through consideration of experience investigations and historical variances;
- The reasonableness and accuracy of MMI management's allocation and split between initial and renewal expenses across the different segments and between product houses were challenged and assessed;
- The liability was found to be sufficient for future expected renewal expenses by comparing the expenses included in the 30 June 2018 valuation to the approved 2019 budgeted renewal expenses; and
- MMI management's allocation and split between initial and renewal expenses was found to be reasonable.

ANALYSIS OF SURPLUS AND LIABILITY BUILD UP

- The reasonableness of MMI management's explanation of the sources of profits (analysis of surplus) as well as changes in the policyholder liability were assessed by considering the MMI audit team's understanding of changes in policyholder behaviour, valuation methodology and assumptions, given product structures and relevant MMI actuarial committee approved changes.

Key audit matters relevant to the consolidated annual financial statements	How our audit addressed the key audit matters

EQUITY ACCOUNTED EARNINGS OF DISCOVERY LIMITED

Refer to note 38 to the consolidated annual financial statements.

As noted above, the group accounts for its investments in associates under the equity method. The group has 25% ownership interest in a significant associate, Discovery Limited. For the purposes of this audit report, Discovery Limited and its subsidiaries are collectively referred to as Discovery. The group's share of the after-tax profits of Discovery for the year ended 30 June 2018 was R1 418 million and the group's share of Discovery's net assets was R9 244 million as at 30 June 2018.

Discovery's equity accounted earnings contribute significantly to RMI Holdings Limited's consolidated financial results. There is also significant management judgment involved in the determination of the after-tax profits of Discovery, as summarised in the following section. Due to underlying complexities in the judgment involved at the Discovery level and the impact of these complexities on the income attributable to RMI for the current year, we treated the equity accounted earnings of Discovery as a matter of most significance to the audit of the consolidated annual financial statements of the current financial year.

In the context of our audit of the consolidated annual financial statements, the key audit matters relating to the group's share of the profits and net assets of Discovery are summarised as follows:

VALUATION OF ASSETS AND LIABILITIES ARISING FROM INSURANCE CONTRACTS

The valuation of assets and liabilities from insurance contracts of Discovery was considered a matter of most significance as it involves complex and subjective judgment about future events, policyholder behaviour and economic conditions. Assumptions about these matters are made in determining the value of the policyholder assets and liabilities and changes to these may result in a material change to the valuation. The most significant factors in determining the value of the assets and liabilities from insurance contracts relate to:

- Impact of the Vitality programme on the valuation of assets and liabilities arising from insurance contracts;
- Policyholder alterations; and
- Use of discretionary margins with respect to profit recognition.

We obtained the audited financial results of Discovery, evaluated the consistency of its accounting policies with those of the group and compared them to the equity accounted results and movements recorded in the consolidated annual financial statements. We found no exceptions.

Due to the significance of the group's share of the after-tax profits in Discovery, we maintained continual interaction with the Discovery audit team and involvement in their work. We evaluated the identified audit risks at the Discovery level and the audit approach throughout all phases of the audit process, examined working papers and performed cross-review procedures in evaluating the results of the work. We also evaluated the impact of the key audit matters relating to Discovery on the group's consolidated annual financial statements.

Based on the work executed by the Discovery audit team in accordance with our instructions and the procedures noted above, we have determined that the audit work performed and audit evidence obtained were sufficient for our purpose.

The procedures performed on the respective key audit matters included the following:

VALUATION OF ASSETS AND LIABILITIES ARISING FROM INSURANCE CONTRACTS

Actuarial experts performed, amongst others, the following procedures with respect to these balances:

- Understanding Discovery's actuarial control environment and governance such as the functioning of Discovery's actuarial committee;
- Inspection and corroboration of the liability build-up control performed by Discovery management to explain the sources of profit; and
- Challenging the appropriateness of all significant assumptions adopted by Discovery management, by comparing the assumptions to results of actuarial experience investigations conducted by management and benchmarking the assumptions to South African life insurance industry trends. Discovery management's assumptions were found to be reasonable.

Impact of the Vitality programme on the valuation of assets and liabilities arising from insurance contracts:

- The assumptions used by Discovery management in the valuation of the insurance contract assets and liabilities in terms of the Financial Soundness Valuation basis as described in *SAP 104*, as well as the Vitality status distribution were found to be reasonable.

Policy alterations:

- Policy alterations assumptions are not explicitly required in modelling, given that only contractual benefits are explicitly required to be allowed for in line with actuarial guidance. However, it is not unreasonable to make an adjustment to the valuation basis given market practice and the negative experience observed. Through inspection of Discovery's calculation of the estimated impacts of Discovery management's actions and comparing Discovery's approach of adjusting the lapse basis as a proxy for policy alterations on the valuation of policyholder assets and liabilities, the changes to assumptions were found to be reasonable.

Use of discretionary margins with respect to profit recognition:

- The audit of discretionary margins focused on, amongst others, assessing whether all acquisition costs were captured in the determination of the discretionary margins at 30 June 2018, and re-performing Discovery management's reconciliation of the discretionary margin transfer required to match the acquisition costs incurred. The net transfer for the year ended 30 June 2018 closely matched the level of acquisition costs incurred and no material upfront profit had been recognised.

Key audit matters relevant to the consolidated annual financial statements	How our audit addressed the key audit matters
ANNUAL ASSESSMENT OF GOODWILL FOR IMPAIRMENT Discovery has a significant goodwill balance (R2 247 million) on its consolidated statement of financial position as at 30 June 2018, which is subject to estimation uncertainty and significant judgment by management with respect to the inputs to the calculation of the recoverable amount used to assess the goodwill for impairment. The most significant judgments relate to the discount rate applied together with the assumptions supporting the underlying forecast cash flows.	ANNUAL ASSESSMENT OF GOODWILL FOR IMPAIRMENT Discovery management's assessment of goodwill as at 30 June 2018 was evaluated to ascertain whether there was any impairment required of the balance. Discovery management's calculation of the recoverable amount of the goodwill was obtained and the following procedures, amongst others, were performed: • Assessed whether the methodology and source of information for the calculation was consistent with that used in prior years. These were found to be consistent with prior year; • Agreed the cash flows used in the calculation to the cash flows used in the insurance contract and embedded value valuations of the books of business associated with these entities. These were consistently applied and considered reasonable; and • Valuation experts assessed the discount rate for reasonableness by developing an independent range of acceptable discount rates considering other similar entities or transactions. The discount rate used by Discovery management was found to be within the reasonable range.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Rand Merchant Investment Holdings Limited annual financial statements for the year ended 30 June 2018, which includes the directors' report, the audit and risk committee report and the declaration by the company secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report and the other sections of the integrated report 2018, which is expected to be made available to us after that date. Other information does not include the consolidated and separate annual financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate annual financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate annual financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual 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 annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate annual financial statements, the directors are responsible for assessing the group and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate annual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 group's and the company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated and separate annual financial statements, including the disclosures, and whether the consolidated and separate annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated annual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA rule published in *Government Gazette Number 39475* dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of RMI Holdings Limited for eight years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Francois Prinsloo

Registered Auditor
Johannesburg

11 September 2018

Consolidated statement of financial position

as at 30 June

		Group	
R MILLION	Note	2018	2017
Assets			
Property and equipment	1	**1 109**	1 000
Intangible assets	2	**124**	90
Investments in associates	3	**26 413**	24 455
Financial assets			
– Equity securities			
– Available-for-sale	4	**1 067**	996
– Fair value through profit or loss	4	**406**	229
– Debt securities			
– Available-for-sale	4	**102**	105
– Fair value through profit or loss	4	**9 687**	8 510
– Derivative asset	5	**–**	6
– Loans and receivables including insurance receivables	6	**2 634**	2 536
Deferred acquisition cost	7	**307**	338
Reinsurance contracts	8	**286**	672
Deferred taxation	9	**220**	176
Taxation		**3**	–
Cash and cash equivalents	11	**2 417**	2 302
Total assets		**44 775**	41 415
Equity			
Share capital and premium	12	**14 986**	14 328
Reserves	13	**7 386**	4 947
Total shareholders' equity		**22 372**	19 275
Non-controlling interests	39	**1 332**	1 215
Total equity		**23 704**	20 490
Liabilities			
Financial liabilities			
– Preference shares	14	**9 710**	9 710
– Interest-bearing loans	15	**2 730**	2 611
– Financial liabilities at fair value through profit or loss	16	**132**	150
– Derivative liability	17	**36**	8
Insurance contracts	8	**6 725**	6 841
Share-based payment liability	18	**134**	165
Provisions	19	**189**	64
Insurance and other payables	20	**1 158**	1 199
Deferred taxation	9	**54**	53
Taxation		**203**	124
Total liabilities		**21 071**	20 925
Total equity and liabilities		**44 775**	41 415

Consolidated income statement

for the year ended 30 June

		Group	
R MILLION	Note	2018	2017
Continuing operations			
Gross insurance premiums		**15 027**	14 908
Less: Reinsurance premiums		**(847)**	(882)
Net insurance premiums		**14 180**	14 026
Gross change in provision for unearned premiums		**(5)**	57
Reinsurance relating to provision for unearned premiums		**(2)**	(19)
Net insurance premiums earned	21	**14 173**	14 064
Fee and other income	22	**124**	135
Investment income	23	**760**	688
Profit on sale of subsidiary and other realised gains	10	**3**	1
Net fair value losses on financial assets	24	**(66)**	(43)
Net income		**14 994**	14 845
Gross claims paid	25	**(6 919)**	(7 595)
Reinsurance recoveries received	25	**384**	812
Provision for cash bonuses	25	**(395)**	(399)
Transfer to policyholder liabilities under insurance contracts	8.4	**(126)**	(28)
Acquisition expenses	26	**(31)**	(25)
Fair value adjustment to financial liabilities	40	**(193)**	(199)
Marketing and administration expenses	27	**(3 874)**	(3 861)
Profit before finance costs, results of associates and taxation		**3 840**	3 550
Finance costs	29	**(765)**	(414)
Share of after-taxation results of associates	3	**2 328**	1 702
Profit before taxation		**5 403**	4 838
Taxation	30	**(1 136)**	(1 084)
Profit for the year from continuing operations		**4 267**	3 754
Discontinued operation			
Loss for the year from discontinued operation	10	**–**	(49)
Profit for the year		**4 267**	3 705
Attributable to:			
Equity holders of the company		**3 897**	3 327
Non-controlling interests		**370**	378
Profit for the year		**4 267**	3 705
Earnings per share – Continuing and discontinued operations	32	**257.6**	223.9
Diluted earnings per share – Continuing and discontinued operations	32	**252.9**	220.4
Earnings per share – Continuing operations	32	**257.6**	226.5
Diluted earnings per share – Continuing operations	32	**252.9**	223.0

Consolidated statement of comprehensive income

for the year ended 30 June

	Group	
R MILLION	2018	2017
Profit for the year	4 267	3 705
Other comprehensive income for the year		
Items that may subsequently be reclassified to profit or loss		
– Fair value gains and losses on available-for-sale financial instruments	93	(9)
– Deferred taxation relating to available-for-sale financial assets	(21)	2
– Exchange differences on translation of foreign operations	44	(248)
Share of comprehensive income of associates	314	(417)
– Items that may subsequently be reclassified to profit or loss, after taxation	277	(448)
– Items that will not be reclassified to profit or loss, after taxation	37	31
Other comprehensive income for the year	430	(672)
Total comprehensive income for the year	4 697	3 033
Attributable to:		
Equity holders of the company	4 310	2 707
Non-controlling interests	387	326
Total comprehensive income for the year	4 697	3 033

Consolidated statement of changes in equity

for the year ended 30 June

R MILLION	Share capital	Equity accounted reserves	Transactions with non-controlling interests	Other reserves	Retained earnings	Non-controlling interests	Total equity
Balance as at 1 July 2016	13 526	3 939	(2 097)	493	2 695	1 170	19 726
Income statement	–	–	–	–	3 327	378	3 705
Other comprehensive income	–	(417)	–	(203)	–	(52)	(672)
Dividends paid	–	–	–	–	(1 753)	(253)	(2 006)
Issue of shares	760	–	–	–	–	–	760
Income of associate companies retained	–	770	–	–	(770)	–	–
BBBEE cost	–	1	–	–	–	–	1
Movement in treasury shares	37	6	–	–	3	–	46
Transactions with non-controlling interest	–	1	(902)	–	11	44	(846)
Issue of share capital to non-controlling interests by subsidiaries	–	–	–	–	–	71	71
Share-based payment reserve	–	3	–	5	(165)	(23)	(180)
Sale of subsidiary	5	(3)	10	–	(7)	(120)	(115)
Balance as at 30 June 2017	14 328	4 300	(2 989)	295	3 341	1 215	20 490
Income statement	–	–	–	–	3 897	370	4 267
Other comprehensive income	–	311	–	102	–	17	430
Dividends paid	–	–	–	–	(1 571)	(189)	(1 760)
Issue of shares	669	–	–	–	–	–	669
Income of associate companies retained	–	1 181	–	–	(1 181)	–	–
BBBEE cost	–	3	–	–	–	–	3
Movement in treasury shares	(11)	5	–	–	–	–	(6)
Transactions with non-controlling interest	–	58	(356)	–	2	(132)	(428)
Issue of share capital to non-controlling interests by subsidiaries	–	–	–	–	–	54	54
Share-based payment reserve	–	31	–	–	(35)	(4)	(8)
Reserve adjustment of associates	–	(8)	–	–	–	1	(7)
Balance as at 30 June 2018	14 986	5 881	(3 345)	397	4 453	1 332	23 704
Note	12	13	13	13	13	39	

Consolidated cash flow statement

for the year ended 30 June

R MILLION	Note	Group 2018	Group 2017
Cash flows from operating activities			
Cash generated from operations	31	**3 287**	2 638
Interest income		**590**	503
Dividends received		**1 285**	1 085
Income tax paid		**(1 101)**	(1 130)
Cash flows from discontinued operation		**–**	190
Net cash generated from operating activities		**4 061**	3 286
Cash flows from investing activities			
Purchase of property and equipment		**(255)**	(484)
Disposal of property and equipment		**5**	2
Additions to investments		**(9 689)**	(9 215)
Disposals of investments		**8 436**	9 572
Investments in associates		**(216)**	(9 040)
Proceeds on sale of subsidiary		**–**	165
Net cash outflow from investing activities		**(1 719)**	(9 000)
Cash flows from financing activities			
Proceeds from issue of shares		**493**	760
Issue of preference share debt		**–**	9 710
Redemption of preference share debt		**–**	(2 298)
(Borrowings repaid)/cash raised from borrowings incurred		**(50)**	2 367
Cost of funding		**(91)**	(59)
Dividends paid on preference shares in issue		**(677)**	(271)
Dividends paid by subsidiaries to non-controlling interests		**(189)**	(253)
Additional shares acquired in subsidiary		**(360)**	(912)
Cash dividends paid to shareholders		**(1 394)**	(1 753)
Proceeds on issue of shares to non-controlling interest		**54**	71
Net cash (outflow)/inflow from financing activities		**(2 214)**	7 362
Net increase in cash and cash equivalents for the year		**128**	1 648
Unrealised foreign currency translation adjustment on cash and cash equivalents		**(13)**	43
Cash and cash equivalents at the beginning of the year		**2 302**	611
Cash and cash equivalents at the end of the year		**2 417**	2 302

Accounting policies

1. BASIS OF PREPARATION

RMI is an investment holding company. RMI's separate and consolidated annual financial statements are prepared in accordance with:

- International Financial Reporting Standards (IFRS);
- The requirements of the Companies Act, 71 of 2008, as amended;
- The SAICA Financial Reporting Guide as issued by the Accounting Practices Committee;
- The Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council; and
- The Listings Requirements of the JSE Limited.

The annual financial statements are prepared on a going concern basis using the historical cost basis. Exceptions to using the historical cost basis include:

- Certain financial assets and liabilities where the group adopts the fair value basis of accounting;
- The valuation of long-term insurance contract liabilities are done based on the financial soundness valuation basis as detailed in the *Standards of Actuarial Practice (SAP) 104* issued by the Actuarial Society of South Africa (ASSA); and
- Investments in associates are measured using the equity method of accounting.

The preparation of the annual financial statements necessitates the use of estimates, assumptions and judgments that affect the reported amounts in the statement of financial position and profit or loss. Although estimates are based on management's best knowledge and judgments of current facts as at reporting date, the actual outcome may differ from those estimates. Where appropriate, details of estimates are presented in the accompanying notes to the annual financial statements.

All monetary information and figures presented in these annual financial statements are stated in millions of Rand, unless otherwise indicated.

The principal accounting policies applied in the preparation of these separate and consolidated annual financial statements are set out below and are consistent in all material aspects with those applied in the previous financial year.

2. PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING

The consolidated annual financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries.

Accounting policies of subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the group. However, as permitted under *IFRS 4* and stated under section 19, RMI does not enforce uniform accounting policies across its subsidiaries and associates relating to the measurement of insurance liabilities.

SUBSIDIARIES

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and the ability to affect those returns through its power over the entity.

The group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration transferred for the acquisition is measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is accounted for directly in profit or loss.

The results of subsidiary companies acquired or disposed of during the year are included in group profit or loss and group comprehensive income from or to the date on which effective control was acquired or ceased. Transactions with owners are recognised in equity only when control is not lost.

Non-controlling interest is presented in the group statement of financial position within equity, separately from the equity of the owners of the company. Profit or loss and each component of other comprehensive income are attributed to the owners of the group and to the non-controlling interests in proportion to their relative holdings even if this results in the non-controlling interest having a deficit balance.

Intergroup transactions, balances and unrealised gains are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Common control transactions are business combinations in which the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. The consideration transferred for an acquisition of a subsidiary in a common control transaction is measured at the group carrying value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the acquisition date. The acquirer incorporates the assets and liabilities of the acquired entity, at the carrying values that are related to the acquired entity, in the consolidated annual financial statements of the highest entity that has common control for which consolidated annual financial statements are prepared. If no consolidated annual financial statements are prepared, the values used are those from the annual financial statements of the acquired entity.

Any excess or deficit of the consideration transferred in a common control transaction over the cumulative total of the at acquisition date net asset value of the acquiree, the relevant non-controlling interest and the fair value of any previous equity interests held, is recognised directly in equity.

The group consolidates share incentive trusts and collective investment schemes in which it is considered to have control through its voting power or related management contracts.

ASSOCIATES

Associates are entities in which the group has the ability to exercise significant influence, but does not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, without having control. The main indicator that the group uses in this assessment is representation on the board of directors of the investee.

The group includes the results of associates in its consolidated annual financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. Equity accounted earnings, net of dividends received, are transferred to equity accounted reserves. The investment is initially recognised at cost. The group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of associates' other comprehensive movements is accounted for in the group's other comprehensive income. The group's share of associates' movement in other equity is accounted for directly in equity.

Equity accounting is discontinued from the date that the group ceases to have significant influence over the associate. The group measures, at fair value, any investment it has retained in the entity when significant influence is lost and recognises the resulting gain or loss in profit or loss. The gain or loss is measured as the difference between the fair value of this retained investment and the carrying amount of the original investment at the date significant influence is lost.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

SEPARATE ANNUAL FINANCIAL STATEMENTS

In RMI's separate annual financial statements, investments in subsidiaries and associates are carried at cost, which includes transaction costs.

3. BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a business comprises the:

- Fair values of the assets transferred;
- Liabilities incurred to the former owners of the acquired business;
- Equity interests issued by the group;
- Fair value of any asset or liability resulting from a contingent consideration arrangement; and
- Fair value of any pre-existing equity interest in the business.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- Consideration transferred;
- Amount of any non-controlling interest in the acquired entity; and
- Acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

4. REVENUE AND EXPENDITURE RECOGNITION

INTEREST INCOME AND EXPENSE

The group recognises interest income and expense in profit or loss for all instruments measured at amortised cost using the effective interest method. Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities. Dividends received or paid on these instruments are included and accrued in interest income and expense using the effective interest method.

Interest income on instruments designated at fair value through profit or loss is recognised separately in the income statement from other fair value movements.

FAIR VALUE INCOME

The group includes fair value adjustments to assets and liabilities measured at fair value as fair value income in profit or loss.

FEE AND COMMISSION INCOME

The group generally recognises fee and commission income on an accrual basis when the service is rendered. Commission income on acceptances, bills and promissory notes endorsed is credited to income over the lives of the relevant instruments on a time apportionment basis.

DIVIDENDS

The group recognises dividends when the group's right to receive payment is established. This is on the last day to trade for listed shares, and on the date of declaration for unlisted shares.

Dividend income on instruments designated at fair value through profit or loss is recognised separately in the income statement from other fair value movements.

INSURANCE CONTACTS

Revenue treatment is detailed in accounting policy 18.

5. FOREIGN CURRENCY TRANSLATION

FUNCTIONAL AND PRESENTATION CURRENCY

The annual financial statements are presented in South African Rand, which is the functional and presentation currency of RMI.

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

Foreign currency translation differences on monetary items, such as foreign currency bonds, are not reported as part of the fair value gain or loss in other comprehensive income, but are recognised as a translation gain or loss in profit or loss when incurred.

Translation differences on non-monetary items classified as available-for-sale, such as equities, are included in the available-for-sale reserve in other comprehensive income when incurred.

GROUP COMPANIES

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the actual rates at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the statement of comprehensive income as part of the gain or loss on sale.

6. DIRECT TAXES

Direct taxes include South African and foreign jurisdiction corporate tax payable, as well as capital gains tax.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the reporting date, in each particular jurisdiction within which the group operates.

7. RECOGNITION OF PROVISIONS AND CONTINGENT LIABILITIES

PROVISIONS

The group recognises provisions when it has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

CONTINGENT LIABILITIES

The group discloses a contingent liability where:

- It has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- It is not probable that an outflow of resources will be required to settle an obligation; or
- The amount of the obligation cannot be measured with sufficient reliability.

8. FINANCIAL INSTRUMENTS

Financial instruments disclosed in the annual financial statements include cash and cash equivalents, investments, derivative instruments, debtors and short-term loans, trade and other payables and borrowings. Financial instruments are initially recognised at fair value, including transaction costs, when the group becomes party to the contractual terms of the instruments. The transaction costs relating to the acquisition of financial instruments held at fair value through profit or loss are expensed. Subsequent to initial recognition, these instruments are measured as follows:

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. These instruments are carried at amortised cost using the effective interest method.

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

Borrowings are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. The group initially recognises borrowings, including debentures, at the fair value of the consideration received. Borrowings are subsequently measured at amortised cost. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective yield on the debentures over their life span. Interest paid is recognised in profit or loss on an effective interest rate basis.

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities. The dividends on these preference shares are recognised in the income statement as an interest expense. Refer to accounting policy 19.

AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

Other long-term financial instruments are classified as available-for-sale and are carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial instruments are recognised in other comprehensive income in the year in which they arise. When these financial instruments are either derecognised or impaired, the accumulated fair value adjustments are realised and included in income or expense.

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

These instruments, consisting of financial instruments held for trading and those designated at fair value through profit or loss at inception, are carried at fair value. Derivatives are also classified as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these financial instruments are recognised in profit or loss in the year in which they arise.

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

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

DERIVATIVES

Derivatives are either designated as hedging instruments in effective hedging relationships or are classified as held for trading and measured at fair value through profit or loss.

HEDGE ACCOUNTING

Derivative instruments are classified as held either for trading or formally designated as hedging instruments as required by *IAS 39*, which impacts the method of recognising the resulting fair value gains or losses.

For derivatives used as cash flow hedges, the effective portion of changes in the fair value of these derivatives is recognised in the cash flow hedge reserve in other comprehensive income and reclassified to profit or loss in the periods in which the hedged item affects profit or loss. The ineffective portion is recognised immediately in profit or loss as part of fair value gains or losses within non-interest revenue.

Net investment in foreign operations – foreign exchange differences arising from the translation of the net investment in foreign operations (including foreign currency associates), and of related hedging instruments (which include both derivatives and foreign currency-denominated liabilities), are taken to the translation reserve. Such differences are recognised in the income statement upon disposal of the foreign operation or settlement of the net investment.

The group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions at the inception of the transaction. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

NET INVESTMENT HEDGE ACCOUNTING

The group's exposure to foreign operations relate primarily to its holding in Hastings, a newly acquired associate in the United Kingdom (UK). The group has applied net investment hedging of the foreign currency risk associated with the foreign currency operation by formally designating derivatives and foreign currency denominated financial liabilities (hedging instruments) as net investment hedges. The gain or loss on the hedging instruments that are determined to be effective hedges of the net investment are recognised in other comprehensive income and included with the foreign exchange differences arising on translation of the results and financial position of the foreign operation. These amounts will be recognised in the income statement upon settlement of the net investment or disposal of the foreign operation.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

The group derecognises an asset when the contractual rights to the asset expires, where there is a transfer of contractual rights that comprise the asset, or the group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

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

Where the group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the group shall determine whether it has retained control of the financial asset. Where the group has not retained control it shall derecognise the financial asset and recognise, separately as assets or liabilities, any rights and obligations created or retained in the transfer. Where the group has retained control of the financial asset, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Financial liabilities (or portions thereof) are derecognised when the obligation specified in the contract is discharged or cancelled or has expired. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and the amount paid for it, is included in profit or loss.

The fair value of financial instruments traded in an organised financial market is measured at the closing price for financial assets and financial liabilities. The fair value of the financial instruments that are not traded in an organised financial market is determined using a variety of methods and assumptions that are based on market conditions and risk existing at reporting date, including independent appraisals and discounted cash flow methods. Fair values represent an approximation of possible value, which may differ from the value that will finally be realised.

Where a current legally enforceable right of set-off exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

All purchases and sales of financial instruments are recognised at the trade date.

9. PROPERTY AND EQUIPMENT

The group carries property and equipment at historical cost, less depreciation and impairment, except for land which is carried at cost less impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Property and equipment is depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Freehold properties and properties held under finance leases are further broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

The periods of depreciation used are as follows:

Building fixtures and owner-occupied properties	20 to 50 years
Leasehold improvements	3 years
Furniture, fittings and equipment	2 to 6 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Repairs and maintenance are charged to profit or loss during the financial year in which they are incurred. Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in profit or loss on disposal.

10. INTANGIBLE ASSETS

GOODWILL

Goodwill on acquisitions of subsidiaries or businesses is disclosed separately. Goodwill on acquisitions of associates is included in investments in associates.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGU), or groups of CGUs that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

OTHER INTANGIBLE ASSETS

Other intangible assets are stated at historic cost less accumulated amortisation and any recognised impairment losses. Intangible assets are amortised on a straight-line basis over their expected useful lives. The amortisation charge is reflected in marketing and administration expenses in profit or loss.

The carrying amounts of intangible assets are reviewed for impairment if there is an indication of impairment.

11. IMPAIRMENT OF ASSETS

IMPAIRMENT OF NON-FINANCIAL ASSETS

An asset is impaired if its carrying amount is greater than its estimated recoverable amount, which is the higher of its fair value less cost to sell or its value in use. The decline in value is accounted for in profit or loss. If in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and is recognised in profit or loss.

The carrying amounts of subsidiaries and associates are reviewed annually and written down for impairment where necessary.

FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST

The group assesses whether there is objective evidence that a financial asset is impaired at each reporting date. A financial asset is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improved credit rating, the previously recognised impairment loss is reversed and is recognised in profit or loss.

FINANCIAL ASSETS CARRIED AT FAIR VALUE

At each reporting date, the group assesses whether there is objective evidence of possible impairment of available-for-sale financial assets. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. If any such objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss is removed from equity and recognised in profit or loss.

In the case of a debt instrument classified as available-for-sale, the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determining if an impairment exists. The difference between the acquisition cost and the current fair value, less any previous impairment losses recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale equity instruments that were recognised in profit or loss are not subsequently reversed through profit or loss – such reversals are accounted for in the statement of other comprehensive income.

12. DEFERRED TAXATION

The group calculates deferred taxation on the comprehensive basis using the liability method on a statement of financial position-based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates to the temporary differences existing at each reporting date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future years when the carrying amounts of the assets or liabilities are recovered or settled. The group recognises deferred tax assets if the directors consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

The group offsets deferred tax assets and deferred tax liabilities if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

- The same taxable entity; or
- Different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future year in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

13. EMPLOYEE BENEFITS

POST-EMPLOYMENT BENEFITS

The group operates defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant group companies.

For defined contribution plans, the group pays contributions to publicly or privately-administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

LEAVE PAY

The group recognises employees' rights to annual leave entitlement in respect of past service in full.

BONUSES

Management and staff bonuses are recognised as an expense in staff costs as incurred when it is probable that the economic benefits will be paid and the amount can be reliably measured.

INTELLECTUAL PROPERTY BONUSES

In terms of the intellectual property bonus plan, employees were paid intellectual property bonuses based on management's discretion. The beneficiaries under the plan, which included executive directors, executive management, senior and middle management employed on a full-time basis, were subject to retention periods and amounts would need to be repaid should the employee be in breach of the retention period. The intellectual property bonuses are recognised as current service costs over retention periods ranging from six months to two years and are straight-lined over the period of the contract.

14. SHARE CAPITAL

SHARE ISSUE COSTS

Share issue costs directly related to the issue of new shares or options are shown as a deduction from equity.

DIVIDENDS PAID

Dividends paid on ordinary shares are recognised against equity in the year in which they are declared. Dividends declared after the reporting date are not recognised but disclosed as a post-reporting date event.

TREASURY SHARES

Where the company or other entities within the group purchases the company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity. These shares are treated as a deduction from the issued number of shares and taken into account in the calculation of the weighted average number of shares.

DISTRIBUTION OF NON-CASH ASSETS

A dividend payable is recognised when the distributions are appropriately authorised and are no longer at the discretion of the entity. The group measures the liability to distribute the non-cash assets as a dividend to owners at fair value of the asset to be distributed. The carrying amount of the dividend payable is remeasured at the end of each reporting period and on the date of settlement, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the dividend payable and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

Distributions of non-cash assets under common control are specifically excluded from the scope of *IFRIC 17* and are measured at the carrying amount of the assets to be distributed.

15. SEGMENT REPORTING

An operating segment is a component of the group that engages in business activities from which the group may earn revenues and incur expenses. An operating segment is also a component of the group whose operating results are regularly reviewed by the chief operating decision-maker in allocating resources, assessing its performance and for which discrete financial information is available.

The chief operating decision-maker has been identified as the chief executive of the group. The group's identification and measurement of operating segments is consistent with the internal reporting provided to the chief executive. The operating segments have been identified and classified in a manner that reflects the risks and rewards related to the segments' specific products and services offered in their specific markets.

Segments with a majority of revenue earned from charges to external clients and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

16. SHARE-BASED PAYMENTS

The group operates equity-settled and cash-settled share-based compensation plans.

EQUITY-SETTLED

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

The fair values of the options are determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the group revises its estimate of the number of options expected to vest.

CASH-SETTLED

The group measures the services received and liability incurred in respect of cash-settled share-based payment plans at the current fair value of the liability. The group remeasures the fair value of the liability at each reporting date until settled. The liability is recognised over the vesting period and any changes in the fair value of the liability are recognised in profit or loss.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash-on-hand and short-term deposits held with banks. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition.

Short-term deposits with banks are considered to be instruments which are highly liquid and have maturity dates of not more than three months from the reporting date. Short-term deposits which cannot be accessed within this period are classified as financial assets.

18. INSURANCE CONTRACTS

CLASSIFICATION OF INSURANCE CONTRACTS

Contracts issued by the group are governed by the relevant insurance legislation of the country in which the group operates. Contracts under which the group accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or another beneficiary, are classified as insurance contracts.

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

Insurance contracts are classified either as short-term or long-term insurance contracts, depending on the duration of the risk.

RECOGNITION AND MEASUREMENT OF SHORT-TERM INSURANCE CONTRACTS

Short-term insurance provides benefits under short-term policies, typically one year or less, under which the group accepts significant insurance risks from the policyholder if the policyholder incurs losses relating to uncertain future events such as mechanical breakdown of equipment, theft, fire, weather-related events, fraud and third party claims.

PREMIUMS

Gross premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate, in whole or in part, to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude Value Added Tax. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business assumed. The earned portion of premiums received is recognised as revenue. Premiums relating to a future accounting period are included in the unearned premium provision and are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

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

UNEARNED PREMIUM PROVISION

All short-term insurance contracts have even risk profiles. The provision for unearned premiums represents the proportion of the current year's premiums written that relate to risk periods extending into the following year, computed separately for each insurance contract using the 365th method.

INSURANCE CONTRACT CLAIMS INCURRED

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not. Estimates are calculated based on the most recent cost experience of similar claims and includes an appropriate risk margin for unexpected variances between the actual cost and the estimate. Where applicable, deductions are made for salvage and other recoveries. Salvage proceeds are generated upon the successful salvage of damaged insured items after the settlement of the underlying claim. Recoveries are settlements from third parties as a result of involvement in a claim incident for which the third party is responsible. Recoveries are disclosed net of liabilities where the group settles a third party claim on behalf of the client, where the client is responsible for causing a loss to a third party. Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the annual financial statements for the period in which the adjustments are made and disclosed separately.

OUTSTANDING INSURANCE CONTRACT CLAIMS

Provision is made for the estimated final costs of:

- Claims notified but not settled at year-end, using the best information available at that time; and
- Claims incurred at year-end but not reported until after that date (IBNR), using historical experience and the best information available at the time.

Estimates provide for inflation, claim handling expenses as well as a risk margin to allow for the uncertainty in the development of such claims estimates.

Claims handling expenses include all costs directly attributable to the administration of an insurance claim and include the cost of claims assessments.

COMMISSION AND INSURANCE-RELATED FEE INCOME

Commission and insurance-related fee income is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the company and the contractual conditions for the rendering of the related service have been met. Insurance-related fee income is linked to specific actions such as the inception and renewal of policies and the collection of premiums. This income is recognised when these actions have been fulfilled in the course of providing and administering insurance products. Commission income relates to commission earned on the placement of reinsurance treaties.

REINSURANCE

The group cedes reinsurance in the normal course of business to limit its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the group from its direct obligations to its policyholders. Premiums ceded and claims reimbursed are presented separately from the gross amounts.

Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such reinsurance contracts are recognised in the same year as the related claim. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after initial recognition, that the group may not recover all amounts due and that the impact of the event on the amounts that the group will receive from the reinsurer can be measured.

Reinsurance assets are held on the statement of financial position in connection with outstanding claims provisions at the amount of the expected recovery that will be made once the outstanding claim is finalised.

LIABILITIES ADEQUACY TEST FOR UNEXPIRED RISK LIABILITIES

At the end of the reporting period, the adequacy of the unearned premium liabilities is assessed against the present value of the expected future cash flows resulting from potential future claims relating to unexpired periods of insurance contracts in force at the end of the reporting period, plus an additional risk margin to reflect the inherent uncertainty of the central estimate (liability adequacy test). If the unearned premium liabilities, less deferred acquisition costs, are deficient, then the resulting deficiency is recognised immediately in profit or loss. Reinsurance is taken into account, where appropriate.

The deficiency is recognised first by writing off any deferred acquisition costs and, thereafter, any excess is recognised as unexpired risk liabilities in the statement of financial position.

NON-CLAIMS BONUSES ON INSURANCE CONTRACTS

The group provides for its contractual obligation per the contract of insurance to pay a non-claims bonus to a client in the event that the client remains claim free for a specified period of time. To derive the best estimate of the expected future cash flows, the non-claims bonus percentage per the contract of insurance is adjusted for the following factors:

- The bonus percentage is reduced to allow for the probability that the client may claim (and hence forfeit eligibility for the OUTbonus) over the OUTbonus cycle;
- The bonus percentage is reduced to allow for the probability that the client will cancel during the OUTbonus cycle;
- A risk margin is added to allow for the uncertainty relating to the above claims and lapse assumptions; and
- Where the impact of discounting is considered to be material, the expected future obligation is discounted to the present value using an appropriate discount rate reflecting the time value of money.

DEFERRED ACQUISITION COSTS

Directly attributable acquisition costs include advertising and other selling and underwriting costs incurred in generating insurance premium revenue. These acquisition costs are deferred as a deferred acquisition cost (DAC) asset and are amortised systematically over the contractual term of the policy.

Acquisition cost which is deferred is recognised as an asset. The amount of the asset is limited to the amount by which the related unearned premiums exceed the present value of future expected claims plus settlement and policy maintenance costs relating to the policies in force at the reporting date. Where a shortfall exists, the DAC asset is written down and any remaining excess is recognised as unexpired risk liabilities in the statement of financial position.

Acquisition costs on policies with an effective contractual term of one month or less are expensed as incurred.

RECOGNITION AND MEASUREMENT OF LONG-TERM INSURANCE CONTRACTS

Benefits are provided under long-term policies for life protector, underwritten life and funeral plan. Benefits are recorded as an expense when they are incurred.

POLICYHOLDER LIABILITIES

Long-term insurance contracts are valued in accordance with the Financial Soundness Valuation (FSV) method as detailed in the *Standard of Actuarial Practice (SAP) 104* issued by the Actuarial Society of South Africa (ASSA).

The FSV basis is a prospective, discounted cash flow basis calculated as the difference between the present value of future benefit payments and expenses and the present value of future premiums and investment income. The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as prescribed by *SAP 104*. In addition to the compulsory margins, discretionary margins may be added to protect against possible future adverse experience.

Discretionary margins are specifically allowed for to zerorise negative reserves which may arise from the FSV calculation. Such a margin is allowed for after allowing for the acquisition costs.

The zerorisation of negative reserves ensures that profit and risk margins allowed for in premium income are not recognised before it is probable that future economic benefits will flow to the entity.

PREMIUMS

Gross premiums comprise the premiums as received on insurance contracts during the year. Premiums are disclosed before the deduction of commission.

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

REINSURANCE

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

Reinsurance assets are held on the statement of financial position in connection with outstanding claims provisions at the amount of the expected recovery that will be made once the outstanding claim is finalised.

COMMISSION AND INSURANCE-RELATED FEE INCOME

Commission and insurance-related fee income is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the company and the contractual conditions for the rendering of the related service have been met. Insurance-related fee income is linked to specific actions such as the inception and renewal of policies and the collection of premiums. This income is recognised when these actions have been fulfilled in the course of providing and administering insurance products. Commission income relates to commission earned on the placement of reinsurance treaties.

INSURANCE CONTRACT CLAIMS INCURRED

Claims payments on long-term insurance contracts, which include death, disability, critical illness and retrenchment, are charged to profit or loss on notification of a claim. The estimated liability for compensation owed to policyholders is based on the sum assured. Claims which have been reported, but which are outstanding at the reporting date, are recognised in insurance contract liabilities. Reinsurance recoveries are accounted for in the same period as the related claim.

INCURRED BUT NOT REPORTED CLAIMS

Provision is made in the policyholders' liabilities under insurance contracts, in the statement of financial position, for the estimated cost at the end of the year for claims incurred but not reported at that date. These liabilities are not discounted due to the short-term nature of the outstanding claims.

LIABILITY ADEQUACY TEST

At each reporting date, the adequacy of the insurance liabilities is assessed. If that assessment shows that the carrying amount of its insurance liabilities (as measured under the FSV basis) net of any related intangible present value of acquired in-force business (PVIF) assets is inadequate in light of the estimated future cash flows (based on the best estimate basis underlying the FSV basis, but excluding compulsory margins as described in *SAP 104*, as well as any additional discretionary margins), the deficiency is recognised immediately in profit or loss.

NON-CLAIMS BONUSES ON INSURANCE CONTRACTS

The expected non-claims cash bonuses to be paid in future to policyholders on fulfilment of certain claims-related conditions are taken into account in the FSV per *SAP 104*.

DEFERRED ACQUISITION COSTS

Acquisition costs represent all costs directly attributable to the underwriting and acquiring of long-term insurance contracts. These costs are expensed as incurred. The FSV method for valuing insurance contracts allows for the implicit deferral of acquisition costs by valuing future policy changes/premiums levied for recouping these costs and recognising day one profits up to the amount of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the statement of financial position for these contracts.

The level of day one profits is determined with reference to directly attributable acquisition costs. The level of acquisition costs deferred is compared to the negative reserve (excluding directly attributable acquisition costs) available on each individual policy. Where the implicit DAC, the day one gains arising on the deferral of the directly attributable acquisition costs, is greater than the negative reserve available on the policy, the deferral of directly attributable acquisition costs is limited to the negative reserve. Where the DAC is less than the negative reserve, the deferral is limited to the amount of DAC.

ACCOUNTING FOR PROFIT SHARING ARRANGEMENTS

A profit sharing arrangement has been entered into between OUTsurance Insurance Company Limited (OUTsurance) and FirstRand Bank Limited (FirstRand Bank). In terms of this profit sharing arrangement, 90% of the operating profit generated on the homeowners' insurance business referred by FirstRand Bank businesses is paid to FirstRand Bank by way of a biannual preference dividend. Operating losses incurred are for OUTsurance's account. OUTsurance, however, retains the right to offset such losses against future profits generated in the determination of any preference dividends to be paid to the preference shareholder.

These shareholders for preference share dividends are accounted for as a financial liability on the face of the statement of financial position. The profit attributable to the preference shareholder is the fair value movement and the payment of a dividend is treated as a partial settlement of the liability.

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

The policy for the recognition and measurement of insurance contracts applied to the profit sharing arrangements is similar to the policy for short-term insurance above.

19. PREFERENCE SHARES

The group issues fixed and variable rate cumulative, compulsory redeemable preference shares to fund the statutory capital requirements of its insurance subsidiaries and, whilst the timing of the redemption is at the option of the issuer, the group has no intention to defer redemption of the various allotments of shares beyond the duration of the underlying transactions in respect of which the shares were issued. Accordingly, these preference shares are classified as long-term liabilities. The preference shares originated by the group are initially recognised at the amount equal to the proceeds received, less attributable transaction costs and subsequently carried at that value, which equals redemption value. The dividends on these shares are non-discretionary and recognised in profit or loss as a charge against the profit before taxation and are disclosed separately. Provision for dividends payable is disclosed separately in the statement of financial position under current liabilities.

20. DISCONTINUED OPERATION

A discontinued operation is a component of the group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement, statement of comprehensive income and statement of cash flows, with restated comparatives as if the operation had been discontinued from the start of the comparative year. The assets and liabilities of a discontinued operation are presented separately from the other assets and liabilities on the statement of financial position. Assets of a discontinued operation are not depreciated or amortised while they are classified as a discontinued operation.

Discontinued operations are measured at the lower of their carrying amount and fair value less costs to sell, except for assets which are specifically exempt. An impairment loss is recognised for any initial or subsequent write-down of the discontinued operation to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale is recognised at the date of derecognition.

21. ASSET FOR SHARE TRANSACTIONS

Intergroup asset for shares transactions are accounted for at the carrying value of the assets transferred in the accounts of the transferor.

22. AMENDMENTS TO PUBLISHED STANDARDS EFFECTIVE IN THE CURRENT YEAR

During the year new accounting standards, interpretations and amendments were adopted by the group for the first time, including:

Standard	Effective date	Executive summary and impact on the group
Amendment to *IAS 12: Income taxes* Recognition of deferred tax assets for unrealised losses.	1 January 2017 (published February 2016)	The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under *IAS 12*. It does not change the underlying principles for the recognition of deferred tax assets. This amendment has no impact on the group.
Amendment to *IAS 7: Statement of cash flows* Statement of cash flows on disclosure initiative	1 January 2017 (published February 2016)	The amendment introduces additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. A net debt reconciliation is disclosed in note 31.
Annual improvements 2014 – 2016	Annual periods beginning on or after 1 January 2017 (published December 2016)	The scope of *IFRS 12: Disclosure of interests in other entities* was clarified. The disclosure requirement of *IFRS 12* is applicable to interests in entities classified as held for sale, except for summarised financial information (para B17 of *IFRS 12*). Previously, it was unclear whether all other *IFRS 12* requirements were applicable for these interests. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. This amendment has no impact on the group as no entities were held for sale in the financial year ended 30 June 2018.

23. STANDARDS, AMENDMENTS AND INTERPRETATIONS PUBLISHED THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP

The following new standards and interpretations to the existing standards are not yet effective for the current financial year. The group has not early adopted them and, unless otherwise stated, it is not expected that they will have any material impact on the group's results but may result in additional disclosures in the annual financial statements.

Standard	Effective date	Executive summary and impact on the group
Amendments to *IFRS 2: Share-based payments* Clarifying how to account for certain types of share-based payment transactions.	1 January 2018 (published June 2016)	This amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in *IFRS 2* that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. This amendment is not expected to have an impact on the group.
IFRS 15: Revenue from contracts with customers.	1 January 2018 (published May 2014 and amendment published April 2016)	This standard establishes a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or service transfers to a customer. *IFRS 15* is only applicable to non-insurance revenue within the group and will not have a material impact.

Standard	Effective date	Executive summary and impact on the group
IFRS 9: Financial instruments Financial liabilities Derecognition of financial instruments Financial assets General hedge accounting	1 January 2018 (published July 2014)	This standard replaces the guidance in *IAS 39*. It includes requirements on the classification and measurement of financial assets and liabilities. It also includes an expected credit losses model that replaces the current incurred loss impairment model. The group assessed the classification of its financial assets and liabilities in terms of *IFRS 9*. Subject to the final approval of all the relevant governance structures, the impact of the reclassification would be restricted to available-for-sale financial assets being reclassified to assets at fair value through profit or loss on 1 July 2018, with a resultant reclassification of the available-for-sale reserve as at 1 July 2018 to retained earnings. This reclassification will result in higher volatility in profit in future, as the fair value movement of these assets will be recorded in profit or loss and not through other comprehensive income. There will be no impact on the classification of financial liabilities. The expected credit losses model will have an immaterial impact on some of the group's associates on assets carried at amortised cost on their statements of financial position. This will result in an immaterial impact on the equity accounted reserves balance of the group as at 1 July 2018. The impact on loans and receivables carried on the group statement of financial position will also be immaterial, due to the short-term nature of the financial assets subject to the impairment model and the low historical losses suffered.
IFRS 9: Financial instruments Prepayment features with negative compensation Modification of financial liabilities	1 January 2019 (published October 2017)	This narrow-scope amendment allows companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met. This amendment is not expected to have an impact on the group as no such financial assets are issued by the group. This narrow-scope amendment confirms that most modifications of financial liabilities will result in the immediate recognition of a gain or loss. This amendment is not expected to have an impact on the group as the group does not have borrowings which can be renegotiated.
IFRS 16: Leases	1 January 2019 – earlier application permitted if *IFRS 15* is also applied (published January 2016)	The new standard requires lessees to recognise assets and liabilities arising from all leases in the statement of financial position. Lessor accounting has not substantially changed in the new standard. A lessee will measure the lease liabilities, including costs directly related to entering into the lease. Lease assets will be amortised in a similar way to other assets such as property, plant, and equipment. A lessee will not be required to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture). *IFRS 16* supersedes *IAS 17: Leases, IFRIC 4: Determining whether an arrangement contains a lease, SIC 15: Operating leases – incentives* and *SIC 27: Evaluating the substance of transactions involving the legal form of a lease.* An assessment of the impact is currently underway to ensure that the group is fully prepared for implementation on the effective date.

Standard	Effective date	Executive summary and impact on the group
IFRS 4: Insurance contracts Regarding the implementation of *IFRS 9: Financial instruments*	1 January 2018 (published September 2016)	These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will: • Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when *IFRS 9* is applied before the new insurance contracts standard is issued; and • Give companies whose activities are predominantly connected with insurance an optional exemption from applying *IFRS 9* until 2021. The entities that defer the application of *IFRS 9* will continue to apply the existing financial instruments standard – *IAS 39*. This amendment will not have an impact on the group as *IFRS 9* is to be implemented on the effective date and neither option introduced by the amendment will be applied.
IFRIC 22: Foreign currency transactions and advance consideration	1 January 2018 (published December 2016)	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice. The group has assessed the impact of the interpretation on its annual financial statements going forward and the impact is not considered material.
Annual improvements 2014 – 2016	Annual periods beginning on or after 1 January 2018 (published December 2016)	These amendments impact on the following standards: • *IFRS 1: First-time adoption of IFRS*, regarding the deletion of short-term exemptions for first-time adopters regarding *IFRS 7*, *IAS 19*, and *IFRS 10* effective 1 January 2018. This amendment has no impact on the group. • *IAS 28: Investments in associates and joint ventures*, regarding measuring an associate or joint venture at fair value. *IAS 28* allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The board clarified that this election should be made separately for each associate or joint venture at initial recognition, effective 1 January 2018. This amendment has no impact on the group.
IAS 28: Investments in associates and joint ventures	1 January 2019 (published October 2017)	This amendment provides clarification that an entity should apply *IFRS 9* to long-term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture but to which the equity method is not applied. This amendment is not expected to have a material impact on the group.
IFRIC 23: Uncertainty over income tax treatments	1 January 2019 (published June 2017)	This IFRIC specifies how an entity should reflect the effects of uncertainties in accounting for income taxes. This interpretation is not expected to have a material impact on the group.

Standard	Effective date	Executive summary and impact on the group
Annual improvements 2015 – 2017	1 January 2019 (published December 2017)	These amendments impact the following standards: • *IFRS 11: Joint Arrangements,* regarding clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. This amendment is not expected to have an impact on the group. • *IAS 12: Income Taxes*, regarding clarification that all income tax consequences of dividends should be recognised in profit or loss regardless of how the tax arises. This amendment is not expected to have an impact on the group. • *IFRS 3: Business Combinations*, regarding clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure all previously held interests in that business. This amendment is not expected to have an impact on the group. • *IAS 23: Borrowing Costs*, provides clarification that when calculating the capitalisation rate on general borrowings, the entity should include borrowings that remain outstanding after the related asset is ready for its intended use or sale. This amendment is not expected to have an impact on the group.
IFRS 17: Insurance contracts	1 January 2021 (published May 2017) Earlier application is permitted if both *IFRS 15: Revenue from Contracts with Customers* and *IFRS 9: Financial Instruments* have also been applied.	*IFRS 17: Insurance contracts*, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of *IFRS 17* is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of annual financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. *IFRS 17* supersedes *IFRS 4: Insurance contracts.* The standard will have an impact on the group's current reported financial position and future revenue recognition. The group has an *IFRS 17* committee facilitating implementation of *IFRS 17* within the group to ensure that group is fully prepared for implementation on the effective date. This committee provides regular feedback on its progress to the various governance structures within the group.
Amendments to IFRS 10: Consolidated financial statements and *IAS 28: Investments in associates and joint ventures on sale or contribution of assets*	Effective date postponed (initially 1 January 2016)	The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to *IFRS 10: Consolidated financial statements* and *IAS 28: Investments in associates and joint ventures*. These changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures. The reason for postponing the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. The amendments are not expected to have a material impact on the group.

24. CRITICAL ACCOUNTING ASSUMPTIONS

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimation of the ultimate liability arising from claims made under insurance contracts is the group's most critical accounting estimate. This liability comprises short- and long-term insurance contracts. Several sources of uncertainty have to be considered in estimating the liability that the group will ultimately be exposed to for such claims. The risk environment can change quickly and unexpectedly owing to a wide range of events or influences. The group is constantly refining the tools with which it monitors and manages risks to place the group in a position to assess risk situations appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which the group operates means that there cannot be absolute certainty in the measurement of the insurance contract liability when it comes to identifying risks at an early stage.

Refer to the integrated report of Discovery Limited (at **www.discovery.co.za**) for information on critical accounting assumptions and estimates with specific reference to: valuation of assets and liabilities arising from insurance contracts and annual assessment of goodwill for impairment.

Refer to the integrated report of MMI Holdings Limited (at **www.mmiholdings.co.za**) for information on critical accounting assumptions and estimates with specific reference to the valuation of insurance contract liabilities.

Refer to the integrated report of Hastings Group Holdings plc (at **www.hastingsplc.com**) for information on critical accounting assumptions and estimates with specific reference to the valuation of insurance contract liabilities.

SHORT-TERM INSURANCE

CLAIMS RESERVES

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

The estimate for claims incurred but not reported (IBNR) is calculated as a percentage of historic net written premium. The required IBNR percentage is calculated with reference to the run-off period of incurred claims. The overall IBNR percentage represents the weighted average of the required IBNR per business class, weighted by the net written premium generated by each business class.

The claims reserve is held so as to be at least sufficient at the 75^{th} percentile of the ultimate cost distribution. The difference between this 75^{th} percentile and the best estimate is considered to be an appropriate risk margin. Claims are considered to be the most sensitive to changes in assumptions, therefore a sensitivity analysis is performed.

	30 June 2018	
R MILLION	South African short-term operations	Australasian short-term operations
70^{th} percentile	**737**	**954**
75^{th} percentile	**751**	**974**
80^{th} percentile	**767**	**995**

	30 June 2017	
R MILLION	South African short-term operations	Australasian short-term operations
70^{th} percentile	714	903
75^{th} percentile	728	923
80^{th} percentile	744	933

LIABILITY FOR NON-CLAIMS BONUSES ON INSURANCE CONTRACTS

The provision for non-claims cash bonuses is determined with reference to the contractual obligation per the contract of insurance adjusted for expected future claims and client cancellations based on historical experience. A risk margin is added to the best estimate of the future liability to allow for the uncertainty relating to future claims and cancellation experience. The risk margin is calibrated to ensure that the provision is at least sufficient at the 75^{th} percentile of the ultimate cost distribution.

LONG-TERM INSURANCE

VALUATION OF POLICYHOLDER LIABILITIES

Long-term insurance liabilities are valued based on the FSV method which is a prospective, discounted cash flow basis calculated as the difference between the present value of future benefit payments and expenses and the present value of future premiums. The calculation is based on the best estimate of cash flows and compulsory margins are added to allow for risk and uncertainty, based on the requirements of *SAP 104*.

The following compulsory margins were applied in the valuation of the policyholder liabilities as at 30 June 2018:

Assumption	Margin
Investment return	0.25% increase/decrease*
Mortality	7.5% increase
Morbidity	10% increase
Disability	10% increase
Retrenchment	15% increase
Expenses	10% increase
Expense inflation	10% increase of estimated escalation rate
Lapses	25% increase/decrease* on best estimate

* Depending on which change increases the liability.

In addition to the above compulsory margins, discretionary margins may be added to protect against future possible adverse experience. A discretionary margin is added to allow for the zerorisation of negative reserves after taking into account the release of negative reserves to offset the acquisition costs. The mortality and morbidity assumptions both have a discretionary margin of 10%.

For the purposes of determining the value of the policyholder liability for prudential regulatory purposes, the release of negative reserves to offset the acquisition costs is ignored in the statutory valuation method calculation.

DEMOGRAPHIC ASSUMPTIONS

The best estimate assumptions with regard to dread disease and disability, mortality and retrenchment rates were set equal to those used in the most recent pricing basis as developed by the reinsurer and approved by the statutory actuary. Provision has been made for the expected increase in the occurrence of AIDS-related claims.

ECONOMIC ASSUMPTIONS

Investment return

The group calculates its investment return assumption using a full yield curve as opposed to using a point estimate on the underlying yield curve. The comparative point estimate of the current yield curve at the appropriate duration at the valuation date is 9.9% (2017: 11.8%).

Inflation

The group calculates its inflation assumption using a full inflation curve as opposed to using a point estimate on the underlying inflation curve, derived from nominal and real curves. The comparative point estimate of the current inflation curve at the appropriate duration at the valuation date is 7.9% (2017: 9.1%).

Taxation

Future taxation and taxation relief are allowed for at the rates and on the bases applicable to section 29A of the Income Tax Act at the reporting date. The group's current tax position is taken into account and the taxation rates, consistent with that position and the likely future changes in that position, are allowed for.

CLAIMS RESERVES

In addition to the discounted cash flow liability, both an IBNR and an outstanding claims reserves (OCR) provision are held. The IBNR was set using a claims run-off model based on recent experience and best estimates. The OCR is set using the actual estimate outstanding claims as at year-end.

Refer to note 8 for a sensitivity analysis of the long- and short-term insurance contract liability which illustrates the impact of the assumptions and judgments on the measurement of the insurance contract liability.

VALUATION OF INTANGIBLE ASSETS

The group identified an intangible asset on its acquisition of an equity stake in Ethos made in the 2018 financial year (2017: Hastings, Entersekt, Polar Star and Sesfikile Capital).

During the purchase price allocation (PPA) process, the group identified client relationships as an intangible asset in the Ethos transaction. The PPA process and the estimation of fair value of intangible assets are inherently uncertain. The valuation of the intangible assets at acquisition date may be refined over the next 12 months resulting in a prospective restatement.

Client relationships are recognised on acquisition at fair value and are subsequently measured using the historical cost method. Historical cost is derived by reducing the original fair value by accumulated amortisation and impairment losses. These intangible assets are amortised over their useful lives and only tested for impairment if an indication of impairment arises.

CLIENT RELATIONSHIPS

The calculations of the client relationships intangible asset for Ethos in the current financial year was performed based on the present value of management's best estimate of future earnings to be derived from clients existing at the acquisition date. Some of the key assumptions include lapse rates, expense growth, profit margins and market growth in assets. The client relationships intangible assets identified in the Polar Star and Sesfikile Capital transactions are amortised over a ten-year period and the value of business intangible asset in Hastings and client relationships intangible assets in Ethos and Entersekt are amortised over five years.

The group did not adjust the intangible assets nor did it recognise any additional assets or liabilities relating to the acquisitions made in the 2017 financial year during the measurement period.

Management of insurance and financial risk

RISK MANAGEMENT FRAMEWORK

The group has developed an enterprise risk management framework to provide reasonable assurance that the group's risks are being prudently and soundly managed. The framework is designed according to acceptable principles of corporate governance and risk management standards. The risk management framework outlines the key risks facing the business and how these risks are monitored and mitigated.

Risk and governance oversight is provided by the board, audit and risk committee, social, ethics and transformation committee, investment committee, remuneration committee, directors' affairs and governance committee and nominations committee at the RMI holding company level. There are various other committees at investee company level overseeing risk and governance matters at operational level. The three main focus areas are the management of insurance risk, the management of financial risk and capital management.

1. MANAGEMENT OF INSURANCE RISK

1.1 BACKGROUND AND INSURANCE RISK MANAGEMENT PHILOSOPHY

The following table shows the gross insurance contract liabilities of the group:

R MILLION	30 June 2018	2017
Gross insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	1 340	1 575
– Claims incurred but not reported	570	603
– Unearned premiums	4 032	3 990
– Insurance contracts cash bonuses	436	440
Long-term insurance contracts	347	233
Total gross insurance contract liabilities	6 725	6 841

OUTsurance is a direct personal lines and small business short-term insurer and provides long-term insurance to individuals in the form of death, disability, critical illness, funeral and retrenchment cover.

Due to the appropriate use of reinsurance and catastrophe cover, the RMI group believes that there is no single risk or event that represents a significant concentration of insurance risk for the group. The management of insurance risk is presented separately for short-term and long-term insurance.

1.2 SHORT-TERM INSURANCE

TERMS AND CONDITIONS OF INSURANCE CONTRACTS

OUTsurance conducts short-term insurance business on the following classes of short-term insurance risk, indicated as a percentage of total gross written premium per risk category:

TYPES OF INSURANCE CONTRACTS WRITTEN	30 June 2018 Percentage of total gross written premium: Personal lines	Commercial
Personal accident	<1.0%	<1.0%
Liability	–	13.6%
Miscellaneous	<1.0%	–
Motor	64.4%	57.7%
Property	35.1%	26.6%
Transportation	<1.0%	2.0%

TYPES OF INSURANCE CONTRACTS WRITTEN	30 June 2017 Percentage of total gross written premium: Personal lines	Commercial
Personal accident	<1.0%	<1.0%
Liability	–	14.4%
Miscellaneous	<1.0%	–
Motor	64.9%	57.6%
Property	34.4%	25.9%
Transportation	<1.0%	1.9%

The personal lines segment of the business (92.0% of total short-term insurance business based on gross written premiums) provides insurance to the general public allowing them to cover their personal possessions and property. The commercial segment of the business (8.0% of total short-term insurance business based on gross written premiums) targets medium and small businesses in South Africa. Insurance products are sold with either a monthly or an annual premium payable by the covered party or entity. The following gives a brief explanation of each risk:

Personal accident

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

Liability
Provides cover for risks relating to incurring a liability other than a liability relating to a risk covered more specifically under another insurance contract.

Miscellaneous
Provides cover relating to all other risks that are not covered more specifically under another insurance contract.

Motor
Provides indemnity cover relating to the possession, use or ownership of a motor vehicle. The cover includes comprehensive cover, third party, fire, theft and liability to other parties.

Property
Provides indemnity relating to damage to movable and immovable property caused by perils including fire, explosion, earthquakes, acts of nature, burst geysers and pipes and malicious damage.

Transportation
Provides cover to risks relating to stock in transit.

INSURANCE RISKS

Insurance risk is a risk other than a financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, in the case of a non-financial variable, that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

The primary activity of the group relates to the assumption of possible loss arising from risks to which the group is exposed through the sale of short-term insurance products. Insurance risks to which the group is exposed relate to property, personal accident, liability, motor, transportation and other miscellaneous perils that may result from a contract of insurance. The group is exposed to uncertainty regarding the timing, magnitude and frequency of such potential losses.

The theory of probability forms the core base of the risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, the group can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio. Insurance perils are unpredictable in nature, timing and extent which expose the group to a risk that the effect of future insured losses could exceed the expected value of such losses.

Along with its underwriting approach, the group also manages its insurance risk through its reinsurance programme which is structured to protect the group against material losses to either a single insured risk, or a group of insured risks in the case of a catastrophe where there would tend to be a concentration of insured risks. The reinsurance programme also provides protection against the occurrence of multiple catastrophe events.

The underwriting of insurance risk and the passing on of excessive insurance risk to reinsurers is further described below.

UNDERWRITING STRATEGY

The group aims to diversify the pool of insured perils through writing a balanced portfolio of insurance risks over a large geographical area. Products are priced using statistical regression techniques which identify risk factors through correlations identified in past loss experiences. Risk factors would typically include factors such as age of the insured person, past loss experiences, past insurance history, type and value of asset covered, security measures taken to protect the asset, major use of the covered item and so forth. Risks are priced and accepted on an individual basis and, as such, there is a minimal cross subsidy between risks. Insurance premiums charged for a certain pool of risks are adjusted frequently according to the normalised loss ratios experienced on that pool of risks.

Insurance risk is monitored within the group on a daily basis to ensure that risks accepted by the group for its own account are within the limits set by the board of directors. Exception reporting is used to identify areas of concentration of risk so that management is able to consider the levels adopted in the reinsurance programme covering that pool of risk.

Risks are rated individually by computer software programmes based on information captured by staff for each risk. Conditions and exclusions are also automatically set at an individual risk level. Individual risks are only automatically accepted up to pre-determined thresholds which vary by risk type. Risks with larger exposure than the thresholds are automatically referred and underwritten individually by the actuarial department. These limits are set at a substantially lower level than the reinsurance retention limits. No risks which exceed the upper limits of the reinsurance can be accepted without the necessary facultative cover being arranged. Non-claims bonuses which reward clients for not claiming also form part of the group's underwriting strategy.

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

REINSURANCE STRATEGY

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

CONCENTRATIONS OF RISK AND MITIGATING POLICIES

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

Based on gross written premium, 53.5% of the short-term insurance business is exposed to South-Africa and 46.5% is exposed to Australasia. The South African operation is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 50.3% (2017: 52.4%) of the total sum insured is domiciled. The Australian operation is exposed to a concentration of insurance risk in South East Queensland where 22.0% (2017: 21.4%) of the total sum insured is domiciled. The New Zealand operation is exposed to a concentration of insurance risk in Auckland where 53.3% (2017: 53.6%) of the total sum insured is domiciled. The concentration risk which arises in each insurance entity is mitigated through the catastrophe excess of loss programme entered into by that entity.

EXPOSURE TO CATASTROPHES AND POLICIES MITIGATING THIS RISK

Catastrophe modelling is performed to determine the impact of different types of catastrophe events (including natural disasters) in different geographical areas, at different levels of severity and at different times of the day. Catastrophe limits are set to render satisfactory results to these simulations. The catastrophe cover is also placed with reinsurers with a reputable credit rating and cognisance is taken of the geographical spread of the other risks underwritten by the reinsurers in order to reduce correlation of the group's exposure with the balance of reinsurers' exposure. These reinsurance models are run at least annually to take changes in the portfolio and the latest potential loss information into account.

PROFIT SHARING ARRANGEMENTS

A profit sharing arrangement has been entered into between OUTsurance and FirstRand Bank. In terms of this profit sharing arrangement, 90% of the operating profit generated on the homeowners' insurance business referred by FirstRand Bank businesses is paid to FirstRand Bank by way of a bi-annual preference dividend. Where operating losses arise, OUTsurance remains liable for such losses in full, but these losses may be offset against future profit distributions.

1.3 LONG-TERM INSURANCE

TERMS AND CONDITIONS OF INSURANCE CONTRACTS

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

- Underwritten life;
- Life protector; and
- Funeral plan.

The following gives a brief explanation of each product:

UNDERWRITTEN LIFE

The underwritten life insurance product is a fully underwritten product and covers the following insurance risks:

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

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

An optional OUTbonus is also available to policyholders. This allows the policyholder to receive all premiums paid over a period of 15 years if all terms and conditions are met.

LIFE PROTECTOR

The life protector product is a limited underwritten product and covers the following insurance risks:

- Death cover;
- Disability cover;
- Critical illness cover;
- Retrenchment cover;
- Temporary disability cover;
- Family funeral cover; and
- Premium waiver.

In the event of a valid death, permanent disability (occupational disability) or critical illness claim, OUTsurance Life pays the contractual sum assured. The policyholder's OUTsurance Personal cover premiums will also be waived following a valid claim. In the event of a valid temporary disability or retrenchment claim, OUTsurance Life undertakes to pay the policyholder a monthly instalment of a specified percentage of the sum assured as well as the premium for the specified period.

FUNERAL PLAN

The OUTsurance funeral plan product is a limited underwritten product and provides the following cover:

- Death cover;
- Stillborn benefit;
- Premium waiver; and
- Repatriation benefit.

INSURANCE RISKS

The primary activity of OUTsurance Life relates to the assumption of loss arising from risks to which it is exposed through the sale of long-term insurance products. It is exposed to uncertainty regarding the timing, magnitude and frequency of such potential losses.

The theory of probability forms the core base of the risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, OUTsurance Life can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio.

Along with its underwriting approach, OUTsurance Life also manages its retention of insurance risk through its quota share and excess of loss reinsurance programme which is structured to protect it against material losses on single insured risks.

The underwriting of insurance risk and the passing on of excessive insurance risk to reinsurers is further described below:

MORTALITY AND MORBIDITY RISK

Mortality risk is the risk of loss arising due to actual death rates on life insurance business being higher than expected. Morbidity risk is the risk of loss arising due to policyholder health-related claims being higher than expected.

The following processes and procedures are in place to manage mortality and morbidity risk:

- Premium rates are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claims experience such as medical history and condition, age, gender, smoker status and HIV status;
- The expertise of reinsurers is used for pricing where adequate claims history is not available; and
- Reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual policy and provide cover in catastrophic events.

UNDERWRITING EXPERIENCE RISK

There is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of the claims being higher than expected. Selection risk is the risk that worse than expected risks are attracted and inadequate premiums are charged. There is also a risk that the number of claims can increase due to the emergence of a new disease or pandemic.

Underwriting experience risk is managed through:

- **Product design and pricing**
  Rating factors are applied to different premium rates to differentiate between different levels of risk. Amongst other, premiums are differentiated by age, gender, smoking status and medical history. Premium rates are approved and reviewed by the statutory actuary.
- **Underwriting**
  Underwriting ensures that only insurable risks are accepted and that premiums accurately reflect the unique circumstances of each risk. The group has developed an advanced medical underwriting system which captures detailed information regarding the clients' medical history and conditions which are used for premium adjustments and to indicate where further underwriting is required by experienced medical underwriters. To verify the accuracy of client data, all new clients are subject to various medical tests. Quality audits are performed on the underwriting process to ensure underwriting rules are strictly followed.
- **Reinsurance**
  OUTsurance Life's quota share and excess of loss reinsurance programme mitigates claims volatility and risk accumulation. Reinsurers also assist with pricing and product design decisions.
- **Experience monitoring**
  Experience investigations are conducted and corrective action is taken where adverse experience is noted.

LAPSE RISK

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

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

MODELLING AND DATA RISK

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

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

Data risk is managed by using internal systems and warehouse technology which is used by all companies within the group. Data reports are readily available and frequently used by management to track performance and verify experience variables.

EXPENSE RISK

Expense risk is the risk that actual expenses are higher than the budgeted expenses on which premium rates are calculated. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from budget is investigated, reported and remedial action is taken where necessary.

NON-CLAIMS BONUS RISK

Non-claims bonus risk is the risk that the future contractual bonus payments are higher than assumed in the calculation of the policyholder liability (lapse risk) or that the investment return received is lower than expected (economic risk).
A decrease in the lapse rate will result in an increase in the non-claims bonus risk. This risk is managed by applying an appropriate lapse assumption to allow for uncertainty.
A decrease in interest rates would result in a lowering of the investment return achieved on the assets backing the bonus liabilities, increasing the economic risk. This risk is mitigated by a zero-coupon deposit matching strategy, where the investment return on the zero-coupon deposit matches the required investment return in both timing and amount.

2. MANAGEMENT OF FINANCIAL RISK

The group is exposed to various financial risks in connection with its current operating activities, such as market risk, credit risk, liquidity risk and capital adequacy risk. These risks contribute to the key financial risk that the proceeds from the group's financial assets might not be sufficient to fund the obligations arising from insurance and investment policy contracts.

To manage these risks the subsidiary and associate boards established sub-committees to which they have delegated some of their responsibilities in meeting their corporate governance and fiduciary duties. The sub-committees include an audit and risk committee, a compliance committee, an investment committee, an actuarial committee and a remuneration committee. Each committee adopted a charter, which sets out the objectives, authority, composition and responsibilities of the committee. The boards approved the charters of these committees.

Additional information on the management of financial risks is provided below.

2.1 MARKET RISK

Market risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

2.1.1 CURRENCY RISK

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

The group's exposure to currency risk is mainly in respect of foreign investments made. The group has invested in foreign subsidiaries operating in Australia and New Zealand. The group also invested in Hastings during the 2017 financial year and funded a portion of the acquisition price with a £150 million loan.

The operations as described expose the group to foreign currency translation risk. The board monitors these exposures on a quarterly basis. Any significant changes in the foreign currency balances are followed up throughout the period and are reported to the board. The table on the following page lists the group's exposure to foreign currency risk:

R MILLION	Rand	Australian Dollar (AUD)	New Zealand Dollar (NZD)	British Pound (GBP)	Total
30 June 2018					
Total assets	35 323	8 781	671	–	44 775
Total liabilities	12 228	5 856	267	2 720	21 071
Exchange rates:					
Closing rate		10.15	9.29	18.13	
Average rate		9.90	9.10	17.29	

R MILLION	Rand	Australian Dollar (AUD)	New Zealand Dollar (NZD)	British Pound (GBP)	Total
30 June 2017					
Total assets	33 178	8 177	60	–	41 415
Total liabilities	12 762	5 581	31	2 551	20 925
Exchange rates:					
Closing rate		10.03	9.57	17.01	
Average rate		10.25	9.71	16.65	

Currency translation risk

The potential effect on the group profit or loss and the equity of the group after an appreciation or depreciation in the Rand is provided in the following table:

R MILLION	AUD 10% Appreciation	AUD 10% Depreciation	NZD 10% Appreciation	NZD 10% Depreciation	GBP 10% Appreciation	GBP 10% Depreciation
30 June 2018						
Profit or loss	(83)	83	(10)	10	(73)	73
Equity	(293)	293	(40)	40	(382)	382

R MILLION	AUD 10% Appreciation	AUD 10% Depreciation	NZD 10% Appreciation	NZD 10% Depreciation	GBP 10% Appreciation	GBP 10% Depreciation
30 June 2017						
Profit or loss	(65)	65	6	(6)	(22)	22
Equity	(213)	213	(37)	37	(336)	336

Currency risk

The potential impact on the group profit or loss and the equity of the group in respect of the £150 million loan incurred to partially fund the investment in Hastings is provided in the following table:

R MILLION	GBP 10% Appreciation	GBP 10% Depreciation
30 June 2018		
Profit or loss	–	–
Equity	272	(272)

R MILLION	GBP 10% Appreciation	GBP 10% Depreciation
30 June 2017		
Profit or loss	–	–
Equity	255	(255)

2.1.2 INTEREST RATE RISK

Interest rate risk is when the fair value of future cash flows of a financial instrument fluctuate because of changes in market interest rates.

The group makes use of asset managers and internal resources to invest in securities exposed to interest rate risk. The securities managed by asset managers are contractually agreed to with specific risk levels. The internally managed money market investments are managed in line with the mandate approved by the investment committee. The investment committee monitors the performance of all the investments and reports to the board on a quarterly basis.

The table below reflects the exposure to interest rate risk, which represents a fair value risk for fixed rate instruments and a cash flow risk for variable rate instruments. An increase or decrease in the market interest rate would result in the following changes in profit or loss before tax of the group (no impact on other comprehensive income):

	30 June 2018		30 June 2017	
R MILLION	**200 bps increase**	**200 bps decrease**	200 bps increase	200 bps decrease
Financial assets				
Fixed rate instruments				
Government, municipal and public utility securities	3	(3)	2	(2)
Term deposits	105	(105)	89	(89)
Unsecured loan	1	(1)	–	–
Money market instruments	5	(5)	4	(4)
Cash and cash equivalents	1	(1)	1	(1)
Variable rate instruments				
Unlisted preference shares	2	(2)	2	(2)
Collective investment scheme	1	(1)	1	(1)
Government, municipal and public utility securities	8	(8)	7	(7)
Money market instruments	51	(51)	47	(47)
Cash and cash equivalents	47	(47)	45	(45)

2.1.3 OTHER PRICE RISK

Equity risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity securities are mandated to stockbrokers and asset managers. Asset managers' mandates include benchmarks, by which performance is measured, based on fee structures. The investment committee monitors the performance for each asset manager against benchmarks and reports to the board on a quarterly basis.

All equities are split between listed and unlisted securities. The table below reflects the shareholders' exposure to equity price risk. A hypothetical 10% increase or decrease in the equity prices would result in the following changes in profit or loss (P or L) or other comprehensive income (OCI) of the group:

	30 June 2018		30 June 2017	
R MILLION	10% increase	10% decrease	10% increase	10% decrease
Financial assets				
Listed preference shares (OCI)	35	(35)	38	(38)
Derivative asset (P or L)	16	(16)	17	(17)
Collective investment scheme (P or L)	11	(11)	10	(10)
Listed equity shares (OCI)	73	(73)	62	(62)
Listed equity shares (P or L)	15	(15)	13	(13)
Financial liabilities				
Derivative liability (P or L)	(13)	13	(10)	10

2.2 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The key areas where the group is exposed to credit risk are:

- Unlisted preference shares;
- Debt securities;
- Loans and receivables;
- Reinsurance contracts; and
- Cash and cash equivalents.

Significant concentrations of credit risk are disclosed in the annual financial statements. The credit exposure to any one counterparty is managed by the board in accordance with the requirements of the Short-term Insurance Act, 53 of 1998, and Long-term Insurance Act, 52 of 1998, and by setting transaction/exposure limits, which are reviewed at each board and audit and risk committee meeting. The credit worthiness of existing and potential clients is monitored quarterly at the board meeting and bi-annually by the actuarial committee and investment committee.

The table below provides information on the credit risk exposure by credit ratings at year-end (if available):

	30 June 2018							
R MILLION	AAA	AA	A	BBB	BB	B	Not rated	Total
Collective investment schemes	–	11	–	–	–	–	20	31
Zero-coupon deposits	–	–	–	–	346	–	–	346
Term deposits	–	5 261	–	–	–	–	–	5 261
Unsecured loan	–	–	–	–	–	–	34	34
Money market instruments	508	615	310	194	1 066	6	94	2 793
Debt securities – available-for-sale	–	102	–	–	–	–	–	102
Debt securities at fair value through profit or loss	96	136	–	178	141	–	671	1 222
Loans and receivables	–	61	3	8	2	–	2 560	2 634
Reinsurance contracts	7	120	66	93	–	–	–	286
Cash and cash equivalents	16	928	677	–	796	–	–	2 417
Total	627	7 234	1 056	473	2 351	6	3 379	15 126

	30 June 2017							
R MILLION	AAA	AA	A	BBB	BB	B	Not rated	Total
Collective investment schemes	–	–	–	–	–	–	45	45
Zero-coupon deposits	–	–	–	–	208	–	–	208
Term deposits	–	4 429	–	–	–	–	–	4 429
Money market instruments	158	99	137	195	1 688	15	259	2 551
Debt securities – available-for-sale	–	–	–	102	3	–	–	105
Debt securities at fair value through profit or loss	–	13	–	159	269	–	836	1 277
Derivative asset	–	–	–	–	–	–	6	6
Loans and receivables	–	–	–	–	–	–	2 536	2 536
Reinsurance contracts	–	547	125	–	–	–	–	672
Cash and cash equivalents	–	312	–	–	1 990	–	–	2 302
Total	158	5 400	262	456	4 158	15	3 682	14 131

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset in the tables above.

The group utilises the credit ratings per counterparty, as provided by each of the major credit rating agencies, to determine the credit quality of a specific instrument.

In instances where the credit rating for the counterparty is not available, the group utilises the credit rating provided by a service provider amended to take into account the credit risk appetite of the group. The internal methodology of the service provider provides a credit rating which assesses the counterparty's credit quality based on its financial standing. This methodology has been approved by the group's internal investment committee. Should the service provider not provide a credit rating, the counterparty is shown as unrated. The ratings disclosed are long-term international scale, local currency ratings.

The ratings are defined as follows:

LONG-TERM RATINGS

AAA	Highest credit quality. The ratings denote the lowest expectation of credit risk. 'AAA' ratings are assigned only in the case of exceptionally strong capacity or payment of financial commitments.
AA	Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' rating indicates a low expectation of credit risk. They indicate adequate capacity for timely payment of financial commitments. Changes in circumstances or in economic conditions are more likely to impair this capacity than is the case for higher ratings.
BB	Speculative quality. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time. However, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.
B	Highly speculative. 'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met, however, capacity for continued payment is vulnerable due to deterioration in the business and economic environment.

REINSURANCE CREDIT EXPOSURES

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

IMPAIRMENT OF FINANCIAL ASSETS

None of the group's financial assets exposed to credit risk are past due or impaired.

2.3 LIQUIDITY RISK

Liquidity risk is the risk that the group, although solvent, is not able to settle its obligations as they fall due because of insufficient liquid assets in the group. To ensure that the group's operating entities are able to meet their liabilities when they fall due, the liquidity profile of the various balance sheets are actively managed with a defined investment mandate. The table below provides a liquidity profile of the group's financial assets. The liquidity profile assumes that instruments can be traded in the ordinary course of business and in markets with sufficient liquidity. The preference share liability and interest-bearing loans are the only two significant liabilities which are presented on an undiscounted basis.

In addition to the financial assets presented in the tables below, the group has significant investments in large listed entities (Discovery, MMI and Hastings), with a combined market value of R40.0 billion (2017: R38.7 billion). Should the need arise, the group can sell a portion of these shares to repay the debt raised with the acquisition of the 29.9% stake in Hastings. However, the group's intention is to refinance the preference share debt and bank borrowings when they become due.

LIQUIDITY RISK

R MILLION	2018	2017
Liquid financial assets		
Realisable within 30 days		
– Cash and cash equivalents	**2 417**	2 302
– Collective investment schemes	**141**	144
– Government, municipal and public utility securities	**560**	457
– Money market securities	**2 793**	2 552
– Exchange traded funds – ordinary shares	**713**	619
– Listed equities	**165**	129
Realisable between one and 12 months		
– Term deposits	**5 261**	4 429
– Loans and receivables	**2 634**	2 535
– Unlisted preference shares	**102**	–
Total liquid financial assets	**14 786**	13 167
Illiquid assets		
Realisable in more than 12 months		
– Zero-coupon deposits	**346**	208
– Listed perpetual preference shares	**354**	377
– Unlisted preference shares	**–**	105
– Unlisted equities	**130**	1
– Debt securities designated as fair value through profit or loss	**662**	820
– Derivative asset	**–**	6
– Unsecured loan	**34**	–
Total illiquid assets	**1 526**	1 517
Total financial assets held	**16 312**	14 684
Insurance contract assets		
Realisable within 30 days	**82**	147
Realisable between one and 12 months	**141**	388
Realisable after more than 12 months	**63**	137
Total insurance contract assets held	**286**	672
Total assets (excluding non-monetary assets)	**16 598**	15 356

MATURITY PROFILE OF LIABILITIES

R MILLION	2018 Total	Call to 12 months	1 – 5 years	> 5 years
Expected discounted cash flows				
Insurance contract liabilities	6 725	5 698	(254)	1 281
Contractual undiscounted cash flows				
Preference shares	11 205	656	10 549	–
Interest-bearing loans	2 984	87	2 897	–
Financial liabilities at fair value through profit or loss	132	93	–	39
Insurance and other payables	225	224	1	–
Derivative liability	36	–	36	–
	14 582	1 060	13 483	39
Other liabilities				
Share-based payment liability	134	119	15	–
Provisions	189	189	–	–
Tax liabilities	203	203	–	–
Insurance and other payables	933	904	29	–
	1 459	1 415	44	–
Total liabilities	22 766	8 173	13 273	1 320
Liquid asset coverage ratio	0.65	1.81		
Financial assets coverage ratio	0.72			

R MILLION	2017 Total	Call to 12 months	1 – 5 years	> 5 years
Expected discounted cash flows				
Insurance contract liabilities	6 841	5 932	(149)	1 058
Contractual undiscounted cash flows				
Preference shares	11 955	683	11 272	–
Interest-bearing loans	2 868	66	2 802	–
Financial liabilities at fair value through profit or loss	150	111	–	39
Insurance and other payables	257	257	–	–
Derivative liability	8	–	8	–
	15 238	1 117	14 082	39
Other liabilities				
Share-based payment liability	165	153	12	–
Provisions	64	64	–	–
Tax liabilities	124	124	–	–
Insurance and other payables	942	942	–	–
	1 295	1 283	12	–
Total liabilities	23 374	8 332	13 945	1 097
Liquid asset coverage ratio	0.56	1.58		
Financial assets coverage ratio	0.63			

The liquid asset coverage ratio is the total liquid assets divided by the total liabilities.

The financial assets coverage ratio is the total financial assets divided by the total liabilities.

Discovery will raise capital to fund the acquisition of FirstRand's remaining stake in the DiscoveryCard business. It is expected that RMI will make a further investment of R450 million in Discovery as a result of this, which will be funded from RMI's cash resources.

3. CAPITAL MANAGEMENT

Since 2014, RMI has actively pursued a strategy to optimise, diversify and modernise its portfolio of financial services assets. RMI's ambitions to diversify geographically, add to its existing portfolio of significant stakes in financial services companies and to facilitate ongoing growth initiatives in its existing portfolio companies imply additional investment and use of financial leverage.

The change in strategy has required RMI to become a more agile holding company and for ease of raising funding, to comply with the norms familiar to the funding market. A decision was taken to restructure the RMI group to comply with market norms and to ensure that best pricing on funding is obtained. This restructure entailed:

- The establishment of a wholly-owned treasury company, namely RMI Treasury Company Proprietary Limited (RMI Treasury Company), for the purpose of raising funds for investment activities; and
- The establishment of a wholly-owned investment holding company, RMI Asset Holdings Proprietary Limited (RMI Asset Holdings), for the purpose of housing RMI's investments.

RMI's investments in Discovery Limited and MMI Holdings Limited were transferred from RMI to RMI Asset Holdings on 29 June 2018 (in the 2017 financial year, investments in RMI Investment Managers, Main Street 1353, RMI Investment Holdings and AlphaCode, as well as preference share holdings in special purpose entities were transferred on 22 February 2017).

The group raised preference share funding amounting to R9.7 billion in RMI Treasury Company during the 2017 financial year. Of this, R2.3 billion was utilised to redeem existing preference share funding in RMI, and the remaining R7.4 billion together with a GBP-denominated loan of R2.4 billion (£150 million) was utilised to fund RMI's acquisition of a 29.9% stake in Hastings on 1 March 2017 for R8.6 billion and to create capacity for additional acquisitions.

The board is monitoring the group's debt to market capitalisation ratio to ensure that the group is not exposed to unacceptable risks from a capital management perspective. As part of this capital management process, the board has decided that, in addition to the cash dividend, it would offer a scrip distribution alternative and a reinvestment option to prudently manage RMI's capital structure. The board will continuously assess RMI's dividend policy through its investment phase and may, if appropriate, continue to utilise the scrip distribution alternative and the reinvestment option to support investment activity. The scrip distribution alternative and reinvestment option are effective methods of managing the balance sheet post the acquisition of the investment in Hastings. Furthermore, the scrip distribution alternative and the reinvestment option each provide a cost-effective opportunity for shareholders to increase their shareholding in RMI.

Capital adequacy risk is the risk that there are insufficient reserves to provide for variations in actual future experience that is worse than what has been assumed in conducting insurance business and to facilitate growth and strategic objectives.

The group's objectives when managing capital are:

- To comply with the higher of the regulatory solvency capital requirements for each entity and the group, or the internal assessment of the capital requirement for each entity and the group;
- To safeguard the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To provide an adequate return for shareholders by pricing insurance commensurately with the level of risk; and
- To retain sufficient surplus capital to facilitate future growth and strategic expansion.

The group and its insurance entities assess the solvency capital requirement as follows:

- **Non-life underwriting risk:** The risk that arises from insurance obligations for short-term insurance business and includes reserve, premium, catastrophe and lapse risk;
- **Life underwriting risk:** The risk that arises from insurance obligations for long-term insurance business and includes lapse, mortality, morbidity, catastrophe and expense risks;
- **Market risk:** The risk of loss arising from movements in market prices on the value of the insurer's assets and liabilities or of loss arising from the default of the insurer's counterparties; and
- **Operational risk:** The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

In each country in which the group operates, the local insurance regulator specifies the minimum amount and the type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities.

The group and its insurance entities set a target solvency coverage multiple of the regulated minimum for each jurisdiction, and the group in aggregate, to act as a buffer against uncertainty. These target multiples are derived from considering the unique risk characteristics of each entity and the group in aggregate. These risk characteristics include the impact of stress and scenario tests, the level and variability of profits and the accepted risk appetite. The target multiple is maintained at all times throughout the year.

Qualifying regulatory capital or own funds, include retained earnings, contributed share capital and distributable reserves. Adjustments are made for non-qualifying or inadmissible assets and for differences between the fair value and book value of assets and liabilities.

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

	Jurisdiction	SCR* ratio 2018	SCR ratio 2017	Target SCR	Previous regime SCR 2018	Previous regime SCR 2017
Group		**2.4**	2.5	1.2	**3.8**	3.6
Short-term insurance						
OUTsurance Insurance Company Limited	South Africa	**2.5**	2.5	1.2	**2.0**	2.0
OUTsurance Insurance Company of Namibia (associate)	Namibia	**2.5**	2.0	1.3		
Youi Australia	Australia	**3.9**	3.3	1.5		
Youi New Zealand	New Zealand	**6.3**	6.2	1.5		
Long-term insurance						
OUTsurance Life Insurance Company Limited	South Africa	**2.8**	3.0	2.0	**2.9**	5.0

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

The regulated solvency capital requirements for the various regulated entities are calculated as follows:

SOUTHERN AFRICAN OPERATIONS

PREVIOUS REGIME

Up to 30 June 2018, the SCR for OUTsurance and OUTsurance Life was calculated based on *Board Notice 169 of 2011* and *SAP 104* respectively. From 1 July 2018 the SAM regime came into effect replacing these calculation methods.

SOLVENCY ASSESSMENT MANAGEMENT (SAM) REGIME

The SAM regime became effective on 1 July 2018, after the Insurance Bill obtained final approval during January 2018.

The SAM regime aims to prescribe certain measures in which insurers need to measure their eligible own funds (similar to qualifying capital). It also prescribes the manner in which the solvency capital requirement (SCR) needs to be calculated.

The prescribed SCR is the level of eligible own funds required to ensure the value of assets will exceed technical provisions and other liabilities at a 99.5% level of certainty over a one-year time horizon. The SCR is calculated based on the following key risk categories:

- Non-life underwriting risk;
- Life underwriting risk;
- Market risk; and
- Operational risk.

From 1 July 2018, RMI and its insurance subsidiaries are regulated as an insurance group. The deduction and aggregation method is used to assess capital adequacy on a group-wide basis. This method sums the solo capital requirements and aims to calculate the relevant adjustments to avoid double or multiple gearing of capital. Excess or deficits of capital existing at the level of each entity in the group, i.e. on a solo basis, are aggregated (net of intragroup transactions) in order to measure the own funds surplus (or deficit) at a group level.

AUSTRALIAN OPERATIONS – SHORT-TERM INSURANCE OPERATIONS

The Australian Prudential Regulation Authority (APRA) imposes capital requirements on Australian subsidiaries which are licensed general insurers calculated in accordance with *Prudential Standards GPS 110 Capital Adequacy*. The prudential capital requirement (PCR) is equal to the sum of the prescribed capital amount (PCA) and any supervisory adjustment determined by APRA.

The PCA is calculated in accordance with the standard method as the sum of:

- Insurance risk charge;
- Insurance concentration risk charge;
- Asset risk charge;
- Asset concentration risk charge;
- Operational risk charge; and
- Aggregation benefit.

NEW ZEALAND OPERATIONS – SHORT-TERM INSURANCE OPERATIONS

The Reserve Bank of New Zealand (RBNZ) imposes capital requirements on New Zealand subsidiaries which are licensed general insurers calculated in accordance with the *Solvency Standard for Non-life Insurance Business* issued under section 55 of the Insurance (Prudential Supervision) Act, 111 of 2010.

The minimum solvency capital is calculated as the sum of:

- Insurance risk capital charge;
- Catastrophe risk capital charge;
- Reinsurance recovery risk capital charge;
- Asset risk capital charge;
- Foreign currency risk capital charge; and
- Interest rate capital charge.

Notes to the consolidated annual financial statements

for the year ended 30 June

R MILLION	Land and buildings	Property under development	Leasehold improvements	Furniture, fittings and equipment	Motor vehicles	Total
1. PROPERTY AND EQUIPMENT						
30 June 2018						
Net book value at the beginning of the year	265	515	21	197	2	1 000
Additions	8	163	1	83	–	255
Disposals	–	–	(8)	(2)	(1)	(11)
Transfer of property under development	678	(678)	–	–	–	–
Foreign exchange adjustments	6	–	–	–	–	6
Depreciation (note 27)	(27)	–	(9)	(104)	(1)	(141)
Net book value at the end of the year	930	–	5	174	–	1 109
Cost	1 055	–	43	678	2	1 778
Accumulated depreciation	(125)	–	(38)	(504)	(2)	(669)
Net book value at the end of the year	930	–	5	174	–	1 109
30 June 2017						
Net book value at the beginning of the year	488	–	33	156	2	679
Additions	–	327	3	153	1	484
Disposals	–	–	(1)	(2)	–	(3)
Transfer of property under development	(206)	206	–	–	–	–
Foreign exchange adjustments	–	(18)	(2)	(4)	–	(24)
Depreciation (note 27)	(17)	–	(12)	(106)	(1)	(136)
Net book value at the end of the year	265	515	21	197	2	1 000
Cost	350	515	63	808	3	1 739
Accumulated depreciation	(85)	–	(42)	(611)	(1)	(739)
Net book value at the end of the year	265	515	21	197	2	1 000

Land and buildings are utilised by the group in the normal course of operations to provide services. The South African head office of OUTsurance is situated in Centurion, Gauteng. During the current year, the group completed the building of a new head office for Youi on the Sunshine Coast in Australia. Both these properties are owner-occupied.

Information regarding land and buildings is kept at the group's registered offices and is open for inspection in terms of the Companies Act.

Refer to note 42 for the current/non-current split.

R MILLION	30 June 2018 Intellectual property bonuses
2. INTANGIBLE ASSETS	
Net book value at the beginning of the year	90
Additions	26
Accruals	113
Settlements	(2)
Service cost relating to intellectual property (amortisation) (note 27)	(100)
Foreign exchange adjustments	(3)
Net book value at the end of the year	124
Cost	309
Accumulated amortisation	(185)
Net book value at the end of the year	124

R MILLION	30 June 2017 Goodwill	Intellectual property bonuses	Total
Net book value at the beginning of the year	3	110	113
Additions	–	70	70
Service cost relating to intellectual property (amortisation) (note 27)	–	(88)	(88)
Foreign exchange adjustments	–	(2)	(2)
Sale of subsidiary	(3)	–	(3)
Net book value at the end of the year	–	90	90
Cost	–	253	253
Accumulated amortisation	–	(163)	(163)
Net book value at the end of the year	–	90	90

The intellectual property bonuses are recognised as current service costs in the income statement over a range of retention periods from six months to three years.

Refer to note 42 for the current/non-current split.

3. INVESTMENTS IN ASSOCIATES

R MILLION	2018	2017
Shares at cost	20 332	20 116
Treasury shares	(100)	(89)
Equity accounted reserves	6 181	4 428
Investments in associates	26 413	24 455
Analysis of the movement in the carrying value of associates		
Balance at the beginning of the year	24 455	14 888
Additional acquisition of associates	216	9 040
Treasury shares	(11)	32
Equity accounted earnings for the year	2 328	1 702
Dividends received for the year	(1 147)	(933)
Share of associates' other reserves	572	(274)
Balance at the end of the year	26 413	24 455
Carrying value comprises:		
Discovery Limited	10 268	8 938
MMI Holdings Limited	5 964	5 956
RMI Investment Managers associates	523	417
AlphaCode associates	166	194
OUTsurance associates	129	49
Hastings Group Holdings plc	9 363	8 901
Total carrying value	26 413	24 455
Market value of listed associates (RMI's share)		
Discovery Limited	23 887	20 716
MMI Holdings Limited	7 087	8 117
Hastings Group Holdings plc	9 072	10 491
Total market value of listed associates	40 046	39 324

3. INVESTMENTS IN ASSOCIATES continued

The group's interests in associates are as follows:

R MILLION	2018	2017
Discovery Holdings Limited – Number of shares	161 944 576	161 944 576
Discovery Holdings Limited – % of equity*	25.1	25.1
MMI Holdings Limited – Number of shares	401 048 075	401 048 075
MMI Holdings Limited – % of equity*	26.5	25.7
OUTsurance Insurance Company of Namibia Limited – Number of shares	49	49
OUTsurance Insurance Company of Namibia Limited – % of equity	49.0	49.0
AutoGuru Australia Proprietary Limited – Number of shares	2 752 278	–
AutoGuru Australia Proprietary Limited – % of equity	30.0	–
Truffle Capital Proprietary Limited – Number of shares	6 876	6 876
Truffle Capital Proprietary Limited – % of equity	25.0	25.0
Northstar Asset Management Proprietary Limited – Number of shares	16 216	16 216
Northstar Asset Management Proprietary Limited – % of equity	30.0	30.0
Tantalum Capital Proprietary Limited – Number of shares	960	720
Tantalum Capital Proprietary Limited – % of equity	30.0	22.5
Sentio Capital Management Proprietary Limited – Number of shares	208	24
Sentio Capital Management Proprietary Limited – % of equity	22.0	17.8
Polar Star Management – Number of shares	155 000	155 000
Polar Star Management – % of equity	26.7	26.7
Coreshares Holdings Proprietary Limited – Number of shares	26 506	1 000
Coreshares Holdings Proprietary Limited – % of equity	51.2	25.6
Royal Investment Managers Proprietary Limited – Number of shares	450 000	450 000
Royal Investment Managers Proprietary Limited – % of equity	45.0	45.0
Ethos Private Equity Proprietary Limited – Number of shares	29 305	–
Ethos Private Equity Proprietary Limited – % of equity	9.1	–
Merchant Capital Advisory Services Proprietary Limited – Number of shares	307 630	307 630
Merchant Capital Advisory Services Proprietary Limited – % of equity	25.1	25.1
Entersekt Proprietary Limited – Number of shares	102 588	102 588
Entersekt Proprietary Limited – % of equity	25.1	25.1
Hastings Group Holdings plc – Number of shares	196 508 074	196 508 074
Hastings Group Holdings plc – % of equity	29.9	29.9

* After consolidation of share trusts.

The group does not control Coreshares Holdings Proprietary Limited, notwithstanding the fact that it owns 51.2% of the issued share capital. In terms of a shareholders' agreement, the group is unable to appoint the majority of the directors. The shareholders' agreement also stipulates the minimum percentage vote required from shareholders for certain key decisions.

The group is believed to exercise significant influence over Ethos Private Equity Proprietary Limited through board representation, notwithstanding the fact that it owns less than 20% of the issued share capital.

Further details of significant associates are disclosed in note 38.

Refer to note 42 for the current/non-current split.

R MILLION	2018	2017
4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES		
The group's equity and debt securities are summarised by measurement category below:		
Available-for-sale	1 169	1 101
– Equity	1 067	996
– Debt	102	105
Fair value through profit or loss	10 093	8 739
– Equity	406	229
– Debt	9 687	8 510
Total financial assets – Equity and debt securities	**11 262**	9 840
Refer to note 42 for the current/non-current split.		
The assets included in each of the categories above are detailed below:		
Available-for-sale financial assets		
Equity securities		
– Listed shares	713	619
– Listed preference shares	354	377
Total equity securities	**1 067**	996
Debt securities		
– Unlisted preference shares	102	105
Total available-for-sale equity and debt securities	**1 169**	1 101

The unlisted preference shares are redeemable with a notice period of one year. Dividend yields are 65% of the prime overdraft rate. The fair value of the preference shares with a maturity date of longer than one year is calculated on a discounted cash flow basis with the discount rate adjusted for changes in credit risk of the ultimate counterparty. Due to the redeemable nature, the preference shares are deemed to be debt securities.

Listed preference shares are carried at fair value as determined by current quoted market bid prices.

R MILLION	2018	2017
4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES continued		
Financial assets at fair value through profit or loss		
Equity securities		
– Listed		
– Designated upon initial recognition	166	129
– Unlisted		
– Designated upon initial recognition	240	100
Total equity securities	**406**	229
Debt securities		
– Collective investment scheme assets	31	45
– Zero-coupon deposits	346	208
– Unsecured loans	34	–
– Term deposits	5 261	4 429
– Money market instruments	2 793	2 551
– Designated upon initial recognition		
– Variable rate	414	373
– Fixed rate	808	904
Total debt securities	**9 687**	8 510
Total equity and debt securities at fair value through profit or loss	**10 093**	8 739

Listed equity securities are ordinary shares listed on the JSE Securities Exchange (JSE). The carrying amount represents the quoted bid prices on the JSE at the close of business on the last day of the financial year-end.

Listed preference shares classified at fair value through profit or loss are designated in this category upon initial recognition.

Financial assets at fair value through profit or loss were designated as such as these assets are managed on a fair value basis.

Refer to note 40 for information relating to the fair value of investment securities.

The following is a reconciliation of movements in equity and debt security balances:

R MILLION	Available-for-sale	Fair value through profit or loss	Total
30 June 2018			
Financial assets at the beginning of the year	1 101	8 739	9 840
Additions (including net interest accruals)	3	9 686	9 689
Interest accrued	–	3	3
Dividends accrued	–	29	29
Disposals (sales and redemptions)	(29)	(8 407)	(8 436)
Unrealised fair value adjustment	94	(12)	82
Foreign exchange difference	–	55	55
Financial assets at the end of the year	**1 169**	**10 093**	**11 262**
30 June 2017			
Financial assets at the beginning of the year	1 452	9 198	10 650
Additions (including net interest accruals)	193	9 022	9 215
Interest accrued	–	5	5
Dividends accrued	–	28	28
Disposals (sales and redemptions)	(535)	(9 037)	(9 572)
Unrealised fair value adjustment	(9)	(16)	(25)
Foreign exchange difference	–	(461)	(461)
Financial assets at the end of the year	1 101	8 739	9 840

R MILLION	2018	2017
5. DERIVATIVE ASSET		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	–	6
Notional value	183	164

The derivative is an economic hedge but does not meet the qualifying criteria for hedge accounting. The notional amount of the derivative does not necessarily indicate the future cash flow involved or the current fair value of the instrument and therefore does not represent RMI's exposure to credit or market risk. The derivative instrument becomes favourable (asset) or unfavourable (liability) based on changes in share prices and counterparty credit risk. The aggregate notional amount and fair value of derivative financial instruments can fluctuate over time.

Refer to note 42 for the current/non-current split.

R MILLION	2018	2017
6. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES		
Receivables arising from insurance and reinsurance contracts:		
– Due from policyholders	2 307	2 271
– Due from reinsurers	60	103
Other receivables:		
– Other receivables and prepayments	267	162
Total loans and receivables including insurance receivables	2 634	2 536

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

Loans and receivables are considered current assets. None of the loans and receivables listed above are considered to be past due or impaired.

Included in loans and receivables are amounts due by related parties. Refer to note 35 for further details thereof.

The carrying amount of loans and receivables approximates the fair value based on the short-term nature of this asset.

R MILLION	2018	2017
7. DEFERRED ACQUISITION COST		
Balance at the beginning of the year	338	365
DAC raised	671	857
DAC charged to the income statement	(705)	(852)
Foreign exchange movement	3	(32)
Balance at the end of the year	307	338

Refer to note 42 for the current/non-current split.

R MILLION	2018	2017
8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS		
Gross insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	1 340	1 575
– Claims incurred but not reported	570	603
– Unearned premiums	4 032	3 990
– Insurance contract cash bonuses	436	440
Total short-term insurance contracts	6 378	6 608
Long-term insurance contracts	347	233
Total gross insurance liabilities	6 725	6 841
Recoverable from reinsurers		
Short-term insurance contracts		
– Outstanding claims provision	(114)	(352)
– Claims incurred but not reported	(34)	(168)
– Unearned premiums	(52)	(54)
Total short-term insurance contracts	(200)	(574)
Long-term insurance contracts	(86)	(98)
Total recoverable from reinsurers	(286)	(672)
Net insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	1 226	1 223
– Claims incurred but not reported	536	435
– Unearned premiums	3 980	3 936
– Insurance contract cash bonuses	436	440
Total short-term insurance contracts	6 178	6 034
Long-term insurance contracts	261	135
Total net insurance liabilities	6 439	6 169

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

Analysis of movement in short-term insurance contract liabilities

8.1 ANALYSIS OF MOVEMENT IN CLAIMS RESERVES

R MILLION	Gross	Re-insurance	Net
30 June 2018			
Opening balance			
– Outstanding claims provision	1 575	(352)	1 223
– Claims incurred but not reported	603	(168)	435
Total	**2 178**	**(520)**	**1 658**
Current year			
– Claims incurred	6 550	(316)	6 234
– Claims paid	(5 755)	262	(5 493)
Prior year			
– Claims incurred	300	(189)	111
– Claims paid	(1 323)	450	(873)
Movement in incurred but not reported	(35)	133	98
Change in risk margin	(9)	28	19
Change in claims handling cost	(4)	–	(4)
Foreign exchange difference	8	4	12
Closing balance			
– Outstanding claims provision	1 340	(114)	1 226
– Claims incurred but not reported	570	(34)	536
Total	**1 910**	**(148)**	**1 762**
30 June 2017			
Opening balance			
– Outstanding claims provision	1 453	(44)	1 409
– Claims incurred but not reported	605	(51)	554
Total	2 058	(95)	1 963
Current year			
– Claims incurred	7 636	(660)	6 976
– Claims paid	(6 121)	299	(5 822)
Prior year			
– Claims incurred	(91)	16	(75)
– Claims paid	(1 161)	52	(1 109)
Movement in incurred but not reported	(1)	(117)	(118)
Change in risk margin	(9)	(30)	(39)
Change in claims handling cost	(11)	–	(11)
Foreign exchange difference	(122)	15	(107)
Closing balance			
– Outstanding claims provision	1 575	(352)	1 223
– Claims incurred but not reported	603	(168)	435
Total	2 178	(520)	1 658

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.2 ANALYSIS OF MOVEMENT IN UNEARNED PREMIUM PROVISION

R MILLION	Gross	Re-insurance	Net
30 June 2018			
Balance at the beginning of the year	3 990	(54)	3 936
UPP raised	7 203	(647)	6 556
UPP earned	(7 198)	649	(6 549)
Foreign exchange movement	37	–	37
Balance at the end of the year	**4 032**	**(52)**	**3 980**
30 June 2017			
Balance at the beginning of the year	4 396	(73)	4 323
UPP raised	7 503	(710)	6 793
UPP earned	(7 561)	729	(6 832)
Foreign exchange movement	(348)	–	(348)
Balance at the end of the year	3 990	(54)	3 936

8.3 ANALYSIS OF MOVEMENT IN INSURANCE CONTRACT CASH BONUSES

R MILLION	2018	2017
Balance at the beginning of the year	440	418
Cash bonuses paid during the year	(386)	(363)
Charge to profit or loss for the year	382	385
Balance at the end of the year	**436**	440

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.4 ANALYSIS OF MOVEMENT IN LONG-TERM INSURANCE CONTRACT LIABILITIES

The policyholder liability represents the present value of the expected cash outflow to existing policyholders at measurement date. The policyholder liability is calculated by present valuing the expected future cash flows derived from the best estimates of the variables which influence these cash flows.

R MILLION	Gross long-term insurance contract liabilities	Reinsurer's share of policy-holder liabilities	Net long-term insurance contract liabilities	Deferral of acquisition costs	Net long-term insurance contract liabilities including deferral of acquisition costs
30 June 2018					
Balance at the beginning of the year	386	(98)	288	(153)	135
Policyholder liability reserve	339	(84)	255	(153)	102
Incurred but not reported reserve	6	–	6	–	6
Outstanding claims reserve	41	(14)	27	–	27
Transfer to policyholder liabilities under insurance contracts	104	12	116	10	126
Unwind of discount rate	101	(13)	88	–	88
Experience variance	10	1	11	–	11
Modelling methodology changes	(10)	29	19	–	19
Change in non-economic assumptions	(12)	(2)	(14)	–	(14)
Change in economic assumptions	30	(7)	23	–	23
New business	3	(1)	2	–	2
Incurred but not reported claims	(1)	–	(1)	–	(1)
Change in outstanding claims reserve	(17)	5	(12)	–	(12)
Deferral of acquisition costs	–	–	–	10	10
Balance at the end of the year	490	(86)	404	(143)	261
Policyholder liability reserve	461	(77)	384	(143)	241
Incurred but not reported reserve	6	–	6	–	6
Outstanding claims reserve	23	(9)	14	–	14
30 June 2017					
Balance at the beginning of the year	328	(89)	239	(132)	107
Policyholder liability reserve	296	(80)	216	(132)	84
Incurred but not reported reserve	7	–	7	–	7
Outstanding claims reserve	25	(9)	16	–	16
Transfer to policyholder liabilities under insurance contracts	58	(9)	49	(21)	28
Unwind of discount rate	104	(17)	87	–	87
Experience variance	(1)	2	1	–	1
Change in non-economic assumptions	(33)	4	(29)	–	(29)
Change in economic assumptions	(28)	7	(21)	–	(21)
New business	1	(1)	–	–	–
Incurred but not reported claims	(1)	–	(1)	–	(1)
Change in outstanding claims reserve	16	(4)	12	–	12
Deferral of acquisition costs	–	–	–	(21)	(21)
Balance at the end of the year	386	(98)	288	(153)	135
Policyholder liability reserve	339	(84)	255	(153)	102
Incurred but not reported reserve	6	–	6	–	6
Outstanding claims reserve	41	(14)	27	–	27

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

The following sensitivities are provided on insurance risk assumptions:

SHORT-TERM INSURANCE

The table below illustrates the sensitivity of the total short-term insurance contract liability in respect of a 10% increase or decrease in the following components of this liability net of reinsurance:

R MILLION	Short-term insurance contract liability	10% increase	10% decrease
30 June 2018			
Outstanding claims provision	**6 178**	**123**	**(123)**
Claims incurred but not reported provision	**6 178**	**54**	**(54)**
Insurance contract cash bonus provision	**6 178**	**44**	**(44)**
30 June 2017			
Outstanding claims provision	6 034	122	(122)
Incurred but not reported provision	6 034	44	(44)
Insurance contract cash bonus provision	6 034	44	(44)

LONG-TERM INSURANCE

The following sensitivities are provided on insurance risk assumptions:

Assumption	Margin
Lapses	10% increase/decrease
Investment return	1% increase/decrease
Mortality, morbidity, disability	5% – 10% increase/decrease
Retrenchment	5% – 10% increase/decrease
Expenses	10% increase/decrease

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

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

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

		Impact on liability	
R MILLION	Change in variable	Increase in variable	Decrease in variable
30 June 2018			
Lapses	**10%**	**(37)**	**46**
Investment return	**1%**	**(62)**	**86**
Mortality, morbidity, disability, retrenchment	**10%**	**146**	**(149)**
Mortality, morbidity, disability, retrenchment	**5%**	**74**	**(74)**
Expenses	**10%**	**36**	**(36)**
30 June 2017			
Lapses	10%	(10)	15
Investment return	1%	(39)	53
Mortality, morbidity, disability, retrenchment	10%	123	(125)
Mortality, morbidity, disability, retrenchment	5%	62	(62)
Expenses	10%	34	(34)

Refer to note 42 for the current/non-current split.

9. DEFERRED TAXATION

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

R MILLION	2018	2017
Deferred taxation assets		
Provisions	263	238
Special transfer credit	20	21
Fair value adjustment	44	32
Service cost on employee benefits	13	7
Difference between accounting and tax values of assets	1	4
Set-off in same legal entities	(121)	(126)
Total deferred taxation assets	220	176
Deferred taxation liabilities		
Deferred acquisition costs	(127)	(144)
Available-for-sale financial assets	(42)	(22)
Deferred expenditure immediately deductible	–	(8)
Prepayments	(6)	(5)
Set-off in same legal entities	121	126
Total deferred taxation liabilities	(54)	(53)
Reconciliation of movement		
Deferred taxation asset at the beginning of the year	176	365
Deferred taxation charge for the year	20	(122)
Foreign exchange movement	3	(22)
Transfer to share-based payment reserve	16	80
Prior year adjustment	–	1
Deferred tax asset before set-off in same legal entities	215	302
Set-off in same legal entities	5	(126)
Total deferred taxation asset at the end of the year	220	176
Deferred taxation liability at the beginning of the year	(53)	(161)
Deferred taxation charge for the year	25	(30)
Available-for-sale financial assets	(20)	2
Foreign exchange movement	(1)	10
Deferred tax liability before set-off in same legal entities	(49)	(179)
Set-off in same legal entities	(5)	126
Total deferred taxation liabilities at the end of the year	(54)	(53)

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

A deferred tax asset relating to the start-up loss incurred by Youi New Zealand has not been recognised due to the short trading history of the business. The deferred tax asset will be recognised once reasonable certainty exists that the losses are recoverable against future profits. The deferred tax asset for the current financial year that has not been recognised is R79 million (2017: R82 million). A deferred tax asset relating to the individual policyholder fund in OUTsurance Life amounting to R195 million (2017: R195 million) has not been recognised.

Refer to note 42 for the current/non-current split.

10. PROFIT ON SALE OF SUBSIDIARY AND OTHER REALISED GAINS

R MILLION	2018	2017
Profit on sale of subsidiary	–	1
Other realised gains	3	–
Total profit on sale of subsidiary and other realised gains	3	1

Regulatory approval was obtained in March 2017 to sell RMI's stake in RMB-SI Investments Proprietary Limited (RMBSI) excluding RMBSI's stake in Truffle Capital Proprietary Limited to Santam. In terms of *IFRS 5*, RMBSI (excluding its investment in Truffle Capital Proprietary Limited) was treated as a discontinued operation.

R MILLION	Assets and liabilities at date of sale 31 March 2017
Assets of discontinued operation	
Property and equipment	15
Intangible assets	1
Investments in associates	17
Financial assets	
– Equity securities	
– Fair value through profit or loss	2 029
– Debt securities	
– Held-to-maturity	514
– Fair value through profit or loss	1 799
– Loans and receivables including insurance receivables	1 029
Deferred acquisition cost	9
Reinsurance contracts	391
Cash and cash equivalents	1 044
Assets of discontinued operation	6 848
Liabilities of discontinued operation	
Insurance contracts	2 242
Financial liabilities	
– Convertible debentures	15
– Preference shares	104
– Interest-bearing loans	508
– Policyholders' interest	1 597
– Cellholders' interest	87
– Investment contracts at fair value through profit or loss	1 551
Deferred acquisition revenue	2
Provisions	10
Insurance and other payables	350
Deferred taxation	86
Taxation	14
Liabilities of discontinued operation	6 566
Assets less liabilities	282
Non-controlling interest	(121)
Goodwill	3
Group carrying value at date of sale	164
Sale consideration	165
Profit on sale of subsidiary	1

R MILLION	9 months ended 31 March 2017
10. PROFIT ON SALE OF SUBSIDIARY AND OTHER REALISED GAINS continued	
Results of discontinued operations for the nine months ended 31 March 2017	
Income statement	
Gross insurance premiums	1 523
Less: Reinsurance premiums	(575)
Net insurance premiums	948
Change in provision for unearned premiums net of reinsurance	(378)
Net insurance premiums earned	570
Fee income	233
Investment income	55
Net fair value gains on financial assets	48
Net income	906
Gross claims paid	(711)
Reinsurance recoveries received	510
Investment contract benefits	(44)
Transfer to policyholders' interest	(34)
Transfer to cellholders' interest	(32)
Acquisition expenses	(218)
Marketing and administration expenses	(349)
Result of operating activities	28
Finance costs	(29)
Share of after-tax results of associates	(6)
Loss before taxation	(7)
Taxation	(42)
Loss for the period	(49)

R MILLION	2018	2017
11. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	**925**	2 254
Money market investments	**1 492**	48
Total cash and cash equivalents	**2 417**	2 302

Included in money market investments are deposits with a term to maturity of less than three months. The carrying value of cash and cash equivalents approximates the fair value.

12. SHARE CAPITAL AND SHARE PREMIUM

R MILLION	Number of shares after treasury shares million	Ordinary shares*	Share premium	Treasury shares	Total
30 June 2018					
Balance at the beginning of the year	**1 503**	**–**	**14 417**	**(89)**	**14 328**
Issue of shares	**17**	**–**	**669**	**–**	**669**
Movement in treasury shares	**–**	**–**	**–**	**(11)**	**(11)**
Balance at the end of the year	**1 520**	**–**	**15 086**	**(100)**	**14 986**
30 June 2017					
Balance at the beginning of the year	1 482	–	13 657	(131)	13 526
Issue of shares	20	–	760	–	760
Movement in treasury shares	1	–	–	42	42
Balance at the end of the year	1 503	–	14 417	(89)	14 328

* Amount less than R500 000.

ORDINARY SHARES

The total authorised number of ordinary shares is 2 000 000 000, with a par value of R0.0001 per share. The total number of issued ordinary shares as at 30 June 2017 was 1 505 688 346 shares, issued at a premium of R9.1926 per share. On 9 October 2017, RMI issued an additional 12 160 153 ordinary shares with a par value of R0.0001 at a premium of R37.9999 per share and on 9 April 2018, RMI issued an additional 4 870 707 ordinary shares with a par value of R0.0001 at a premium of R42.49999 per share. This increased the number of issued ordinary shares as at 30 June 2018 to 1 522 719 206 shares. The unissued share capital is under the control of the board of directors until the forthcoming annual general meeting.

PREFERENCE SHARES

The total authorised number of cumulative, redeemable par value preference shares is 100 000 000 with a par value of R0.0001 per share. The issued number of par value preference shares is nil (2017: nil).

The total authorised number of cumulative, redeemable no par value preference shares is 100 000 000. The issued number of no par value preference shares is nil (2017: nil).

The company created a new class of 100 000 000 authorised, cumulative, redeemable no par value preference shares in the 2016 financial year in terms of its debt programme. None of these preference shares have been issued to date.

RMI had no issued preference shares as at 30 June 2018. If any of these preference shares would be issued, it would be classified as debt.

TREASURY SHARES

The life insurance businesses of the associates acquired RMI shares as part of their investment programme aimed at meeting policyholders' liabilities. These shares are treated as treasury shares and any gains or losses are reversed from group earnings. The number of treasury shares as at 30 June 2018 was 2 739 154 (2017: 2 512 383).

	2018	2017
Number of treasury shares held at 30 June (million)	**3**	3
Weighted number of treasury of shares held during the year (million)	**3**	3
The treasury shares are eliminated from the weighted number of shares in issue for the purposes of calculating earnings and headline earnings per share:		
Weighted number of issued shares (million)	**1 516**	1 489
Less: Weighted number of treasury shares (million)	**(3)**	(3)
Weighted number of shares in issue	**1 513**	1 486

R MILLION	2018	2017
13. RESERVES		
Distributable reserves		
Retained earnings	4 453	3 341
Equity accounted reserves		
Balance at the beginning of the year	4 300	3 939
Income from associates retained	1 181	770
Other comprehensive income	311	(417)
Treasury shares	5	6
Non-distributable reserves	84	5
Sale of subsidiary	–	(3)
Total equity accounted reserves	5 881	4 300
Transactions with non-controlling interests	(3 345)	(2 989)
Other reserves		
Currency translation reserve	271	233
Available-for-sale reserve	114	50
Share-based payments reserve	12	12
Total other reserves	397	295
Total reserves	7 386	4 947

The significant movement in the transactions with non-controlling interests reserve relates mainly to the increase in the group's holding in OUTsurance following the acquisition of shares from minorities.

R MILLION	2018	2017
14. PREFERENCE SHARES		
Unlisted		
Class A cumulative, redeemable non-participating preference shares	1 130	1 130
Class B cumulative, redeemable non-participating preference shares	1 130	1 130
Class C cumulative, redeemable non-participating preference shares	5 650	5 650
Class D cumulative, redeemable non-participating preference shares	1 800	1 800
Total cumulative redeemable non-participating preference shares	9 710	9 710

RMI Treasury Company Limited issued 1 130 class A cumulative, redeemable non-participating preference shares on 22 February 2017. These preference shares are redeemable at the discretion of the company at any time and are compulsorily redeemable on 23 February 2020. These preference shares paid dividends at a fixed rate of 7.119% for the first year after issue and thereafter at a floating rate of 66% of the prime rate, compounded monthly in arrears. Dividends are payable on 30 April and 31 October every year.

RMI Treasury Company Limited issued 1 130 class B cumulative, redeemable non-participating preference shares on 22 February 2017. These preference shares are redeemable at the discretion of the company at any time and are compulsorily redeemable on 22 February 2022. These preference shares paid dividends at a fixed rate of 7.343% for the first year after issue and thereafter at a floating rate of 68% of the prime rate, compounded monthly in arrears. Dividends are payable on 30 April and 31 October every year.

RMI Treasury Company Limited issued 5 650 class C cumulative, redeemable non-participating preference shares on 27 February 2017. These preference shares are redeemable at the discretion of the company at any time and are compulsorily redeemable on 28 February 2020. These preference shares pay dividends at a floating rate of 66% of the prime rate, compounded monthly in arrears. Dividends are payable on 30 April and 31 October every year.

RMI Treasury Company Limited issued 1 800 class D cumulative, redeemable non-participating preference shares on 27 February 2017. These preference shares are redeemable at the discretion of the company at any time and are compulsorily redeemable on 27 February 2022. These preference shares pay dividends at a floating rate of 68% of the prime rate, compounded monthly in arrears. Dividends are payable on 30 April and 31 October every year.

The fair value of the unlisted preference shares is approximated by the carrying amount due to the preference dividend rate being a variable rate. These preference shares are classified as Level 2 instruments in terms of the fair value hierarchy described in note 40.

Refer to note 42 for the current/non-current split.

R MILLION	2018	2017
15. INTEREST-BEARING LOANS		
Bank borrowings at amortised cost	2 730	2 611
Balance at the beginning of the year	2 611	60
New loans incurred	–	2 367
Loans repaid	(50)	–
Foreign currency movement	169	184
Balance at the end of the year	2 730	2 611

On 29 June 2016, RMI Investment Managers Affiliates 2 Proprietary Limited incurred a loan of R60 million. It can be repaid at any time, but is compulsorily repayable on 29 June 2019. The interest rate on the loan is calculated based on the three-month JIBAR rate plus 2.2%. The loan is guaranteed by RMI. The outstanding capital balance on this loan as at 30 June 2018 was R10 million, which balance RMI Investment Managers Affiliates 2 Proprietary Limited settled in July 2018.

On 22 March 2017, Main Street 1353 Proprietary Limited incurred a loan of £150 million (R2 367 million at that time) as part of the funding raised to acquire a 29.9% stake in Hastings Group Holdings plc. Half of the loan is a three-year loan at LIBOR (LIBOR fixed at 0.77%) plus 1.9% (2017:1.5%) and half is a five-year loan at LIBOR (LIBOR fixed at 0.98%) plus 2.75% (2017: 1.95%).

These interest-bearing loans are classified as Level 2 instruments in terms of the fair value hierarchy described in note 40. The fair value is approximated by the carrying value.

Refer to note 42 for the current/non-current split.

R MILLION	2018	2017
16. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Shareholders for preference dividends on profit shares	93	111
Other loans designated at fair value through profit or loss	39	39
Total financial liabilities at fair value through profit or loss	132	150

Financial liabilities at fair value through profit or loss relate to the preference shares issued by OUTsurance Insurance Company Limited to FirstRand Limited for the profit sharing arrangements. Profits arising from these arrangements are distributed by way of bi-annual preference dividends payable in February and August each year. The preference dividend attributable to the profit share for the year is recognised in the income statement as a fair value adjustment to the liability. The portion of the unpaid preference dividend at 30 June is recognised as a financial liability at fair value through profit or loss.

The other loans designated at fair value through profit or loss have no fixed terms of repayment and carry no interest.

Refer to note 42 for the current/non-current split.

R MILLION	2018	2017
17. DERIVATIVE LIABILITY		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	36	8
Notional value	119	93

The derivative is an economic hedge but does not meet the qualifying criteria for hedge accounting. The notional amount of the derivative does not necessarily indicate the future cash flow involved or the current fair value of the instrument and therefore does not represent RMI's exposure to credit or market risk. The derivative instrument becomes favourable (asset) or unfavourable (liability) based on changes in share prices and counterparty credit risk. The aggregate notional amount and fair value of derivative financial instruments can fluctuate over time.

Refer to note 42 for the current/non-current split.

R MILLION	2018	2017
18. SHARE-BASED PAYMENTS		
Cash-settled share-based payment liability	**134**	165
Balance at the beginning of the year	**165**	253
Charge for the year	**64**	40
Liability settled	**(95)**	(134)
Liability transferred	**–**	6
Balance at the end of the year	**134**	165
Refer to note 42 for the current/non-current split.		
The income statement charge for share-based payments comprise:		
Equity-settled scheme	**(4)**	(6)
Cash-settled scheme	**(64)**	(40)
Total share-based payment expense	**(68)**	(46)

RMI

RMI operates a share scheme as part of its remuneration philosophy, which tracks the company's share price and settles in cash.

RMI HOLDINGS SHARE APPRECIATION RIGHTS

The purpose of this scheme is to provide identified employees, including executive directors, with the opportunity of receiving incentive remuneration payments based on the increase in the market value of the shares in RMI.

Appreciation rights may only be exercised by the third, fourth and fifth anniversary of the grant date in equal tranches of one third each, provided that the performance objectives set for the grant have been achieved. All share appreciation rights tranches issued since September 2015 have performance conditions that have to be met before vesting, but the exercise period has been increased from five to seven years. The performance condition for 90% of the share appreciation rights is growth in normalised earnings of the established investments of at least the real GDP growth rate. The remaining 10% of the vesting of the share appreciation rights is dependent on the performance of the smaller new investments, at the discretion of the remuneration committee. The share appreciation rights issued since September 2015 also vest in equal tranches of one third each by the third, fourth and fifth anniversary.

VALUATION METHODOLOGY:

The share appreciation rights scheme issues are valued using the Cox Rubenstein binomial tree. The scheme is cash-settled and is repriced at each reporting date.

MARKET AND DIVIDEND DATA CONSIST OF THE FOLLOWING:

- Volatility is the expected volatility over the period of the option. Historic volatility was used as a proxy for expected volatility;
- The interest rate is the risk-free rate of return, as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the share appreciation right; and
- A fixed dividend yield was assumed.

EMPLOYEE STATISTIC ASSUMPTIONS:

- No forfeiture rate is used due to the limited number of employees participating in the scheme.

OUTSURANCE

The various share schemes are as follows:

- OUTsurance cash-settled share scheme; and
- Youi Holdings equity-settled share scheme.

The purpose of these schemes is to attract, incentivise and retain managers within the group by providing them with an option to acquire shares.

18. SHARE-BASED PAYMENTS continued

OUTSURANCE CASH-SETTLED SHARE SCHEME

In terms of the current trust deed, 12% of the issued share capital of the company is available to the employees under the scheme. The trust and employees currently hold 5.3% (2017: 7.5%) of the shares in OUTsurance Holdings Limited.

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

VALUATION METHODOLOGY

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

MARKET DATA CONSISTS OF THE FOLLOWING:

- Since OUTsurance Holdings is not listed, "expected volatility" is derived with reference to the volatility of RMI, the listed holding company of OUTsurance. The volatility reflects a historic period matching the duration of the option; and
- The "risk-free interest rate" input is derived from government bonds with a remaining term equal to the term of the option being valued.

DIVIDEND DATA CONSISTS OF THE FOLLOWING:

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

EMPLOYEE STATISTIC ASSUMPTIONS

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

YOUI HOLDINGS EQUITY-SETTLED SHARE SCHEME

The Youi Holdings employee share option plan was established in 2008. In terms of the plan rules, 20% of the issued share capital of the company is available under the plan for the granting of options to employees. Options issued before 1 July 2011 were fully expensed in prior years in terms of *IFRS 2*. These options vest immediately and expire on 30 June 2018. Share options are settled by the delivery of Youi Holdings Proprietary Limited shares.

VALUATION METHODOLOGY

The fair value of share options is determined at grant date and expensed over the vesting period. The share options granted are classified as European call options and the fair value is determined by the use of the Black-Scholes share option pricing model.

A share-based payment expense is only recognised if the options issued have a positive intrinsic value, therefore, if the market value of the underlying shares is expected to rise above the strike price over the vesting period of the options.

The "option duration" is the number of years before the options expire, adjusted for a historical rate of early exercise.

MARKET DATA CONSISTS OF THE FOLLOWING:

Since Youi Holdings is not listed, "expected volatility" is derived with reference to comparable listed companies for an historic period matching the duration of the option.

The "risk-free interest rate" input is derived from government bonds with a remaining term equal to the term of the option being valued.

DIVIDEND DATA CONSISTS OF THE FOLLOWING:

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

EMPLOYEE STATISTIC ASSUMPTIONS

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

18. SHARE-BASED PAYMENTS continued

The table below summarises the options issued under the various schemes as at 30 June 2018:

	RMI	OUTsurance cash-settled	Youi equity-settled
Number of options at the beginning of the year (000's)	5 768	56 293	229 011
Range of strike prices of opening balances (cents)	0 – 4 341	557 to 848	AUS$ 0.10 – AUS$ 0.53
Number of options granted/transferred during the year (000's)	988	30 230	16 300
Strike price of options granted/transferred during the year (cents)	3 992	930	AUS$ 0.41
Number of options delivered during the year (000's)	(1 530)	(17 503)	(21 967)
Range of strike prices on date of delivery (cents)	0 – 4 177	557	AUS$ 0.10 – AUS$ 0.41
Number of options cancelled/forfeited during the year (000's)	(563)	(4 860)	(917)
Range of strike prices of forfeited options (cents)	3 313 – 4 341	715 to 930	AUS$ 0.10 – AUS$ 0.41
Number of options in force at the end of the year (000's)	4 663	64 160	222 427
Range of strike prices of closing balances (cents)	2 645 – 4 341	715 to 930	AUS$ 0.10 – AUS$ 0.53

The table below summarises the options issued under the various schemes as at 30 June 2017:

	RMI	OUTsurance cash-settled	Youi equity-settled
Number of options at the beginning of the year (000's)	4 815	63 853	292 801
Range of strike prices of opening balances (cents)	0 – 4 125	333 to 715	AUS$ 0.10 – AUS$ 0.49
Number of options granted/transferred during the year (000's)	1 225	19 270	7 400
Strike price of options granted/transferred during the year (cents)	2 028 – 4 341	848	AUS$ 0.53
Number of options delivered during the year (000's)	(225)	(24 320)	(71 190)
Range of strike prices on date of delivery (cents)	4 038 – 4 272	333 to 370	AUS$ 0.10
Number of options cancelled/forfeited during the year (000's)	(47)	(2 510)	–
Range of strike prices of forfeited options (cents)	0 – 4 125	557 to 848	–
Number of options in force at the end of the year (000's)	5 768	56 293	229 011
Range of strike prices of closing balances (cents)	0 – 4 341	557 to 848	AUS$ 0.10 – AUS$ 0.53

RMI MANAGEMENT OWNERSHIP PARTICIPATION STRUCTURE

In the current year, RMI implemented an ownership participation structure. The aim of the structure is to align the interests of management with those of shareholders and establish a long-term focus. The scheme had no financial impact in the current year.

DESCRIPTION OF THE SCHEME

The purpose of this scheme was to provide participants, including executive directors with the opportunity to participate in the creation of the long-term value in the fintech and asset management portfolios after RMI has been compensated for the capital it had provided.

Vesting occurs on day one and the structure has no exercise period. There are no further performance conditions attached other than the valuation methodology.

Monetisation of the structure occurs after ten years through a put option to RMI, (only available for 365 days) or through the realisation of the underlying investment, whichever occurs first. The remuneration committee has discretion concerning:

- The allocation per individual participant;
- The hurdle rate per individual participant per individual allocation;
- Good leaver principles if a participant should leave before the monetisation of the underlying investment; and
- The maximum exposure provided to the participants.

18. SHARE-BASED PAYMENTS continued

VALUATION METHODOLOGY

(i) Underlying investments are valued using market accepted valuation methodologies like discounted cash flow models where a discount rate is determined taking into account specific risks of the underlying investments or a price/earnings methodology where a market-related ratio is applied. Investments can be valued using a combination of valuation methodologies dependent on the nature of the underlying investment.
(ii) A value per share is determined by dividing the value of the underlying investment by the number of shares.
(iii) A cost per share is calculated by taking the capital amount injected and accruing the hurdle rate. This amount is divided by the number of shares.
(iv) The value of the liability is the value per share minus the cost per share, multiplied by the total number of shares. An increase in the liability results in a share-based payment expense in profit or loss and a decrease in the liability results in a negative share-based payment expense in profit or loss.

	2018
Number of shares allocated during the year (between R2 633.57 and R17 992.73 per share)	26 370
Number of shares bought back from participants at zero value (between R2 633.57 and R4 820.53 per share)	(12 994)
Number of shares issued to participants at the end of the year (between R2 633.57 and R17 992.73 per share)	13 376

R MILLION	2018	2017
19. PROVISIONS		
Short-term employee benefits		
Staff incentive bonus		
Balance at the beginning of the year	64	41
Additional provisions	211	88
Amount utilised during the year	(87)	(64)
Foreign translation difference	1	(1)
Balance at the end of the year	189	64
Provision for bonuses	189	43
Provision for onerous contract	–	21
Total provisions	189	64

The staff incentive bonus provision is a provision for payments to staff in recognition of their performance during the financial year. The final amount paid may differ from the amount provided due to the fact that staff may resign before the allocated bonus becomes payable.

All amounts are expected to be settled within 12 months and are therefore considered to be current.

R MILLION	2018	2017
20. INSURANCE AND OTHER PAYABLES		
Insurance-related payables		
Due to intermediaries	2	1
Due to reinsurers	119	116
Other payables	12	9
Non-insurance-related payables		
Trade creditors and accrued expenses	60	157
Short-term employee benefits – leave pay liability	142	135
Redeemable preference share dividends payable	108	111
VAT liability	63	39
Indirect tax on debtors	373	367
Other payables	279	264
Total insurance and other payables	1 158	1 199

Uncertainty exists relating to the timing and extent of cash flows from the leave pay liability. The outstanding balance represents the current value of leave due to employees currently in the employ of companies within the group.

Refer to note 42 for the current/non-current split.

R MILLION	2018	2017
21. NET INSURANCE PREMIUMS EARNED		
Long-term insurance contracts		
– Premiums written	454	426
– Policyholders' fees written	15	15
Short-term insurance contracts		
– Premiums written	14 419	14 334
– Policyholders' fees written	139	133
– Change in unearned premium provision	(5)	57
Premium revenue arising from insurance contracts issued	**15 022**	14 965
Long-term reinsurance contracts		
– Premiums payable	(39)	(36)
Short-term reinsurance contracts		
– Premiums payable	(808)	(846)
– Change in unearned premium provision	(2)	(19)
Premium revenue ceded to reinsurers on insurance contracts issued	**(849)**	(901)
Net insurance premiums earned	**14 173**	14 064
22. COMMISSION AND OTHER INCOME		
Commission earned from reinsurers, net of deferred acquisition revenue	99	107
Other income	25	28
Total fee and other income	**124**	135
Other income was received for administration and accounting services rendered.		
23. INVESTMENT INCOME		
Available-for-sale		
– Dividend income	58	49
– Interest income	7	33
Assets at fair value through profit or loss		
– Dividend income	109	103
Cash and cash equivalents interest income	586	503
Total investment income	**760**	688
24. NET FAIR VALUE GAINS/(LOSSES) ON FINANCIAL ASSETS		
Fair value gains – Designated upon initial recognition	48	32
Fair value losses – Designated upon initial recognition	(91)	(62)
Impairment – Available-for-sale financial assets	(23)	(13)
Net fair value gains/(losses) on financial assets	**(66)**	(43)
Net fair value gains/(losses) comprise:		
Equity securities		
– Unrealised mark-to-market	36	5
Debt securities	(68)	(30)
– Unrealised mark-to-market	(46)	(22)
– Realised mark-to-market	1	4
– Impairment	(23)	(12)
Derivative instruments		
– Unrealised mark-to-market	(34)	(18)
Total net fair value losses	**(66)**	(43)

R MILLION	Gross	Re-insurance	Net
25. INSURANCE BENEFITS AND CLAIMS INCURRED			
30 June 2018			
Short-term insurance	(6 802)	344	(6 458)
Claims paid net of salvages and recoveries	(7 079)	712	(6 367)
Change in claims reserves	277	(368)	(91)
Long-term insurance			
Claims paid	(117)	40	(77)
Life claims	(103)	37	(66)
Disability claims	(3)	1	(2)
Retrenchment claims	(2)	–	(2)
Critical illness claims	(9)	2	(7)
Total insurance benefits and claims incurred	**(6 919)**	**384**	**(6 535)**
30 June 2017			
Short-term insurance	(7 524)	791	(6 733)
Claims paid net of salvages and recoveries	(7 282)	351	(6 931)
Change in claims reserves	(242)	440	198
Long-term insurance			
Claims paid	(71)	21	(50)
Life claims	(59)	19	(40)
Disability claims	(2)	–	(2)
Retrenchment claims	(2)	–	(2)
Critical illness claims	(8)	2	(6)
Total insurance benefits and claims incurred	(7 595)	812	(6 783)

R MILLION	2018	2017
Provision for cash bonuses		
– Short-term insurance business	(382)	(385)
– Long-term insurance business	(13)	(14)
Provision for cash bonuses	**(395)**	(399)
26. ACQUISITION EXPENSES		
Commission paid	**(31)**	(25)

R MILLION	2018	2017
27. MARKETING AND ADMINISTRATION EXPENSES		
Expenses by nature		
Employee benefit expenses	**(2 292)**	(2 140)
Professional fees and regulatory compliance costs	**(87)**	(73)
Depreciation (note 1)	**(141)**	(136)
Operating lease expenses	**(101)**	(111)
Operating lease expenses – onerous contract	**–**	(21)
Asset management services	**(10)**	(9)
Audit fees	**(16)**	(12)
Loss on sale of property and equipment	**(6)**	(1)
Other expenses	**(1 221)**	(1 358)
Total marketing and administration expenses	**(3 874)**	(3 861)
Employee benefit expenses		
Salaries and incentive bonuses	**(1 851)**	(1 760)
Retirement funding	**(166)**	(166)
Service cost relating to intellectual property (amortisation) (note 2)	**(101)**	(88)
Share-based payment charge (including *IAS 19* share liability charge)	**(90)**	(50)
Medical aid contributions	**(84)**	(76)
Total employee benefit expenses	**(2 292)**	(2 140)
Depreciation		
Buildings	**(27)**	(17)
Leasehold improvements	**(9)**	(12)
Furniture, fittings and equipment	**(104)**	(106)
Motor vehicles	**(1)**	(1)
Total depreciation (note 1)	**(141)**	(136)
Audit fees		
Statutory audit – Current year	**(12)**	(9)
Statutory audit – Under provision in prior year	**(1)**	–
Fees for other services	**(3)**	(3)
Total audit fees	**(16)**	(12)
Operating lease rentals		
The group's operating lease commitments under non-cancellable operating lease agreements are as follows:		
Up to 1 year	**(24)**	(34)
Between 1 to 5 years	**(32)**	(64)
Between 5 to 10 years	**–**	(24)
Total operating lease commitments	**(56)**	(122)

The group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Youi New Zealand leases its office building under a non-cancellable operating lease expiring within a maximum of five years. The leases are renewable for further periods of up to four years.

28. RETIREMENT BENEFITS

Group companies are participants in a defined contribution pension fund and a defined contribution provident fund.

To the extent that the company is responsible for contributions to these funds, such contributions are charged against profit or loss as incurred. The funds are registered in terms of the Pension Funds Act, 24 of 1956.

R MILLION	2018	2017
29. FINANCE COSTS		
Interest on bank borrowings	**(91)**	(59)
Dividends on redeemable preference shares	**(674)**	(355)
Total finance costs	**(765)**	(414)
30. TAXATION		
South African normal taxation		
Current taxation		
– Current year	**(838)**	(765)
Deferred taxation		
– Current year	**20**	(14)
– Prior year	**(1)**	3
Withholding taxation	**(3)**	(3)
Australian taxation		
Current taxation		
– Current year	**(338)**	(169)
– Prior year	**(2)**	4
Deferred taxation		
– Current year	**25**	(137)
– Prior year	**1**	(3)
Total taxation	**(1 136)**	(1 084)
The tax on the group's profit before taxation differs from the theoretical amount that would arise using the basic tax rate of South Africa as follows:		
Profit before taxation	**5 403**	4 838
Effective tax rate	**21.03**	22.41
Income not subject to taxation	**0.74**	1.39
Finance costs not deductible	**(2.40)**	(2.40)
Other non-deductible expenses	**(1.81)**	(1.20)
Fair value adjustments	**(0.99)**	(1.19)
Income taxation rate differential	**(0.37)**	(0.40)
Capital gains tax	**(0.03)**	0.03
Deferred tax asset not recognised	**(0.21)**	(0.49)
Associates equity accounted using after-taxation profits	**12.07**	9.62
Prior year over and under provisions	**(0.01)**	0.08
Other permanent differences	**(0.02)**	0.15
Standard income taxation rate in South Africa	**28.00**	28.00

31. CASH FLOWS FROM OPERATING ACTIVITIES

R MILLION	2018	2017
RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS		
Profit before taxation	5 403	4 838
Adjusted for:		
Loss on sale of property and equipment	6	1
Profit on sale of subsidiary	–	(1)
Foreign currency translation difference	52	(152)
Equity accounted earnings	(2 328)	(1 702)
Depreciation	141	136
Service cost relating to intellectual property	100	88
Intellectual property bonuses paid	(24)	(70)
Provisions	12	2
Share option expenses	64	45
Cash paid in terms of share option liability	(95)	(134)
Investment income	(760)	(688)
Finance costs	765	414
Net fair value (gains)/losses on assets at fair value through profit or loss	(30)	449
Fair value adjustment to financial liabilities	(18)	6
Other non-cash items	(166)	(150)
Changes in insurance balances:		
– Gross provision for unearned premiums	5	(58)
– Reinsurers' share of provisions for unearned premiums	2	19
– Gross provision for claims incurred but not reported	(35)	(1)
– Provision for cash bonus on insurance contracts	395	399
– Cash bonus paid on insurance contracts	(386)	(363)
– Insurance contracts	289	(638)
– Deferred acquisition costs	31	27
Changes in working capital		
– Current receivables and prepayments	(98)	232
– Current payables and provisions	(38)	(61)
Cash generated from operations	3 287	2 638
Net debt reconciliation		
Cash and cash equivalents	2 417	2 302
Borrowings	(12 440)	(12 321)
Net debt	(10 023)	(10 019)
Cash and cash equivalents	2 417	2 302
Gross borrowings – Fixed rate	(2 730)	(4 871)
Gross borrowings – Variable rate	(9 710)	(7 450)
Net debt	(10 023)	(10 019)

32. EARNINGS PER SHARE

Earnings per share are calculated by dividing the earnings attributable to shareholders by the weighted number of ordinary shares in issue during the year.

R MILLION	2018	2017
Earnings attributable to ordinary shareholders – continuing and discontinued operations	3 897	3 327
Earnings attributable to ordinary shareholders – continuing operations	3 897	3 367
Weighted average number of ordinary shares in issue (full amount)	1 512 960 802	1 486 341 047
Earnings per share from continuing and discontinued operations (cents)	257.6	223.9
Earnings per share from continuing operations (cents)	257.6	226.5
Earnings attributable to ordinary shareholders	3 897	3 327
Dilution on earnings from associates	(71)	(52)
Diluted earnings attributable to ordinary shareholders	3 826	3 275
Weighted average number of ordinary shares in issue (full amount)	1 512 960 802	1 486 341 047
Diluted earnings per share from continuing and discontinued operations (cents)	252.9	220.4
Diluted earnings per share from continuing operations (cents)	252.9	223.0

33. HEADLINE EARNINGS PER SHARE

Headline earnings per share is calculated by dividing the adjusted earnings attributable to shareholders by the weighted number of ordinary shares in issue during the year.

R MILLION	2018	2017
Headline earnings reconciliation		
Earnings attributable to ordinary shareholders	3 897	3 327
RMI's share of headline earnings adjustments made by associates:	83	77
– Intangible asset impairments	86	91
– Loss/(profit) on sale of subsidiary	5	(19)
– Impairment of owner-occupied building below cost	–	7
– Realised profit on sale of available-for-sale assets	(5)	(2)
– Release of foreign currency translation reserve	(3)	–
Profit on dilution of shareholding	79	28
Impairment of available-for-sale instruments	17	9
Loss on disposal of property and equipment	5	1
Profit on sale of subsidiary	–	(1)
Headline earnings attributable to ordinary shareholders	4 081	3 441
Weighted average number of ordinary shares in issue (full amount)	1 512 960 802	1 486 341 047
Headline earnings per share from continuing and discontinued operations (cents)	269.7	231.5
Headline earnings per share from continuing operations (cents)	269.7	234.2
Headline earnings attributable to ordinary shareholders	4 081	3 441
Dilution on earnings from associates	(71)	(53)
Diluted headline earnings attributable to ordinary shareholders	4 010	3 388
Weighted average number of ordinary shares in issue (full amount)	1 512 960 802	1 486 341 047
Diluted headline earnings per share from continuing and discontinued operations (cents)	265.0	227.9
Diluted headline earnings per share from continuing operations (cents)	265.0	230.6

R MILLION	2018	2017
34. DIVIDEND PER SHARE		
Total dividends paid during the year	1 571	1 753
Total dividends declared relating to the profit for the year	1 582	1 766
Number of issued shares at the beginning of the year	1 505 688 346	1 485 688 346
– Shares issued on 24 April 2017	–	20 000 000
– Shares issued on 9 October 2017	12 160 153	–
– Shares issued on 9 April 2018	4 870 707	–
Number of issued shares at the end of the year	**1 522 719 206**	1 505 688 346
Dividend declared per share (cents)	104.0	118.0

35. RELATED PARTIES

PRINCIPAL SHAREHOLDERS

Details of major shareholders are disclosed in the directors' report on page 99. The principal shareholders are Remgro Limited and Royal Bafokeng Holdings Proprietary Limited (2017: Remgro Limited and Royal Bafokeng Holdings Proprietary Limited).

KEY MANAGEMENT PERSONNEL

RMI's directors and prescribed officers are key management personnel. Information on the remuneration of the prescribed officers, directors' emoluments and their shareholding in the company appears in the remuneration committee report and the directors' report.

SUBSIDIARIES

Details of income from and investments in RMI's main subsidiaries are disclosed in note 39.

The following companies are subsidiaries of RMI:

- OUTsurance Holdings Limited
- OUTsurance Insurance Company Limited
- OUTsurance Life Insurance Company Limited
- OUTsurance International Holdings Proprietary Limited
- OUTsurance Shared Services Proprietary Limited
- Youi Proprietary Limited (South Africa)
- Youi Holdings Proprietary Limited
- Youi Proprietary Limited (Australia)
- Youi New Zealand Proprietary Limited
- Youi Properties Proprietary Limited
- OUTsurance Properties Proprietary Limited
- OUTvest Nominees RF Proprietary Limited
- OUTvest Proprietary Limited
- RMI Treasury Company Limited
- RMI Asset Holdings Proprietary Limited
- Firness International Proprietary Limited
- AlphaCode Proprietary Limited
- RMI Investment Managers Group Proprietary Limited
- Granate Asset Managers Proprietary Limited
- RMI Investment Managers Affiliates 1 Proprietary Limited
- RMI Investment Managers Affiliates 2 Proprietary Limited
- RMI Investment Holdings Proprietary Limited
- RMI Invest One Proprietary Limited
- RMI Invest Two Proprietary Limited
- RMI Invest Three Proprietary Limited
- Main Street 1353 Proprietary Limited

35. RELATED PARTIES continued

ASSOCIATES

Details of income from and investments of RMI's main associates are disclosed in note 38.

The following companies are associates of RMI:

- Discovery Limited
- MMI Holdings Limited
- OUTsurance Insurance Company of Namibia Limited
- Truffle Capital Proprietary Limited
- Northstar Asset Management Proprietary Limited
- Tantalum Capital Proprietary Limited
- Sentio Capital Management Proprietary Limited
- Polar Star Management SEZC
- Polar Star Management Proprietary Limited
- Coreshares Holdings Proprietary Limited
- Ethos Private Equity Proprietary Limited
- Royal Investment Managers Proprietary Limited
- Merchant Capital Advisory Services Proprietary Limited
- Entersekt Proprietary Limited
- Entersekt International Limited
- Hastings Group Holdings plc

35. RELATED PARTIES continued

R MILLION	2018	2017
Related party transactions		
Transactions of RMI and its subsidiary companies with:		
Principal shareholders		
Dividends paid	702	794
Key management personnel		
Salaries and other benefits	13	13
Benefits derived from share appreciation rights	21	–
Transactions of RMI Holdings' key management with associates of the group		
Investment products		
Balance at the beginning of the year	1 400	1 452
Directors retiring from the RMI board and new directors joining	(134)	–
Net withdrawals	(82)	(19)
Net investment return	109	(22)
Commission and other transaction fees	(5)	(11)
Balance at the end of the year	1 288	1 400
Associates		
Income statement effect:		
– Dividends received	1 147	933
– Investment income	5	3
– Administration fees received	56	35
– Retirement fund contributions	94	85
– Group life	8	7
– Disability premiums	7	4
– Medical aid premiums	82	74
Effect on the statement of financial position:		
– Preference share investment	41	49
– Administration fee receivable	5	4

36. POST-REPORTING DATE EVENTS, CONTINGENCIES AND COMMITMENTS

FINAL DIVIDEND DECLARATION

RMI declared a final dividend of 65.0 cents per ordinary share (R990 million) on 11 September 2018 (2017: 65.0 cents per ordinary share (R978 million), declared on 19 September 2017 and paid on 9 October 2017), payable on 22 October 2018, with an option to receive scrip in lieu of cash or to reinvest the cash dividend after deduction of dividend withholding tax in new RMI ordinary shares. This is a non-adjusting event.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The purchase agreement between RMI and Merchant Capital Advisory Services Proprietary Limited (Merchant Capital) stipulates that RMI would be a debt and equity investor comprising the following:

- RMI acquired a 25.1% equity stake in Merchant Capital in September 2015;
- A junior loan facility to Merchant Capital of not less than R9 228 000; and
- A senior loan facility to Merchant Capital of not less than R200 million.

The long-term growth from the equity investment in Merchant Capital is expected to offset the cost of debt to Merchant Capital.

As at 30 June 2018, R28 million of the senior loan facility and R5 million of the junior loan facility has been issued to Merchant Capital.

RMI guarantees a liability of one of its associates, limited to a maximum amount of R28 million.

COMMITMENTS

The group's operating lease commitments under non-cancellable operating lease agreements are disclosed in note 27.

37. EFFECTIVE INTEREST IN SUBSIDIARIES AND ASSOCIATES

There is a difference between the actual and effective holdings in associates and subsidiaries as a result of the consolidation by such entities of:

- Treasury shares held by them;
- Shares held in them by their share incentive trusts;
- Deemed treasury shares held in them by policyholders and mutual funds managed by them; and
- Deemed treasury shares arising from BBBEE transactions entered into.

The effective interest held can be compared to the actual interest held by RMI in the statutory share capital of the companies as follows:

%	2018	2017
Discovery – effective	25.1	25.1
Discovery – actual	25.0	25.0
MMI – effective	26.5	25.7
MMI – actual	26.2	25.5
OUTsurance – effective	89.7	88.5
OUTsurance – actual	88.6	87.7
RMI Investment Managers – effective	100.0	100.0
RMI Investment Managers – actual	100.0	100.0
Merchant Capital – effective	25.1	25.1
Merchant Capital – actual	25.1	25.1
Entersekt – effective	25.1	25.1
Entersekt – actual	25.1	25.1

38. ASSOCIATES

LISTED ASSOCIATES

All the investments in associates are strategic, long-term investments. RMI exercises significant influence through board representation and strategic dialogue with senior management. RMI's aim with these investments is to achieve maximum return for its shareholders by investing in companies in the financial services industry. Refer to note 41 for a description of the business activities of Discovery, MMI and Hastings.

R MILLION	2018	2017
DISCOVERY LIMITED		
Financial year	30 June	30 June
Year used for equity accounting	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held (000's)	161 945	161 945
Interest held (%) (after consolidation of share trust)	25.1%	25.1%
Total net asset value of Discovery Limited	37 594	32 290
Perpetual preference share capital	(779)	(779)
Net asset value attributable to ordinary shareholders	36 815	31 511
RMI's effective interest in net asset value	9 244	7 914
Notional goodwill	1 024	1 024
Group carrying value	**10 268**	**8 938**
The group carrying value comprises:		
RMI's effective interest in at acquisition net asset value	3 626	3 626
Notional goodwill	1 024	1 024
Cost price of investment	4 650	4 650
RMI's effective interest in post-acquisition movement in net asset value	5 618	4 288
Group carrying value	**10 268**	**8 938**
Market value of the 25% stake (actual holding)	**23 887**	**20 716**
Income attributable to RMI for the year	1 418	1 098
Less: Dividends received	(322)	(288)
Share of retained income for the year	**1 096**	**810**
Statement of financial position		
Assets		
Assets arising from insurance contracts	43 625	37 691
Property and equipment	4 272	1 210
Intangible assets and deferred acquisition costs	6 641	5 096
Goodwill	2 247	2 107
Investment in associates	1 159	979
Financial assets	86 830	73 108
Deferred taxation	1 968	1 337
Current income tax asset	38	34
Reinsurance contracts	308	263
Cash and cash equivalents	10 894	9 098
Total assets	**157 982**	**130 923**

38. ASSOCIATES continued

R MILLION	2018	2017
DISCOVERY LIMITED continued		
Shareholders' equity and liabilities		
Total equity	37 594	32 290
Liabilities arising from insurance contracts	61 488	52 477
Liabilities arising from reinsurance contracts	8 918	6 746
Financial liabilities	32 084	24 373
Deferred taxation	8 007	6 963
Deferred revenue	324	291
Employee benefits	232	191
Trade and other payables	9 043	7 369
Current income tax liability	292	223
Total shareholders' equity and liabilities	**157 982**	**130 923**
Net insurance premium revenue	32 329	29 696
Statement of comprehensive income		
Profit for the year	5 735	4 494
Other comprehensive income for the year	921	(1 583)
Total comprehensive income for the year	**6 656**	**2 911**
Contingencies and commitments	1 214	11 006
Reconciliation of headline earnings to normalised earnings[1]		
Headline earnings	5 803	4 404
– Amortisation of intangible assets relating to business combinations	109	154
– Deferred tax raised on assessed losses	(352)	–
– Deferred tax timing difference related to new adjusted IFRS tax basis	(119)	–
– Duplicate building costs	37	–
– Unrealised gains on foreign exchange contracts not designated as hedges	(77)	–
– Rebranding and business acquisition expenses	–	99
– Accrual of dividends payable to preference shareholders	1	(1)
– Initial expenses related to Prudential Book transfer	(1)	–
Normalised earnings	**5 401**	**4 656**

1. Normalised earnings are headline earnings adjusted for non-recurring items and accounting anomalies.

38. ASSOCIATES continued

R MILLION	2018	2017
MMI HOLDINGS LIMITED		
Financial year	30 June	30 June
Year used for equity accounting	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held (000's)	401 048	401 048
Interest held (%) (after consolidation of share trust)	26.5%	25.7%
Total net asset value of MMI Holdings Limited	22 790	23 248
Non-controlling interest	(462)	(292)
Net asset value attributable to ordinary shareholders	22 328	22 956
RMI's effective interest in net asset value	5 920	5 909
Notional goodwill	153	153
Treasury shares	(109)	(103)
Intergroup unamortised intangible asset	–	(3)
Group carrying value	5 964	5 956
The group carrying value comprises:		
RMI's effective interest in at acquisition net asset value	6 142	6 142
Notional goodwill	153	153
Cost price of investment	6 295	6 295
RMI's effective interest in post-acquisition movement net asset value	(222)	(233)
Treasury shares	(109)	(103)
Intergroup unamortised intangible asset	–	(3)
Group carrying value	5 964	5 956
Market value of the 26.2% stake (actual holding) (2017: 25.5%)	7 087	8 117
Income attributable to RMI for the year	280	377
Less: Dividends received	(369)	(630)
Share of retained loss for the year	(89)	(253)
Statement of financial position		
Assets		
Intangible assets	10 515	11 260
Owner-occupied properties	3 864	4 105
Property and equipment	323	389
Investment properties	8 614	7 340
Properties under development	136	111
Investment in associates	636	595
Employee benefits assets	436	410
Financial instrument assets	415 505	394 391
Insurance and other receivables	4 962	4 621
Deferred taxation	290	249
Reinsurance contracts	4 989	4 495
Current tax asset	283	581
Cash and cash equivalents	25 812	27 353
Total assets	476 365	455 900

38. ASSOCIATES continued

R MILLION	2018	2017
MMI HOLDINGS LIMITED continued		
Shareholders' equity and liabilities		
Total equity	22 790	23 248
Insurance contract liabilities	117 931	114 242
Reinsurance contract liabilities	1 685	1 368
Financial instrument liabilities	315 303	298 159
Deferred taxation	2 874	3 198
Employee benefits obligations	1 153	1 334
Other payables	14 304	14 128
Provisions	73	57
Current tax liability	252	166
Total shareholders' equity and liabilities	476 365	455 900
Net insurance premiums	29 893	28 191
Statement of comprehensive income		
Profit for the year	1 422	1 581
Other comprehensive income for the year	138	(103)
Total comprehensive income for the year	1 560	1 478
Contingencies and commitments	608	344
Reconciliation of headline earnings to normalised earnings		
Headline earnings	1 444	1 847
– Amortisation of intangible assets relating to business combinations	543	577
– Basis and other changes and investment variances	651	458
– Net realised and fair value gains on shareholders' assets	8	52
– Non-recurring and restructuring expenses	115	249
– BBBEE cost	24	–
Normalised earnings	2 785	3 183
Finance costs – convertible preference shares	40	39
Dilutory effect of subsidiaries	(16)	(14)
Diluted normalised earnings[1]	2 809	3 208

1. Diluted normalised earnings are headline earnings adjusted for non-recurring items and accounting anomalies as well as the impact on earnings relating to convertible preference shares.

38. ASSOCIATES continued

R MILLION	2018	2017
HASTINGS GROUP HOLDINGS PLC		
Financial year	31 December	31 December
Period used for equity accounting	Year to 30 June 2018	4 months to 30 June 2017
Country of incorporation	UK	UK
Number of shares held (000's)	196 508	196 508
Interest held (%)	29.9%	29.9%
Net asset value attributable to ordinary shareholders of Hastings (including intangible assets recognised)	12 781	11 232
RMI's effective interest in net asset value	3 819	3 358
Notional goodwill	5 544	5 543
Group carrying value	9 363	8 901
The group carrying value comprises:		
RMI's effective interest in at acquisition net asset value	3 228	3 228
Hastings dividend forming part of acquisition price	(216)	(216)
Notional goodwill	5 544	5 543
Cost price of investment	8 556	8 555
RMI's effective interest in post-acquisition net asset value	807	346
Group carrying value	9 363	8 901
Market value of the 29.9% stake[1]	9 072	10 491
Income attributable to RMI for the year	664	199
Less: Dividends received	(432)	–
Share of retained income for the year	232	199
Statement of financial position as at 30 June		
Assets		
Goodwill	8 522	7 993
Intangible assets	1 494	1 522
Property and equipment	415	228
Deferred income tax assets	129	92
Reinsurance assets	21 751	16 192
Deferred acquisition costs	615	498
Prepayments	114	94
Insurance and other receivables	8 289	7 058
Financial assets at fair value	9 501	7 949
Cash and cash equivalents	2 720	2 827
Total assets	53 550	44 453

1. The decrease in market value to below the group carrying value is viewed as temporary and therefore the group's investment in Hastings was not impaired.

38. ASSOCIATES continued

R MILLION	2018	2017
HASTINGS GROUP HOLDINGS PLC		
Shareholders' equity and liabilities		
Total equity	11 354	9 679
Loans and borrowings	4 419	4 789
Insurance contract liabilities	32 489	25 257
Insurance and other payables	4 722	4 264
Deferred income tax liabilities	252	296
Current tax liabilities	314	168
Total shareholders' equity and liabilities	53 550	44 453
Net earned premiums	3 708	3 247
Statement of comprehensive income for the six months ended 30 June		
Profit for the six months	1 233	964
Other comprehensive income for the six months	(64)	(23)
Total comprehensive income for the six months	1 169	941
Contingencies and commitments	649	337
Reconciliation of headline earnings to normalised earnings[1]		
Headline earnings for the six months	1 233	964
Amortisation of intangible assets relating to business combinations	152	150
Normalised earnings for the six months	1 385	1 114

1. Normalised earnings are headline earnings adjusted for non-recurring items and accounting anomalies.

OTHER INVESTMENTS IN ASSOCIATES

TOTAL COMPREHENSIVE INCOME, ASSETS AND LIABILITIES OF OTHER INVESTMENTS IN ASSOCIATES

The associates listed below do not have discontinued operations.

	30 June 2018		
R MILLION	Total comprehensive income	Assets	Liabilities
RMI Investment Managers associates	51	468	166
AlphaCode associates	(55)	365	261
OUTsurance associates	23	241	80

	30 June 2017		
R MILLION	Profit/(loss)	Assets	Liabilities
RMI Investment Managers associates	65	377	153
AlphaCode associates	(20)	332	176
OUTsurance associates	39	170	69

R MILLION	2018	2017
39. SUBSIDIARIES		
UNLISTED SUBSIDIARIES		
OUTSURANCE HOLDINGS LIMITED[1]		
Financial year	30 June	30 June
Year used for consolidation	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held (000's)	3 366 763 599	3 330 339 268
Interest held (%) (after consolidation of share trust)	89.7%	88.5%
Equity shares at cost	8 081	7 720
Net profit for the year	2 964	3 253
Valuation of RMI's investment	33 937	30 972
Results for the year ended 30 June		
Income statement		
Gross insurance premiums	15 028	14 908
Less: Reinsurance premiums	(847)	(882)
Net insurance premiums	14 181	14 026
Change in provision for unearned premiums net of reinsurance	(7)	38
Net insurance premiums earned	14 174	14 064
Fee income	101	111
Investment income	516	527
Net fair value (losses)/gains on financial assets	(35)	2
Net income	14 756	14 704
Gross claims paid	(6 919)	(7 596)
Reinsurance recoveries received	384	812
Provision for cash bonuses	(395)	(399)
Transfer to policyholder liabilities under insurance contracts	(126)	(28)
Acquisition expenses	(31)	(25)
Fair value adjustment to financial liabilities	(193)	(199)
Marketing and administration expenses	(3 710)	(3 716)
Result of operating activities	3 766	3 553
Finance costs	–	(1)
Share of after-tax results of associates	306	29
Gain on derivative related to acquisition of investment in associate[2]	–	750
Profit before taxation	4 072	4 331
Taxation	(1 108)	(1 079)
Profit for the year	2 964	3 252

1. Held via Firness International Proprietary Limited and RMI Asset Holdings Proprietary Limited.
2. During the 2017 year, OUTsurance acquired a 49% interest in Main Street 1353 which owns a 29.9% interest in Hastings Group Holdings plc (Hastings). This gain represents the movement in the fair value of Main Street 1353 from 1 March 2017, the contractual date, up to 1 June 2017 when the contract became effective. The gain is linked to the significant appreciation in the share price of Hastings between these dates. IFRS deemed the period between 1 March 2017 and 1 June 2017 to be a derivative contract and therefore the gain that arises is considered a derivative gain. This gain is eliminated at RMI group level as the transaction took place between two RMI subsidiaries.

39. SUBSIDIARIES continued

OUTSURANCE HOLDINGS LIMITED continued

R MILLION	2018	2017
Non-controlling interest relating to Youi Holdings Proprietary Limited		
Balance at the beginning of the year	143	130
Profit attributable to non-controlling interests (7% (2017: 7%))	56	40
FCTR attributable to non-controlling interests	3	(14)
Transactions with non-controlling interests	(3)	(13)
Total non-controlling interest in respect of Youi Holdings Proprietary Limited	199	143
Non-controlling interest relating to OUTsurance Holdings Limited		
Balance at the beginning of the year	1 031	891
Profit attributable to non-controlling interests (10.3% (2017: 11.5%))	324	360
Dividends paid	(189)	(200)
Non-controlling interest in other reserves	11	(61)
Movement in treasury shares and shares acquired from non-controlling interests	(130)	41
Total non-controlling interest in respect of OUTsurance Holdings Limited	1 047	1 031
Current assets	12 211	10 430
Non-current assets	7 292	7 735
Current liabilities	7 202	7 714
Non-current liabilities	1 156	627
Cash inflow from operating activities	1 391	765
Cash outflow from investing activities	(1 507)	(614)
Cash (outflow)/inflow from financing activities	(125)	49
Non-controlling interest relating to RMB-SI Investments Proprietary Limited (RMBSI)		
Balance at the beginning of the year	–	146
Loss attributable to non-controlling interests (0% (2017: 21.9%))	–	(10)
Dividends paid	–	(53)
Separate class of shares issued	–	22
Movement in treasury shares	–	16
Sale of investment in RMBSI	–	(121)
Total non-controlling interest in respect of RMB-SI Investments Proprietary Limited	–	–
RMI INVESTMENT MANAGERS GROUP		
Financial year	30 June	30 June
Year used for consolidation	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held (000's)	99 753	47 042
Interest held (%)	100.0%	100.0%
Equity shares at cost	510	426
Net loss for the year	(19)	(19)
Valuation of RMI's investment	510	426
Results for the year ended 30 June		
Fee and other income	6	4
Investment income	5	9
Marketing and administration expenses	(40)	(41)
Result of operating activities	(29)	(28)
Finance costs	(4)	(6)
Share of after-tax results of associates	15	12
Loss before taxation	(18)	(22)
Taxation	(1)	3
Loss for the year	(19)	(19)

R MILLION	2018	2017
39. SUBSIDIARIES continued		
RMI INVESTMENT MANAGERS GROUP continued		
Non-controlling interest relating to RMI Investment Managers Group Proprietary Limited relating to its 51%-held subsidiary, RMI Investment Managers Affiliates 2 Proprietary Limited		
Balance at the beginning of the year	41	3
Loss attributable to non-controlling interests (49% in underlying subsidiary (2017: 49%))	(9)	(11)
Transactions with non-controlling interest	54	49
Total non-controlling interest in respect of RMI Investment Managers Group Proprietary Limited	86	41
Current assets	30	22
Non-current assets	614	208
Current liabilities	14	8
Non-current liabilities	70	140
Cash outflow from operating activities	(18)	(27)
Cash outflow from investing activities	(100)	(64)
Cash inflow from financing activities	108	99
Total non-controlling interests		
Youi Holdings Proprietary Limited	199	143
OUTsurance Holdings Limited	1 047	1 031
RMI Investment Managers Group Proprietary Limited	86	41
Total non-controlling interests	1 332	1 215

40. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The list below analyses financial instruments carried at fair value by level in the fair value hierarchy. The different levels are based on the extent that observable prices and/or data are used in the calculation of the fair value of the financial instruments. These levels are defined as follows:

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

Level 2 – Fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly (for example prices) or indirectly (for example derived from prices).

Level 3 – Fair value is determined from inputs for the asset or liability that are not based on observable market data.

40. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

The following table presents the group's financial assets and liabilities that are measured at fair value

R MILLION	Level 1	Level 2	Level 3	Total carrying amount
30 June 2018				
Financial assets				
Equity securities				
– Exchange traded funds	713	–	–	713
– Listed preference shares	354	–	–	354
– Collective investment schemes	–	110	–	110
– Listed equity securities	166	–	–	166
– Unlisted equity securities	–	–	130	130
Debt securities				
– Unsecured loans	–	–	34	34
– Unlisted preference shares	–	102	–	102
– Zero-coupon deposits	–	346	–	346
– Term deposits	–	5 261	–	5 261
– Government, municipal and public utility securities	–	560	–	560
– Money market securities	–	2 793	–	2 793
– Collective investment schemes	–	31	–	31
– Other debt securities at fair value through profit or loss	–	28	634	662
Total financial assets recognised at fair value	1 233	9 231	798	11 262
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	132	132
Derivative liability	–	36	–	36
Total financial liabilities recognised at fair value	–	36	132	168

R MILLION	2018	2017
Reconciliation of movement in Level 3 assets		
Balance at the beginning of the year	814	643
Additions in the current year	192	281
Disposals (sales and redemptions)	(187)	(106)
Fair value movement	(15)	–
Investment income accrued	66	64
Dividends received	(72)	(68)
Balance at the end of the year	798	814
The Level 3 financial assets at fair value through profit or loss represent loans and preference share investments, the value of which is not significantly sensitive to an increase or decrease in the counterparty credit rating due to the collateralised nature of the transaction.		
Reconciliation of movement in Level 3 liabilities		
Balance at the beginning of the year	150	144
Preference dividends charged to the income statement in respect of profit sharing arrangements on ring-fenced insurance business	193	199
Preference dividends paid	(211)	(193)
Balance at the end of the year	132	150

The Level 3 financial liabilities at fair value through profit or loss represent profits arising out of profit sharing arrangements on ring-fenced insurance business that accrues on a monthly basis.

40. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

R MILLION	Level 1	Level 2	Level 3	Total carrying amount
30 June 2017				
Financial assets				
Equity securities				
– Exchange traded funds	619	–	–	619
– Listed preference shares	377	–	–	377
– Collective investment schemes	–	99	–	99
– Listed equity securities	129	–	–	129
– Unlisted equity securities	–	–	1	1
Debt securities				
– Unlisted preference shares	–	105	–	105
– Zero-coupon deposits	–	208	–	208
– Term deposits	–	4 429	–	4 429
– Government, municipal and public utility securities	–	457	–	457
– Money market securities	–	2 551	–	2 551
– Collective investment schemes	–	45	–	45
– Other debt securities at fair value through profit or loss	–	7	813	820
Derivative asset	–	6	–	6
Total financial assets recognised at fair value	1 125	7 907	814	9 846
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	150	150
Derivative liability	–	8	–	8
Total financial liabilities recognised at fair value	–	8	150	158

LEVEL 1

The fair value of financial instruments traded in an active market is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The listed preference share investments comprise instruments which are listed on a securities exchange. The fair values of these investments are calculated based on the quoted closing prices of the individual investments on reporting date. These instruments are included in Level 1 and comprise mainly equity and debt instruments classified as trading securities. The investment in the exchange traded funds track the performance of the top 40 and top 50 companies listed on the JSE.

LEVEL 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are market observable, the instrument is included in Level 2.

Level 2 instruments comprise derivative, debt and short-term money market instruments where the value is determined by using market observable input, e.g. JIBAR, prime rate, foreign currency rates, listed bond rates of similar instruments, without significant adjustments.

The unlisted preference shares are redeemable with a notice period of one year. Dividend yields are 65% of the prime overdraft rate. The fair value of the preference shares with a maturity date of longer than one year is calculated on a discounted cash flow basis with the discount rate adjusted for changes in credit risk of the ultimate counterparty. Due to the redeemable nature, the preference shares are deemed to be debt securities.

40. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

LEVEL 2 continued

The fair value of money market instruments and government, municipal and public utility securities is determined based on observable market inputs. These instruments consist of fixed and floating rate notes held in segregated portfolios. These instruments are typically listed on the Bond Exchange of South Africa (BESA). Instruments listed on BESA are not as actively traded as Level 1 instruments. Despite this, the fair values of these instruments can be readily determined as the inputs utilised in the fair value calculation are available in the open market and on the coupon face at issue date.

Zero-coupon deposits are not traded actively during a financial reporting period and are classified as Level 2 financial instruments. Fair value is determined based on a discounted cash flow valuation.

The group uses zero-coupon deposits to offset the interest rate risk inherent in the some of the life insurance products underwritten by OUTsurance Life. The counterparties to these deposits are the large South African banks. The zero-coupon deposits have been structured to allow for the payment of the notional initial deposit to be spread over the specified term to enable cash flow matching. The maturity dates of the accreting zero-coupon deposits are long-term, with maturity dates at the various trading dates not exceeding 15 years. The fair values of the accreting zero-coupon deposits are determined monthly based on observable market inputs. To determine the fair values of the accreting zero-coupon deposits, a risk-free Swap Yield Curve produced every business day by the JSE is referenced. The instruments are designated at fair value through profit or loss, with both the interest accrual and fair value accounted for in profit or loss.

LEVEL 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. The financial instruments at fair value through profit or loss represent profits arising out of the profit sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends bi-annually to FirstRand Limited. The only significant unobservable input in the calculation of the preference dividend is the historic profit of the profit sharing arrangements and there are no other inputs that determine the value of these instruments. Should the profit of the profit sharing arrangement increase or decrease, the preference dividend will increase or decrease in direct proportion.

A specific valuation technique is used to value this Level 3 financial instrument which represents an accrued profit related to the FirstRand Limited Homeowners profit sharing arrangement. The fair value is determined based on valuation techniques where the input is determined by management, e.g. profits arising out of profit sharing arrangements, and is not readily available in the market or where market observable input is significantly adjusted.

Inputs are determined by the profits arising and calculations are made in accordance with the profit share percentages, stipulated within the profit sharing arrangement. No assumptions or adjustments or any other inputs are made to the profits before or after distribution. Distribution of the profits arising is made in the form of preference dividends.

Other debt securities at fair value through profit or loss are valued with reference to the funding rate of the holding company, which is entity-specific and not observable in the market.

The unsecured loan has a five-year term with no contractual interest rate. In calculating the fair value, the interest rate attached to a risk-free government bond with a term to maturity of five years was utilised.

41. SEGMENTAL REPORT

The chief operating decision-maker regards normalised earnings as the appropriate basis to evaluate business performance as it eliminates the impact of non-recurring items and accounting anomalies. The segmental analysis is based on the management accounts prepared for the group.

R MILLION	Discovery	MMI	OUTsurance	Hastings	Other[1]	RMI group
Year ended 30 June 2018						
Net income	–	–	14 757	–	237	14 994
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 056)	–	–	(7 056)
Depreciation	–	–	(136)	–	(4)	(140)
Amortisation	–	–	(99)	–	(2)	(101)
Other expenses	–	–	(3 506)	–	(158)	(3 664)
Finance costs	–	–	–	–	(765)	(765)
Fair value adjustment to financial liabilities	–	–	(193)	–	–	(193)
Share of after-tax results of associates	1 418	280	305	370	(45)	2 328
Profit/(loss) before taxation	1 418	280	4 072	370	(737)	5 403
Taxation	–	–	(1 108)	–	(28)	(1 136)
Result for the year	1 418	280	2 964	370	(765)	4 267
Hastings included in OUTsurance	–	–	(294)	294	–	–
Profit/(loss) for the year	1 418	280	2 670	664	(765)	4 267
Normalised earnings	1 356	715	3 012	405	(1 015)	4 473
Hastings included in OUTsurance	–	–	(373)	373	–	–
Normalised earnings	1 356	715	2 639	778	(1 015)	4 473
Assets	–	–	15 254	–	2 984	18 238
Associates	10 268	5 964	4 125	5 367	689	26 413
Intangible assets	–	–	124	–	–	124
Total assets	10 268	5 964	19 503	5 367	3 673	44 775
Hastings included in OUTsurance	–	–	(3 996)	3 996	–	–
Total assets	10 268	5 964	15 507	9 363	3 673	44 775
Total liabilities	–	–	8 359	–	12 712	21 071

41. SEGMENTAL REPORT continued

R MILLION	Discovery	MMI	OUTsurance	Hastings	Discontinued operations	Other[1]	RMI group
Year ended 30 June 2017							
Net income	–	–	14 703	–	–	142	14 845
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 210)	–	–	–	(7 210)
Depreciation	–	–	(131)	–	–	(5)	(136)
Amortisation	–	–	(86)	–	–	(2)	(88)
Other expenses	–	–	(3 523)	–	–	(139)	(3 662)
Finance costs	–	–	(1)	–	–	(413)	(414)
Fair value adjustment to financial liabilities	–	–	(199)	–	–	–	(199)
Gain on derivative relating to acquisition of associate	–	–	750	–	–	(750)	–
Share of after-tax results of associates	1 097	378	29	189	–	9	1 702
Profit/(loss) before taxation	1 097	378	4 332	189	–	(1 158)	4 838
Taxation	–	–	(1 079)	–	–	(5)	(1 084)
Result for the year from continuing operations	1 097	378	3 253	189	–	(1 163)	3 754
Discontinued operation	–	–	–	–	(49)	–	(49)
Profit/(loss) for the year	1 097	378	3 253	189	(49)	(1 163)	3 705
Gain on derivative related to intergroup transaction	–	–	(750)	–	–	750	–
Hastings included in OUTsurance	–	–	(10)	10	–	–	–
Profit/(loss) for the year	1 097	378	2 493	199	(49)	(413)	3 705
Normalised earnings	1 167	816	2 476	233	(38)	(757)	3 897
Hastings included in OUTsurance	–	–	(13)	13	–	–	–
Normalised earnings	1 167	816	2 463	246	(38)	(757)	3 897
Assets	–	–	14 234	–	–	2 636	16 870
Associates	8 938	5 956	3 842	5 108	–	611	24 455
Intangible assets	–	–	89	–	–	1	90
Total assets	8 938	5 956	18 165	5 108	–	3 248	41 415
Hastings included in OUTsurance	–	–	(3 793)	3 793	–	–	–
Total assets	8 938	5 956	14 372	8 901	–	3 248	41 415
Total liabilities	–	–	8 341	–	–	12 584	20 925

1. "Other" includes RMI, RMI Investment Managers, Merchant Capital, Entersekt and consolidation entries.

41. SEGMENTAL REPORT continued

RECONCILIATION OF NORMALISED EARNINGS TO HEADLINE EARNINGS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS AS PER NOTE 33

R MILLION	2018	2017
Normalised earnings as per segment report	4 473	3 897
RMI's share of normalised adjustments made by associates:	(416)	(456)
– Amortisation of intangible assets relating to business combinations	(332)	(238)
– Basis and other changes and investment variances	(167)	(117)
– Rebranding and business acquisition expenses	–	(25)
– Net realised and fair value gains on shareholders' assets	(10)	(13)
– Non-recurring and restructuring expenses	(38)	(63)
– Deferred tax timing difference related to new adjusted IFRS tax basis	30	–
– Unrealised gains on foreign exchange contracts not designated as a hedge	19	–
– Deferred tax raised on assessed losses	88	–
– BBBEE cost	(6)	–
Group treasury shares	24	–
Headline earnings attributable to ordinary shareholders as per note 33	4 081	3 441

The normalised adjustments made by associates can be split as follows:

	Discovery	MMI	Hastings	Other	Total
Year ended 30 June 2018					
Amortisation of intangible assets relating to business combinations	(27)	(136)	(148)	(21)	(332)
Basis and other changes and investment variances	–	(167)	–	–	(167)
Net realised and fair value gains on shareholders' assets	–	(10)	–	–	(10)
Non-recurring and restructuring expenses	(9)	(29)	–	–	(38)
Deferred tax timing difference related to new adjusted IFRS tax basis	30	–	–	–	30
Unrealised gains on foreign exchange contracts not designated as a hedge	19	–	–	–	19
Deferred tax raised on assessed losses	88	–	–	–	88
BBBEE cost	–	(6)	–	–	(6)
Total normalised adjustments	101	(348)	(148)	(21)	(416)
Year ended 30 June 2017					
Amortisation of intangible assets relating to business combinations	(39)	(144)	(50)	(5)	(238)
Basis and other changes and investment variances	–	(117)	–	–	(117)
Rebranding and business acquisition expenses	(25)	–	–	–	(25)
Net realised and fair value gains on shareholders' assets	–	(13)	–	–	(13)
Non-recurring and restructuring expenses	–	(63)	–	–	(63)
Total normalised adjustments	(64)	(337)	(50)	(5)	(456)

41. SEGMENTAL REPORT continued

GEOGRAPHICAL SEGMENTS

R MILLION	South Africa	Australia	New Zealand	United Kingdom	Total
Year ended 30 June 2018					
Net income	8 694	6 152	148	–	14 994
Policyholder benefits and transfer to policyholder liabilities	(3 795)	(3 226)	(35)	–	(7 056)
Other expenses	(2 927)	(1 830)	(106)	–	(4 863)
Share of after-tax results of associates	1 413	–	–	915	2 328
Profit before taxation	3 385	1 096	7	915	5 403
Taxation	(822)	(314)	–	–	(1 136)
Profit for the year	2 563	782	7	915	4 267
Assets					
Property and equipment	392	714	3	–	1 109
Investments in associates	17 050	–	–	9 363	26 413
Financial assets	6 680	6 925	291	–	13 896
Other assets	2 170	816	371	–	3 357
Total assets	26 292	8 455	665	9 363	44 775
Liabilities					
Insurance contract liabilities	2 069	4 494	162	–	6 725
Other liabilities	10 603	924	99	2 720	14 346
Total liabilities	12 672	5 418	261	2 720	21 071
Year ended 30 June 2017					
Net income	8 220	6 432	193	–	14 845
Policyholder benefits and transfer to policyholder liabilities	(3 658)	(3 514)	(38)	–	(7 210)
Other expenses	(2 355)	(1 927)	(217)	–	(4 499)
Share of after-tax results of associates	1 367	–	–	335	1 702
Profit/(loss) before taxation	3 574	991	(62)	335	4 838
Taxation	(779)	(305)	–	–	(1 084)
Result from continuing operations	2 795	686	(62)	335	3 754
Discontinued operations	(49)	–	–	–	(49)
Profit/(loss) for the year	2 746	686	(62)	335	3 705
Assets					
Property and equipment	941	41	18	–	1 000
Investments in associates	15 554	–	–	8 901	24 455
Financial assets	5 346	6 722	314	–	12 382
Other assets	2 181	1 157	240	–	3 578
Total assets	24 022	7 920	572	8 901	41 415
Liabilities					
Insurance contract liabilities	1 961	4 697	183	–	6 841
Other liabilities	10 588	828	117	2 551	14 084
Total liabilities	12 549	5 525	300	2 551	20 925

41. SEGMENTAL REPORT continued

GEOGRAPHICAL SEGMENTS continued

The group's various operating segments and the details of products and services provided by each of the reportable segments are as follows:

DISCOVERY

Discovery services the healthcare funding and insurance markets in South Africa, the United Kingdom, China, Singapore, Australia, Japan, Europe and the United States. It is a pre-eminent developer of integrated financial services products and operates under the Discovery Health, Discovery Life, Discovery Insure, Discovery Invest, Discovery Vitality, VitalityHealth, VitalityLife and Ping An Health brand names.

MMI

MMI is a South African financial services group that provides life insurance, employee benefits, investments and savings, healthcare solutions and short-term insurance to individual clients, small and medium businesses, large companies, organisations and public enterprises in South Africa, the rest of Africa and selected international countries. It covers the lower-, middle- and upper-income markets, principally under the Momentum and Metropolitan brand names.

OUTSURANCE

OUTsurance provides short- and long-term insurance products in South Africa, and short-term insurance products in Australia, New Zealand and Namibia, with a client-centric ethos of providing value-for-money insurance solutions backed by awesome client service.

HASTINGS

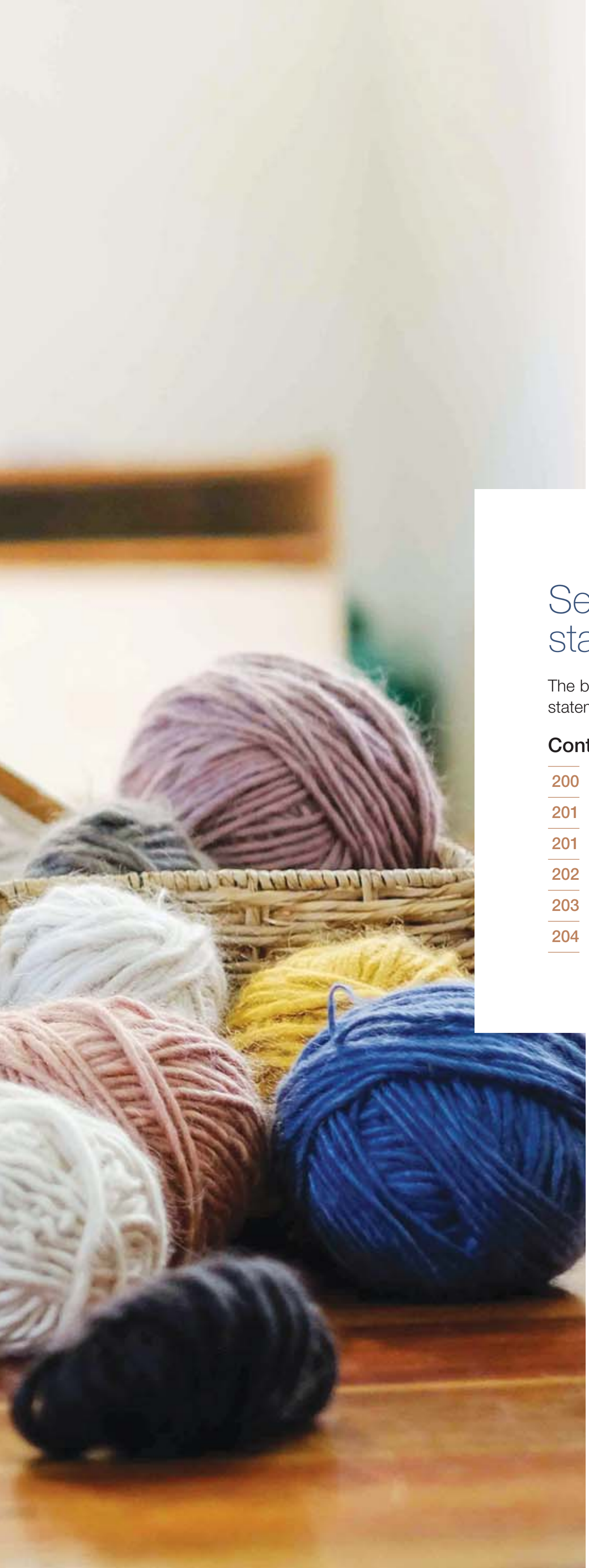
Hastings is a UK-listed short-term insurer. It commenced operations in 1997 and listed on the London Stock Exchange in 2015. It is a fast-growing, agile digital general insurance provider operating principally in the UK motor market. It provides private car and other forms of personal insurance cover (home, van and bike).

42. CURRENT/NON-CURRENT SPLIT OF ASSETS AND LIABILITIES

	30 June 2018		
R MILLION	Total	Current	Non-current
Assets			
Property and equipment	1 109	–	1 109
Intangible assets	124	75	49
Investments in associates	26 413	–	26 413
Financial assets			
– Equity securities			
– Available-for-sale	1 067	1 067	–
– Fair value through profit or loss	406	110	296
– Debt securities			
– Available-for-sale	102	102	–
– Fair value through profit or loss	9 687	7 266	2 421
– Loans and receivables including insurance receivables	2 634	2 634	–
Deferred acquisition cost	307	307	–
Reinsurance contracts	286	222	64
Deferred taxation	220	–	220
Taxation	3	3	–
Cash and cash equivalents	2 417	2 417	–
Total assets	44 775	14 203	30 572
Liabilities			
Financial liabilities			
– Preference shares	9 710	–	9 710
– Interest-bearing loans	2 730	–	2 730
– Financial liabilities at fair value through profit or loss	132	93	39
– Derivative liability	36	–	36
Insurance contracts	6 725	5 698	1 027
Share-based payment liability	134	77	57
Provisions	189	189	–
Insurance and other payables	1 158	1 127	31
Deferred taxation	54	–	54
Taxation	203	203	–
Total liabilities	21 071	7 387	13 684

42. CURRENT/NON-CURRENT SPLIT OF ASSETS AND LIABILITIES continued

	30 June 2017		
R MILLION	Total	Current	Non-current
Assets			
Property and equipment	1 000	–	1 000
Intangible assets	89	65	24
Investments in associates	24 455	–	24 455
Financial assets			
– Equity securities			
– Available-for-sale	996	–	996
– Fair value through profit or loss	229	–	229
– Debt securities			
– Available-for-sale	105	105	–
– Fair value through profit or loss	8 510	6 110	2 400
– Derivative asset	6	–	6
– Loans and receivables including insurance receivables	2 536	2 532	4
Deferred acquisition cost	338	338	–
Reinsurance contracts	672	569	103
Deferred taxation	177	61	116
Cash and cash equivalents	2 302	2 302	–
Total assets	41 415	12 082	29 333
Liabilities			
Financial liabilities			
– Preference shares	9 710	–	9 710
– Interest-bearing loans	2 611	–	2 611
– Financial liabilities at fair value through profit or loss	150	111	39
– Derivative liability	8	–	8
Insurance contracts	6 841	6 294	547
Share-based payment liability	165	107	58
Provisions	64	64	–
Insurance and other payables	1 199	1 176	23
Deferred taxation	53	43	10
Taxation	124	124	–
Total liabilities	20 925	7 919	13 006



Separate annual financial statements

The basis of preparation of this separate set of annual financial statements is outlined on page 115.

Contents

Separate statement of financial position

as at 30 June

R MILLION	Note	2018	2017
Assets			
Property and equipment	1	**4**	7
Investments in subsidiaries	2	**19 424**	7 379
Investments in associates	3	**–**	10 945
Financial assets			
– Equity securities			
– Fair value through profit or loss	4	**166**	130
– Debt securities			
– Fair value through profit or loss	4	**365**	470
Derivative asset	5	**–**	6
Loans and receivables		**2**	5
Deferred taxation	6	**27**	20
Cash and cash equivalents	7	**267**	222
Total assets		**20 255**	19 184
Equity			
Share capital and premium	8	**15 087**	14 417
Reserves	9	**5 062**	4 669
Total equity		**20 149**	19 086
Liabilities			
Share-based payment liability	10	**31**	47
Employee benefit liability		**22**	8
Financial liabilities			
– Derivative liability	11	**36**	8
Provisions	12	**4**	5
Taxation		**–**	2
Trade and other payables	13	**13**	28
Total liabilities		**106**	98
Total equity and liabilities		**20 255**	19 184

Separate income statement

for the year ended 30 June

R MILLION	Note	2018	2017
Continuing operations			
Revenue – Investment income	14	**2 101**	5 974
Fair value loss		**(33)**	(45)
Fee and other income		**16**	22
Loss on sale of subsidiary	15	**–**	(55)
Net income		**2 084**	5 896
Marketing and administration expenses	16	**(122)**	(97)
Result of operating activities of the company		**1 962**	5 799
Finance costs	17	**–**	(142)
Profit before taxation		**1 962**	5 657
Taxation	18	**2**	(2)
Profit for the year from continuing operations		**1 964**	5 655
Discontinued operations			
Profit for the year from discontinued operations		**–**	190
Profit for the year		**1 964**	5 845
Attributable to:			
Equity holders of the company		**1 964**	5 845

Separate statement of comprehensive income

for the year ended 30 June

R MILLION	2018	2017
Profit for the year	**1 964**	5 845
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**1 964**	5 845
Attributable to:		
Equity holders of the company	**1 964**	5 845

Separate statement of changes in equity

for the year ended 30 June

R MILLION	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance as at 1 July 2016	–	13 657	–	577	14 234
Shares issued	–	760	–	–	760
Total comprehensive income for the year	–	–	–	5 845	5 845
Dividends paid	–	–	–	(1 753)	(1 753)
Balance as at 30 June 2017	–	14 417	–	4 669	19 086
Shares issued	–	670	–	–	670
Total comprehensive income for the year	–	–	–	1 964	1 964
Dividends paid	–	–	–	(1 571)	(1 571)
Balance as at 30 June 2018	–	15 087	–	5 062	20 149
Note	8	8	9	9	

Separate statement of cash flows

for the year ended 30 June

R MILLION	Note	2018	2017
Cash flows from operating activities			
Cash utilised by continuing operations	19	**(117)**	(107)
Cash generated from discontinued operations	19	**–**	190
Dividends received		**2 079**	5 958
Interest received		**22**	16
Taxation paid		**(7)**	(4)
Net cash generated from operating activities		**1 977**	6 053
Cash flows from investing activities			
Investment in debt securities		**(14)**	(261)
Proceeds on sale of debt securities		**83**	106
Acquisition of property and equipment		**(1)**	(3)
Acquisition of preference shares		**–**	(19)
Acquisition of shares in subsidiaries		**–**	(1 233)
Acquisition of equity securities		**–**	(1)
Proceeds on the sale of subsidiary		**–**	165
Net cash inflow/(outflow) from investing activities		**68**	(1 246)
Cash flows from financing activities			
Proceeds from shares issued		**493**	760
Dividends paid to shareholders		**(1 394)**	(1 753)
Additional shares acquired in subsidiaries		**(1 100)**	(1 257)
Preference dividends paid		**–**	(121)
Interest paid		**–**	(21)
Redemption of preference shares		**–**	(2 298)
Net cash outflows from financing activities		**(2 001)**	(4 690)
Net increase in cash and cash equivalents for the year		**44**	117
Cash and cash equivalents at the beginning of the year		**222**	105
Cash and cash equivalents at the end of the year		**266**	222

Notes to the separate annual financial statements

for the year ended 30 June

R MILLION	Leasehold improvements	Furniture, fittings and equipment	Total
1. PROPERTY AND EQUIPMENT			
30 June 2018			
Net book value at the beginning of the year	5	2	7
Additions	–	1	1
Depreciation (note 16)	(3)	(1)	(4)
Net book value at the end of the year	2	2	4
Cost	14	4	18
Accumulated depreciation	(12)	(2)	(14)
Net book value at the end of the year	2	2	4
30 June 2017			
Net book value at the beginning of the year	7	2	9
Additions	2	1	3
Depreciation (note 16)	(4)	(1)	(5)
Net book value at the end of the year	5	2	7
Cost	14	3	17
Accumulated depreciation	(9)	(1)	(10)
Net book value at the end of the year	5	2	7

R MILLION	2018	2017
2. INVESTMENTS IN SUBSIDIARIES		
Unlisted subsidiaries		
Ordinary shares at cost		
– OUTsurance Holdings Limited	5 365	5 365
– RMI Treasury Company Limited	2 333	1 233
– RMI Asset Holdings Proprietary Limited	11 726	781
Total investments in subsidiaries	19 424	7 379

R MILLION	2018	2017
2. INVESTMENTS IN SUBSIDIARIES continued		
Balance at the beginning of the year	7 379	4 556
Investment in:		
– RMI Treasury Company Limited	1 100	1 233
– OUTsurance Holdings Limited	–	912
– RMI Investment Managers Group Proprietary Limited	–	345
Section 42 transfer[1]		
– RMI Asset Holdings Proprietary Limited	10 945	781
– RMI Investment Managers Group Proprietary Limited	–	(426)
– RMI Investment Holdings Proprietary Limited	–	(22)
Balance at the end of the year	19 424	7 379

1. The section 42 transfer relates to an assets for shares transaction between RMI and its 100%-owned subsidiary, RMI Asset Holdings, in terms of section 42 of the Income Tax Act, 58 of 1962.

R MILLION	2018	2017
RMI Asset Holdings issued shares to RMI in exchange for RMI's investments in:		
– Discovery Limited	4 650	–
– MMI Holdings Limited	6 295	–
– RMI Investment Managers Group Proprietary Limited	–	426
– RMI Investment Holdings Proprietary Limited	–	22
– Main Street 1353 Proprietary Limited	–	–
– AlphaCode Proprietary Limited	–	–
– Preference share investments (note 4)	–	333
Total amount of shares issued by RMI Asset Holdings	10 945	781
OUTsurance Holdings Limited		
Number of shares[2]	3 366 763 599	3 330 339 268
% of equity[3]	89.7	88.5
Principal place of business	Centurion	Centurion
RMI Treasury Company Limited		
Number of shares	18 100	16 500
% of equity	100.0	100.0
Principal place of business	Sandton	Sandton
RMI Asset Holdings Proprietary Limited		
Number of shares	44 604	1 100
% of equity	100.0	100.0
Principal place of business	Sandton	Sandton

2. Held indirectly via Firness International Proprietary Limited and RMI Asset Holdings Proprietary Limited.
3. After consolidation of share trust.

R MILLION	2018	2017
3. INVESTMENTS IN ASSOCIATES		
Listed associates		
Ordinary shares at cost		
Discovery Limited	–	4 650
MMI Holdings Limited	–	6 295
Total investments in associates	–	10 945
Balance at the beginning of the year	10 945	10 945
Section 42 transfer[1]		
Discovery Limited	(4 650)	–
MMI Holdings Limited	(6 295)	–
Balance at the end of the year	–	10 945
Market value		
Discovery Limited	–	20 716
MMI Holdings Limited	–	8 117
Total market value of listed associates	–	28 833
Discovery Limited		
Number of shares	–	161 944 576
% of equity[2]	–	25.1
MMI Holdings Limited		
Number of shares	–	401 048 075
% of equity[2]	–	25.7

1. RMI's holdings in Discovery and MMI were transferred to its 100%-owned subsidiary, RMI Asset Holdings, in an assets for shares transaction in terms of section 42 of the Income Tax Act.
2. After consolidation of share trust.

R MILLION	2018	2017
4. EQUITY AND DEBT SECURITIES		
Equity securities		
– Listed investments		
– Fair value through profit or loss	166	130
Debt securities		
– Unlisted investments		
– Fair value through profit or loss	365	470
Total equity and debt securities	531	600
Listed equity securities carried at fair value through profit or loss		
Balance at the beginning for the year	130	124
Additions	–	1
Fair value movement	36	5
Balance at the end of the year	166	130
The unlisted debt securities carried at fair value through profit or loss include an investment in the OUTsurance Investment Trust, OUTsurance Equity Trust and OUTsurance Equity Trust 2 (2017: OUTsurance Investment Trust and OUTsurance Equity Trust).		
Balance at the beginning for the year	470	643
Additions	14	280
Disposals	(83)	(106)
Section 42 transfer[1]	–	(333)
Investment income accrued	37	54
Dividends received from the OUTsurance Investment Trust	(58)	(62)
Dividends received from the OUTsurance Equity Trust	(14)	(6)
Dividends received from the OUTsurance Equity Trust 2	(1)	–
Balance at the end of the year	365	470

1. The section 42 transfer relates to an assets for shares transaction between RMI and its 100%-owned subsidiary, RMI Asset Holdings, in terms of section 42 of the Income Tax Act.

R MILLION	2018	2017
5. DERIVATIVE ASSET		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	–	6
Notional value	183	164

The derivative is an economic hedge but it does not meet the qualifying criteria for hedge accounting. The notional amount of the derivative does not necessarily indicate the future cash flow involved or the current fair value of the instrument and therefore does not represent RMI's exposure to credit or market risk. The derivative instrument becomes favourable (asset) or unfavourable (liability) based on changes in share prices and counterparty credit risk. The aggregate notional amount and fair value of derivative financial instruments can fluctuate over time.

R MILLION	2018	2017
6. DEFERRED TAXATION		
Deferred taxation asset – Fair value adjustments	27	20
Reconciliation of movement		
Deferred taxation asset at the beginning of the year	20	10
Deferred taxation credit in the income statement	7	10
Deferred taxation asset at the end of the year	27	20
7. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	267	222

Cash and cash equivalents represent current accounts and call deposits.

R MILLION	Number of shares	Ordinary shares	Share premium	Total
8. SHARE CAPITAL AND SHARE PREMIUM				
Share capital and share premium as at 1 July 2016	1 486	–	13 657	13 657
Issue of shares	20	–	760	760
Share capital and share premium as at 30 June 2017	1 506	–	14 417	14 417
Issue of shares	17	–	670	670
Share capital and share premium as at 30 June 2018	1 523	–	15 087	15 087

ORDINARY SHARES

The total authorised number of ordinary shares is 2 000 000 000, with a par value of R0.0001 per share. The total number of issued ordinary shares as at 30 June 2017 was 1 505 688 346 shares, issued at a premium of R9.1926 per share. On 9 October 2017, RMI issued an additional 12 160 153 ordinary shares with a par value of R0.0001 at a premium of R37.9999 per share and on 9 April 2018, RMI issued an additional 4 870 707 ordinary shares with a par value of R0.0001 at a premium of R42.49999 per share. This increased the number of issued ordinary shares as at 30 June 2018 to 1 522 719 206 shares. The unissued share capital is under the control of the board of directors until the forthcoming annual general meeting.

PREFERENCE SHARES

The total authorised number of cumulative, redeemable par value preference shares is 100 000 000 with a par value of R0.0001 per share. The issued number of par value preference shares is nil (2017: nil).

The total authorised number of cumulative, redeemable no par value preference shares is 100 000 000. The issued number of no par value preference shares is nil (2017: nil).

The company created a new class of 100 000 000 authorised, cumulative, redeemable no par value preference shares in the 2016 financial year. None of these preference shares have been issued to date.

R MILLION	2018	2017
9. RESERVES		
Retained earnings	5 062	4 669
10. SHARE-BASED PAYMENT LIABILITY		
Balance at the beginning of the year	47	51
Share-based payment expense accrued during the year	11	1
Liability settled	(27)	(7)
Liability transferred from RMH	–	2
Balance at the end of the year	31	47

R MILLION	2018	2017
11. DERIVATIVE LIABILITY		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	36	8
Notional value	119	93
The derivative is an economic hedge but it does not meet the qualifying criteria for hedge accounting. The notional amount of the derivative does not necessarily indicate the future cash flow involved or the current fair value of the instrument and therefore does not represent RMI's exposure to credit or market risk. The derivative instrument becomes favourable (asset) or unfavourable (liability) based on changes in share prices and counterparty credit risk. The aggregate notional amount and fair value of derivative financial instruments can fluctuate over time.		
12. PROVISIONS		
Staff incentive bonus		
Balance at the beginning of the year	5	3
Provision	3	5
Utilised during the year	(4)	(3)
Total provisions	4	5
13. TRADE AND OTHER PAYABLES		
Trade payables and accrued expenses	13	28
14. REVENUE – INVESTMENT INCOME		
Investment income from continued operations		
Dividend income from subsidiaries and associates	1 999	5 883
Dividend income from investment in OUTsurance Investment Trust	58	62
Dividend income from investment in OUTsurance Equity Trust	14	6
Dividend income from investment in OUTsurance Equity Trust 2	1	–
Dividend income from listed fair value through profit or loss equity securities	7	7
Interest income on cash and cash equivalents	22	16
Total investment income from continued operations	2 101	5 974
Dividend income from discontinued operations	–	190
Total investment income	2 101	6 164
15. LOSS ON SALE OF SUBSIDIARY		
Regulatory approval was obtained in March 2017 to sell RMI's investment in RMBSI (excluding RMBSI's stake in Truffle Capital Proprietary Limited) to Santam.		
Sale consideration	–	165
Carrying value at date of sale	–	(220)
Loss on sale of investment in subsidiary	–	(55)

R MILLION	2018	2017
16. MARKETING AND ADMINISTRATION EXPENSES		
Expenses by nature:		
Directors' remuneration	(13)	(13)
Personnel costs	(69)	(42)
Professional fees and regulatory compliance cost	(12)	(12)
Printing costs	(4)	(4)
Operating lease rentals	(3)	(3)
Depreciation	(4)	(5)
Audit fees	(3)	(1)
Other expenses	(14)	(17)
Total marketing and administration expenses	(122)	(97)
Audit fees		
Statutory audit – current year	(2)	(1)
Statutory audit – prior year	(1)	–
Total audit fees	(3)	(1)
The company is leasing its office space on a monthly basis, therefore there is no commitment under non-cancellable operating lease agreements.		
17. FINANCE COSTS		
Cumulative, redeemable preference share dividends	–	(142)
18. TAXATION		
SA normal taxation		
– Current taxation		
– Current year	(5)	(12)
– Deferred taxation		
– Current year	8	10
– Prior year	(1)	–
Total taxation	2	(2)
The taxation on the company's profit before taxation differs from the theoretical amount that would arise using the basic rate of taxation in South Africa as follows:		
Profit before taxation from continuing operations	1 962	5 657
Effective tax rate	(0.10)	0.04
Dividend income not subject to taxation	29.67	29.45
Non-deductible expenses	(1.57)	(1.39)
Capital gains tax	–	(0.10)
Standard income taxation rate in South Africa	28.00	28.00

R MILLION	2018	2017
19. CASH GENERATED FROM OPERATIONS		
Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation from continuing operations	1 962	5 657
Adjusted for:		
Dividends received	(2 079)	(5 958)
Interest income	(22)	(16)
Finance costs	–	142
Fair value loss	33	45
Loss on sale of subsidiary	–	55
Non-cash income and expenses included in the income statement	2	(11)
Changes in working capital		
– Loans and receivables	3	–
– Provisions	(1)	2
– Trade and other payables	(15)	(23)
Cash utilised by continuing operations	(117)	(107)
Dividends received from discontinued operation	–	190
Total cash (utilised)/generated from operations	(117)	83
20. DIVIDEND PER SHARE		
Total dividends paid during the year	1 571	1 753
Total dividends declared relating to the earnings for the year	1 582	1 766
Number of ordinary shares in issue at the beginning of the year	1 505 688 346	1 485 688 346
Shares issued on 24 April 2017	–	20 000 000
Shares issued on 9 October 2017	12 160 153	–
Shares issued on 9 April 2018	4 870 707	–
Number of ordinary shares in issue at the end of the year	1 522 719 206	1 505 688 346
Dividend declared per share (cents)		
– Interim	39.0	53.0
– Final	65.0	65.0
Total dividend per share declared	104.0	118.0

21. RELATED PARTIES

PRINCIPAL SHAREHOLDERS

Details of major shareholders are disclosed in the directors' report on page 99. The principal shareholders are Remgro Limited and Royal Bafokeng Holdings Proprietary Limited.

KEY MANAGEMENT PERSONNEL

Only RMI's directors are key management personnel. Information on directors' emoluments and their shareholding in the company appears in the remuneration committee and directors' reports.

SUBSIDIARIES

Details of investments in subsidiaries are disclosed in note 2.

The following companies are subsidiaries of RMI:

- RMI Treasury Company Limited;
- RMI Asset Holdings Proprietary Limited; and
- Firness International Proprietary Limited (which owns 80.3% of OUTsurance Holdings Limited).

ASSOCIATES

Details of investments in associates are disclosed in note 3.

RMI transferred its investments in Discovery and MMI to RMI Asset Holdings Proprietary Limited on 29 June 2018 as disclosed in note 3.

R MILLION	2018	2017
Related party transactions		
Transactions of RMI with:		
Principal shareholders		
Dividends paid	702	794
Remgro Limited reinvested the dividends received from RMI in new RMI ordinary shares as follows:		
– 7 691 641 new RMI ordinary shares for a subscription amount of R292 million in October 2017; and		
– 4 196 921 new RMI ordinary shares for a subscription amount of R178 million in April 2018.		
Key management personnel		
Salaries and other benefits	13	13
Subsidiaries		
Income statement effect:		
– Dividends received	1 308	5 138
Associates		
Income statement effect:		
– Dividends received	691	918
Assets for shares transaction		
As disclosed in note 3, RMI transferred its investments in Discovery and MMI to RMI Asset Holdings Proprietary Limited in an assets for shares transaction on 29 June 2018.		

22. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

RMI guaranteed a loan incurred by its subsidiary, RMI Investment Managers Affiliates 2 Proprietary Limited, with FirstRand Bank Limited. The loan of R60 million was incurred on 29 June 2016 and can be repaid at any time, but is compulsorily repayable on 29 June 2019. The interest rate on the loan is calculated based on the three-month JIBAR rate plus 2.2%. The outstanding capital balance on this loan as at 30 June 2018 was R10 million, which balance RMI Investment Managers Affiliates 2 Proprietary Limited settled in July 2018.

The purchase agreement between RMI and Merchant Capital Advisory Services Proprietary Limited (Merchant Capital) stipulates that RMI would be a debt and equity investor, comprising the following:

- RMI acquired a 25.1% equity stake in Merchant Capital in September 2015;
- A junior loan facility to Merchant Capital of not less than R9 228 000; and
- A senior loan facility to Merchant Capital of not less than R200 million.

The long-term growth from the equity investment in Merchant Capital is expected to offset the cost of debt to Merchant Capital.

As at 30 June 2018, an amount of R5 million of the junior loan facility has been issued to Merchant Capital.

All the class A, class B, class C and class D preference shares (R9 710 million in total) issued by RMI's 100%-owned subsidiary, RMI Treasury Company Limited, are guaranteed by RMI, RMI Asset Holdings Proprietary Limited and Main Street 1353 Proprietary Limited in terms of the group's domestic medium-term note and preference share programme.

RMI and RMI Asset Holdings Proprietary Limited guaranteed the loan of R2 720 million incurred by Main Street 1353 Proprietary Limited as part of the funding raised to acquire a 29.9% stake in Hastings Group Holdings plc.

23. FINANCIAL RISK MANAGEMENT

The company is exposed to various financial risks in connection with its current operating activities, such as market risk, credit risk and liquidity risk.

MARKET RISK

The risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

CURRENCY RISK

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

The company had no exposure to currency risk at 30 June 2018 (2017: none).

INTEREST RATE RISK

Interest rate risk is when the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

23. FINANCIAL RISK MANAGEMENT continued

The table below reflects the company's exposure to interest rate risk. An increase or decrease in the market interest rate would result in the following changes in the profit before taxation of the company:

R MILLION	2018	2017
Cash and cash equivalents – 200 bps increase	5	4
Cash and cash equivalents – 200 bps decrease	(5)	(4)

OTHER PRICE RISK

Equity risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The table below reflects the company's exposure to equity price risk. A hypothetical 10% increase or decrease in the equity prices would result in the following changes in the profit before taxation of the company:

	30 June 2018		30 June 2017	
R MILLION	10% increase	10% decrease	10% increase	10% decrease
Equity securities at fair value through profit or loss	17	(17)	13	(13)
Derivative asset	16	(16)	17	(17)
Derivative liability	(13)	13	(10)	10
	20	(20)	20	(20)

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The key areas where the company is exposed to credit risk are:

- Unlisted debt securities;
- Loans and receivables; and
- Cash and cash equivalents.

Significant concentrations of credit risk, if applicable, are disclosed in the annual financial statements. The credit exposure to any one counterparty is managed by the board of directors and by setting transaction/exposure limits, which are reviewed at each board and audit and risk committee meeting. The creditworthiness of existing and potential clients is monitored by the board.

23. FINANCIAL RISK MANAGEMENT continued

The table below provides information on the credit risk exposure by credit ratings at year-end:

R MILLION	BB	Not rated	Total
30 June 2018			
Debt securities			
– Fair value through profit or loss – unlisted	–	365	365
Loans and receivables	–	2	2
Cash and cash equivalents	267	–	267
Total	267	367	634
30 June 2017			
Debt securities			
– Fair value through profit or loss – unlisted	–	470	470
Derivative asset	–	6	6
Loans and receivables	–	5	5
Cash and cash equivalents	222	–	222
Total	222	481	703

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset in the tables above.

Where available, the company utilises the credit ratings per counterparty as provided by each of the major credit rating agencies to determine the credit quality of a specific instrument. Where the instrument credit rating is not available, the credit rating of the counterparty, as provided by the major credit ratings agencies, is utilised.

In instances where the credit rating for the counterparty is not available, the company utilises the credit rating provided by a service provider amended to take into account the credit risk appetite of the company. The internal methodology of the service provider provides a credit rating which assesses the counterparty's credit quality based on its financial standing. Should the service provider not provide a credit rating, the counterparty is shown as unrated. The ratings disclosed are long-term international scale, local currency ratings.

LONG-TERM INVESTMENT GRADE

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

Not rated – The credit exposure for the assets listed above is considered acceptable by the board even though certain assets do not have a formal rating. The debt securities at fair value through profit or loss represent a loan provided to the OUTsurance Investment Trust and OUTsurance Equity Trusts, the values of which are not significantly sensitive to an increase or decrease in the counterparty credit rating due to the collateralised nature of these transactions.

23. FINANCIAL RISK MANAGEMENT continued

LIQUIDITY RISK AND ASSET LIABILITY MATCHING

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company's liabilities are matched by appropriate assets and it has significant liquid resources to cover its obligations. The company's liquidity and ability to meet such calls are monitored quarterly at the board meetings.

R MILLION	Call to 6 months	7 – 12 months	1 – 5 years/no contractual maturity	Total
As at 30 June 2018				
Assets				
Property and equipment	–	–	4	4
Investment in subsidiaries	–	–	19 424	19 424
Equity securities – fair value through profit or loss	–	–	166	166
Debt securities – fair value through profit or loss	–	–	365	365
Loans and receivables	2	–	–	2
Deferred taxation	–	–	27	27
Cash and cash equivalents	267	–	–	267
Total assets	269	–	19 986	20 255
Liabilities				
Share-based payment liability	14	5	12	31
Employee benefit liability	13	3	6	22
Financial liabilities				
– Derivative liability	–	–	36	36
Provisions	4	–	–	4
Trade and other payables	13	–	–	13
Total liabilities	44	8	54	106
As at 30 June 2017				
Assets				
Property and equipment	–	–	7	7
Investment in subsidiaries	–	–	7 379	7 379
Investment in associates	–	–	10 945	10 945
Equity securities – fair value through profit or loss	–	–	130	130
Debt securities – fair value through profit or loss	–	–	470	470
Derivative asset	–	–	6	6
Loans and receivables	5	–	–	5
Deferred taxation	–	–	20	20
Cash and cash equivalents	222	–	–	222
Total assets	227	–	18 957	19 184
Liabilities				
Share-based payment liability	30	6	11	47
Employee benefit liability	4	1	3	8
Financial liabilities				
– Derivative liability	–	–	8	8
Provisions	5	–	–	5
Taxation	2	–	–	2
Trade and other payables	28	–	–	28
Total liabilities	69	7	22	98

24. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

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

Level 2 – Fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly (for example prices) or indirectly (for example derived from prices).

Level 3 – Fair value is determined from inputs for the asset or liability that are not based on observable market data.

R MILLION	Level 1	Level 2	Level 3	Total carrying amount
As at 30 June 2018				
Financial assets				
Equity securities				
– Fair value through profit or loss	166	–	–	166
Debt securities				
– Fair value through profit or loss	–	–	365	365
Total financial assets valued at fair value	166	–	365	531
Financial liabilities				
Derivative liability	–	36	–	36

R MILLION	2018	2017
Reconciliation of movement in Level 3 assets		
Balance at the beginning of the year	470	643
Additions in the current year	14	280
Disposals (sales and redemptions)	(83)	(106)
Section 42 transfer	–	(333)
Investment income accrued	37	54
Dividends received from the OUTsurance Investment Trust	(58)	(62)
Dividends received from the OUTsurance Equity Trust	(14)	(6)
Dividends received from the OUTsurance Equity Trust 2	(1)	–
Balance at the end of the year	365	470

The Level 3 financial assets at fair value through profit or loss represent loans to the OUTsurance Investment Trust, OUTsurance Equity Trust and OUTsurance Equity Trust 2, the values of which are not significantly sensitive to an increase or decrease in the counterparty credit rating due to the collateralised nature of these transactions.

24. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

R MILLION	Level 1	Level 2	Level 3	Total carrying amount
As at 30 June 2017				
Financial assets				
Equity securities				
– Fair value through profit or loss	130	–	–	130
Debt securities				
– Fair value through profit or loss	–	–	470	470
Derivative asset	–	6	–	6
Total financial assets valued at fair value	130	6	470	606
Financial liabilities				
Derivative liability	–	8	–	8

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

LEVEL 1

The fair value of financial instruments traded in an active market is based on quoted market prices at balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

LEVEL 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. If all significant inputs required to fair value an instrument are market observable, the instrument is included in Level 2. The derivative asset and derivative liability are calculated with reference to the quoted prices for shares listed on the JSE.

LEVEL 3

The debt securities at fair value through profit or loss accrue interest at a fixed percentage and are reduced by dividends received from the OUTsurance Investment Trust, OUTsurance Equity Trust and OUTsurance Equity Trust 2. The investments in the preference shares accrue preference dividends at a fixed rate.

25. POST-REPORTING DATE EVENT

FINAL DIVIDEND DECLARATION

RMI declared a final dividend of 65.0 cents (2017: 65.0 cents) per ordinary share (R990 million) (2017: R978 million) on 11 September 2018, payable on 22 October 2018. There is an option to receive scrip in lieu of cash or to reinvest the dividend (after any tax) in RMI shares.

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Shareholder information

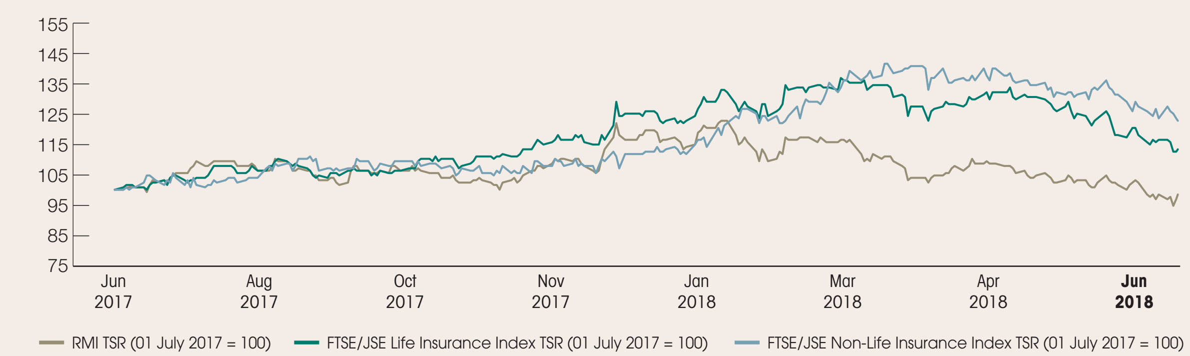
Shareholding

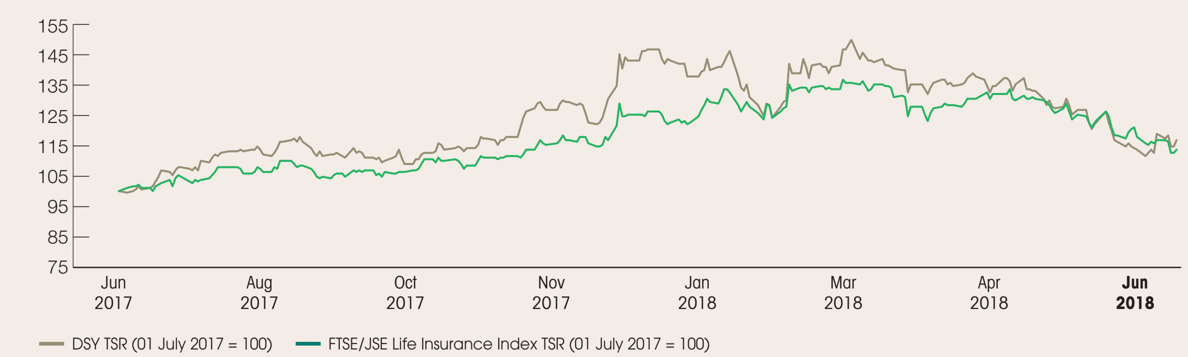
	As at 30 June 2018			As at 30 June 2017		
	Number of shareholders	Shares held (000's)	%	Number of shareholders	Shares held (000's)	%
Analysis of shareholding						
Financial Securities Limited (Remgro)	1	461 554	30.3	1	449 665	29.9
Royal Bafokeng Holdings Proprietary Limited	1	222 853	14.6	1	222 853	14.8
Public Investment Corporation	1	104 004	6.8	1	104 702	7.0
Allan Gray (on behalf of clients)	1	90 633	6.0	1	120 539	8.0
Total of shareholders holding more than 5%	4	879 044	57.7	4	897 759	59.7
Other	36 447	643 675	42.3	35 885	607 929	40.3
Total	36 451	1 522 719	100.0	35 889	1 505 688	100.0
Shareholder type						
Corporates		684 407	44.9		672 518	44.7
Unit trusts		212 466	14.0		210 091	14.0
Pension funds		167 684	11.0		168 030	11.2
Private investors		48 742	3.2		55 733	3.7
Insurance companies and banks		43 061	2.8		24 680	1.6
Other		366 359	24.1		374 636	24.8
Total		1 522 719	100.0		1 505 688	100.0
Public and non-public shareholders						
Public	36 443	747 058	49.1	35 878	690 356	45.8
Non-public	8	775 661	50.9	11	815 332	54.2
– Corporates	2	684 407	44.9	2	672 518	44.7
– Directors and associates	6	91 254	6.0	9	142 814	9.5
Total	36 451	1 522 719	100.0	35 889	1 505 688	100.0
Geographic ownership						
South Africa		1 333 551	87.6		1 335 865	88.7
International		189 168	12.4		169 823	11.3
Total		1 522 719	100.0		1 505 688	100.0

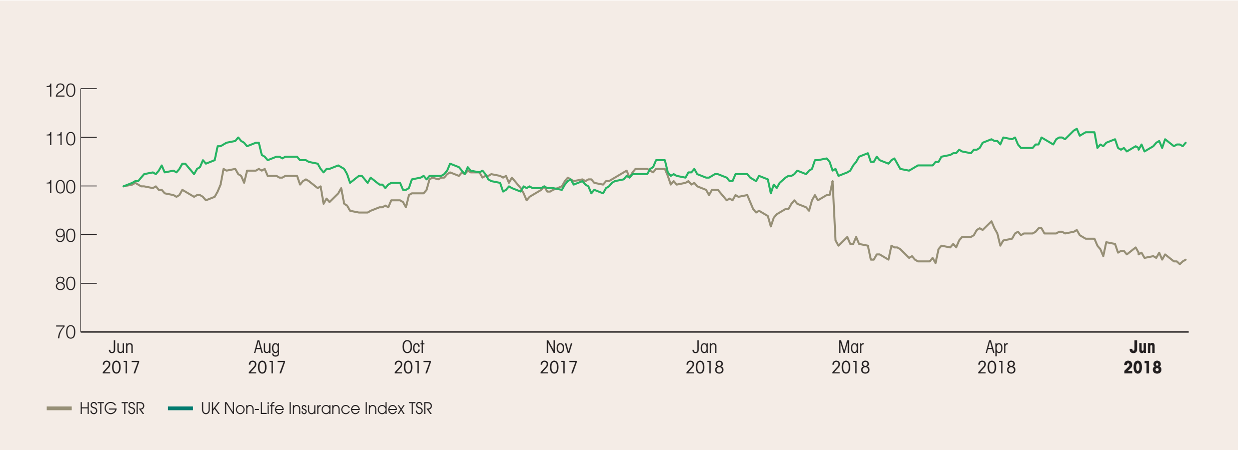
The information above is extracted from the shareholder analysis provided by Orient Capital Limited.

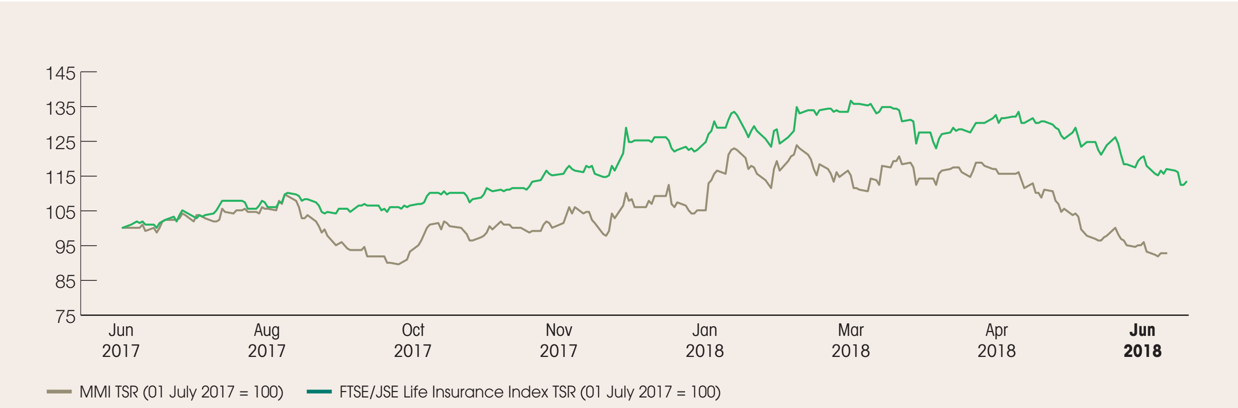
Performance on the JSE Limited

	2018	2017
Number of shares in issue at the beginning of the year (000's)	1 505 688	1 485 688
Shares issued during the year (000's)	17 031	20 000
Number of shares in issue at the end of the year (000's)	1 522 719	1 505 688
Market prices (cents per share)		
– Closing	3 745	3 899
– High	4 740	4 599
– Low	3 539	3 760
– Weighted average	4 154	4 117
Closing price/net asset value per share	2.5	3.0
Closing price/headline earnings per share	13.9	16.8
Volume of shares traded during the year (million)	427	494
Value of shares traded during the year (R million)	17 717	20 353
Market capitalisation at year-end (R million)	57 026	58 707
Rank by market capitalisation at year-end	38	36









Shareholders' diary

REPORTING

INTERIM RESULTS FOR THE 2019 FINANCIAL YEAR

Announcement for the six months ending 31 December 2018	Early March 2019

FINAL RESULTS FOR THE 2019 FINANCIAL YEAR

Announcement for the year ending 30 June 2019	Mid-September 2019
Posting of integrated report	End-October 2019
Annual general meeting	End-November 2019

DIVIDENDS

INTERIM DIVIDEND FOR THE 2019 FINANCIAL YEAR

Declare	Early March 2019
Payable	End-March 2019

FINAL DIVIDEND FOR THE 2019 FINANCIAL YEAR

Declare	Mid-September 2019
Payable	Mid-October 2019

Notice of annual general meeting

This document (which is available in English only) is important and requires your immediate attention. The action you need to take is set out in this notice. If you are in any doubt as to what action to take, please consult your broker, attorney or other professional advisor immediately.

RAND MERCHANT INVESTMENT HOLDINGS LIMITED

Incorporated in the Republic of South Africa
Registration number: 2010/005770/06
JSE ordinary share code: RMI
ISIN code: ZAE000210688
(RMI or the company)

Notice is hereby given to the holders of ordinary shares in RMI (shareholders), in terms of section 62(3)(a) of the Companies Act, 71 of 2008, (Companies Act), that the eighth annual general meeting of the ordinary shareholders of RMI will be held in the Dr AE Rupert boardroom, Remgro head office, Millenia Park, 16 Stellentia Avenue, Stellenbosch, 7600 on Wednesday, 21 November 2018 at 12:00 to consider and, if approved, pass the resolutions set out below, with or without modification, as well as such other matters as may be required to be dealt with at the annual general meeting in terms of the Companies Act.

SALIENT DATES

Record date to be eligible to receive the notice of annual general meeting	Friday, 12 October 2018
Posting date	Wednesday, 24 October 2018
Last day to trade to be eligible to attend and vote at the annual general meeting	Tuesday, 13 November 2018
Record date to be eligible to attend and vote at the annual general meeting	Friday, 16 November 2018
Proxies due (for administrative purposes)*	Monday, 19 November 2018
Annual general meeting	Wednesday, 21 November 2018

Notes:
The above dates, times and place are subject to amendment, provided that, in the event of an amendment, an announcement will be released on SENS.
All dates and times indicated above are references to South African dates and times.
* Alternatively, to be handed to the chairman of the annual general meeting at any time prior to the person appointed as proxy exercising any rights of the shareholder at the annual general meeting.

AGENDA

1. PRESENTATION OF THE AUDITED CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

The audited consolidated and separate annual financial statements (as approved by the board of directors of the company), including the reports of the external auditor, audit and risk committee, social, ethics and transformation committee and directors for the financial year ended 30 June 2018, all of which are included in the 2018 integrated report, of which this notice forms a part (integrated report) in accordance with section 30(3)(d) of the Companies Act are presented to the meeting.

Shareholders are referred to **page 89** of the integrated report for the report from the social, ethics and transformation committee of RMI as required in terms of regulation 43(5)(c) of the Companies Regulations, 2011 and to **page 93** for the annual financial statements.

2. ORDINARY RESOLUTIONS NUMBER 1.1 TO 1.7

RE-ELECTION OF DIRECTORS

To re-elect, by way of separate ordinary resolutions, the following directors, who retire in terms of article 25.7 of the company's memorandum of incorporation (MOI) and who, being eligible, offer themselves for re-election in accordance with the Companies Act and the company's MOI:

Ordinary resolution number 1.1 – Johan Petrus Burger (59)
Independent non-executive
Date of appointment: 30 June 2014
Educational qualifications: BCom (Hons) CA(SA)
Other listed directorships: FirstRand Limited and RMB Holdings Limited

Ordinary resolution number 1.2 – Lauritz Lanser Dippenaar (69)
Non-executive director
Date of appointment: 8 December 2010
Educational qualifications: MCom CA(SA)
Other listed directorship: RMB Holdings Limited

Ordinary resolution number 1.3 – Paul Kenneth Harris (68)
Non-executive director
Date of appointment: 8 December 2010
Educational qualifications: MCom
Other listed directorships: Remgro Limited and RMB Holdings Limited

Ordinary resolution number 1.4 – Albertinah Kekana (45)
Non-executive director
Date of appointment: 6 February 2013
Educational qualifications: BCom (Hons) CA(SA) PGDA AMP (Harvard)
Other listed directorship: RMB Holdings Limited

VACANCIES FILLED DURING THE YEAR

To elect, by way of separate ordinary resolutions, the following directors:

Ordinary resolution number 1.5 – Matsotso Mamongae Mahlare (43)
Independent non-executive director
Date of appointment: 31 March 2018
Educational qualifications: BSc (Chemical Engineering) MBA (Harvard)
Other listed directorship: RMB Holdings Limited

Ordinary resolution number 1.6 – Ralph Tendai Mupita (46)
Independent non-executive director
Date of appointment: 31 March 2018
Educational qualifications: BSc (Engineering)(Hons) MBA GMP (Harvard)
Other listed directorships: MTN Group Limited and RMB Holdings Limited

Ordinary resolution number 1.7 – James Andrew Teeger (51)
Independent non-executive director
Date of appointment: 31 March 2018
Educational qualifications: BCom BAcc CA(SA) HDip Tax
Other listed directorship: RMB Holdings Limited

Additional information in respect of ordinary resolutions number 1.1 to 1.7

A brief CV of each of the persons nominated above appears on **pages 72** to **77** of the integrated report.

3. ADVISORY ENDORSEMENT OF THE REMUNERATION POLICY AND IMPLEMENTATION REPORT

3.1 ADVISORY ENDORSEMENT OF REMUNERATION POLICY

To endorse, through a non-binding advisory vote, the company's remuneration policy (excluding the remuneration of the non-executive directors and the members of board committees for their services as directors and members of committees), as set out on **pages 83** and **84** in the remuneration report.

3.2 ADVISORY ENDORSEMENT OF REMUNERATION IMPLEMENTATION REPORT

To endorse, through a non-binding advisory vote, the company's remuneration implementation report, as set out on **pages 85** to **88** in the remuneration report.

Additional information in respect of advisory endorsement of remuneration policy and implementation report
The endorsement of the remuneration policy and implementation report is tabled as a non-binding advisory vote, however, the outcome of each vote will be acknowledged when considering the remuneration policy and the implementation thereof. In the event that either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the voting rights exercised, the board will initiate engagement with the relevant shareholders and the outcome thereof will be disclosed in the 2019 integrated report.

4. ORDINARY RESOLUTION NUMBER 2

PLACE 5% (FIVE PERCENT) OF THE AUTHORISED ORDINARY SHARES UNDER THE CONTROL OF THE DIRECTORS

Resolved as an ordinary resolution that 5% (five percent) of the authorised ordinary shares in the company, which equates to 100 000 000 ordinary shares, be and are hereby placed under the control of the directors as a general authority until the forthcoming annual general meeting and that the directors be and are hereby authorised to allot, issue and otherwise dispose of such shares to such person or persons upon such terms and conditions as the directors in their discretion deem fit, subject to the Companies Act, the company's MOI and the JSE Listings Requirements, if and to the extent applicable.

Additional information in respect of ordinary resolution number 2
Shareholders should note that 5% (five percent) or 100 000 000 of the company's authorised ordinary shares represents approximately 6.6% (six point six percent) of the issued ordinary shares, calculated as at the date of this notice of annual general meeting. As at 30 June 2018 this was valued at approximately R3.7 billion.

5. ORDINARY RESOLUTION NUMBER 3

GENERAL AUTHORITY TO ISSUE ORDINARY SHARES FOR CASH

Resolved, subject to ordinary resolution number 2 being passed, that the board of directors of the company be and are hereby authorised, by way of a renewable general authority, to issue those ordinary shares (including securities convertible into ordinary shares and/or options over ordinary shares) in the share capital of the company under the control of the directors for cash as and when they in their discretion deem fit, subject to the Companies Act, the company's MOI and the JSE Listings Requirements.

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

- This authority shall be valid until the company's next annual general meeting or for 15 (fifteen) months from the date of this resolution, whichever period is shorter;
- The ordinary shares must be issued to public shareholders as such term is defined by the JSE Listings Requirements and not to related parties;
- Securities which are the subject of this authority may not exceed 100 000 000 ordinary shares, being 6.6% (six point six percent) of the number of listed equity securities of the company as at the date of this notice of annual general meeting, provided that:
  - Any equity securities issued under this authority during the period must be deducted from the number above;
  - In the event of a sub-division or consolidation of issued equity securities during the period contemplated above, the existing authority must be adjusted accordingly to represent the same allocation ratio; and
  - The calculation of the listed equity securities is a factual assessment of the listed equity securities as at the date of the notice of annual general meeting, excluding treasury shares;
- In determining the price at which an issue of shares may be made in terms of this authority, the maximum discount at which the ordinary shares may be issued is 10% (ten percent) of the weighted average traded price of the company's ordinary shares measured over 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors of the company and the party subscribing for the securities;
- A paid press announcement giving full details, will be published at the time of any issue representing, on a cumulative basis within the period of this authority, 5% (five percent) or more of the number of ordinary shares in issue prior to that issue, in terms of the JSE Listings Requirements; and
- Any such general issue is subject to exchange control regulations and approval at that time (if and to the extent applicable).

Additional information in respect of ordinary resolution number 3
Approval for this ordinary resolution is obtained by achieving a 75% (seventy five percent) majority of the votes cast in favour of this resolution at the annual general meeting by all equity security holders entitled to vote thereon and present or represented by proxy.

6. ORDINARY RESOLUTION NUMBER 4

APPROVAL OF RE-APPOINTMENT OF AUDITOR

Resolved as an ordinary resolution that, as nominated by the audit and risk committee, PricewaterhouseCoopers Inc. be re-appointed as auditor of the company for the financial year ending 30 June 2019 and until the conclusion of the next annual general meeting and that their remuneration for the financial year ending 30 June 2019 be determined by the audit and risk committee.

7. ORDINARY RESOLUTIONS NUMBER 5.1 TO 5.3

ELECTION OF THE COMPANY'S AUDIT AND RISK COMMITTEE MEMBERS

Resolved, by way of separate ordinary resolutions, that in terms of section 94(2) of the Companies Act, the following persons, who are independent non-executive directors of the company, be and are hereby elected as members of the audit and risk committee with effect from the end of the annual general meeting:

Ordinary resolution number 5.1 – Johan Petrus Burger (59) (subject to the passing of ordinary resolution number 1.1)
Independent non-executive director
Date of appointment: 30 June 2014
Educational qualifications: BCom (Hons) CA(SA)
Other listed directorships: FirstRand Limited and RMB Holdings Limited

Ordinary resolution number 5.2 – Sonja Emilia Ncumisa de Bruyn (46)
Independent non-executive director
Date of appointment: 8 December 2010
Educational qualifications: LLB (Hons) LSE MA (McGill) SFA (UK) Executive Leadership Programme (Harvard)
Other listed directorships: Discovery Limited, Remgro Limited and RMB Holdings Limited

Ordinary resolution number 5.3 – Per-Erik Lagerström (54)
Independent non-executive director
Date of appointment: 30 June 2014
Educational qualifications: BSc (Accounting) MSc (Economics)(London School of Economics)
Other listed directorship: RMB Holdings Limited

Ordinary resolution number 5.4 – James Andrew Teeger (51) (subject to the passing of ordinary resolution number 1.7)
Independent non-executive director
Date of appointment: 31 March 2018
Educational qualifications: BCom BAcc CA(SA) HDip Tax
Other listed directorship: RMB Holdings Limited

Additional information in respect of ordinary resolutions number 5.1 to 5.4

A brief CV of each of the persons mentioned above appears on **pages 72 to 77** of the integrated report.

8. ORDINARY RESOLUTION NUMBER 6

SIGNING AUTHORITY

Resolved as an ordinary resolution that each director and/or the company secretary of the company, be and is hereby authorised to do all such things and sign all such documents as may be necessary for, or incidental to the implementation of the resolutions passed at the annual general meeting of the company and set out in this notice.

Additional information in respect of ordinary resolution number 6
For the sake of practicality, the directors and/or the company secretary of the company must be empowered to enforce the resolutions so passed by the shareholders at this annual general meeting.

9. SPECIAL RESOLUTION NUMBER 1

APPROVAL OF NON-EXECUTIVE DIRECTORS' REMUNERATION WITH EFFECT FROM 1 DECEMBER 2018

Resolved as a special resolution that in terms of section 66(9) of the Companies Act, the following annual remuneration (excluding value-added tax) of the non-executive directors for their services as directors of the company from 1 December 2018, as set out below, be and is hereby approved:

	Per annum
Board (4 meetings per annum)	
– Chairman	R544 300
– Director	R272 100
Audit and risk committee (2 meetings per annum)	
– Chairman	R136 100
– Member	R68 000
Social, ethics and transformation committee (2 meetings per annum)	
– Chairman	R68 100
– Member	R34 000
Investment committee (8 meetings per annum)	
– Chairman	R138 200
– Member	R110 500
Remuneration committee (1 meeting per annum)	
– Chairman	R12 900
– Member	R10 300
Ad hoc meetings (per hour)	R4 300

Additional information in respect of special resolution number 1
The reason for special resolution number 1 is to approve the annual remuneration of the non-executive directors, effective from 1 December 2018.

10. SPECIAL RESOLUTION NUMBER 2

GENERAL AUTHORITY TO REPURCHASE COMPANY SHARES

Resolved that the acquisition by the company, and/or any subsidiary of the company, from time to time of the issued ordinary shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, be and is hereby authorised, but subject to the company's MOI, the Companies Act and JSE Listings Requirements.

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

- This authority shall be valid until the company's next annual general meeting, provided that it shall not extend beyond fifteen (15) months from the date of passing this special resolution;
- Any such repurchase be effected through the order book operated by the JSE Limited trading system and done without any prior understanding or agreement between the company and the counterparty (reported trades are prohibited);
- A paid press release, giving such details as may be required in terms of the JSE Listings Requirements, be published when the company or its subsidiaries have cumulatively repurchased 3% (three percent) of the initial number of the relevant class of shares, and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter;
- A general repurchase may not in the aggregate in any one financial year exceed 10% (ten percent) of the number of shares in the company's issued share capital as at the beginning of the financial year, provided that subsidiaries of the company may not at any one time hold more than 10% (ten percent) in aggregate of the number of issued shares of the company;
- No repurchases will be effected during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements, unless there is in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and details thereof have been submitted to the JSE Limited in writing. In this regard, the company will instruct an independent third party, which makes its investment decisions in relation to the company's securities independently of, and uninfluenced by, the company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE Limited;
- At any point in time, the company may only appoint one agent to effect repurchases on the company's behalf;
- A resolution has been passed by the board of directors of the company authorising the repurchase, and the company and its subsidiaries have passed the solvency and liquidity test as set out in section 4 of the Companies Act and that, since the application of the solvency and liquidity test, there have been no material changes to the financial position of the company and the group;
- In determining the price at which shares may be repurchased in terms of this authority, the maximum premium permitted will be 10% (ten percent) above the weighted average traded price of the ordinary shares as determined over the five (5) business days prior to the date of repurchase; and
- Any such general repurchase are subject to exchange control regulations and approvals at the point in time, if and to the extent applicable.

Additional information in respect of special resolution number 2

The board has no immediate intention to use this authority to repurchase company shares. However, the board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

After having considered the effect on the company of the repurchase contemplated under this general authority, the directors are of the opinion that, and undertake that they will not commence a general repurchase of shares as contemplated above, unless the following can be met:

- The company and the group will, in the ordinary course of business, be able to pay its debts for a period of 12 months after the date of the repurchase;
- The assets of the company and the group will be in excess of the liabilities of the company and its subsidiaries for a period of 12 months after the date of the repurchase. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the audited consolidated annual financial statements for the year ended 30 June 2018;
- The company's and the group's ordinary share capital and reserves will be adequate for ordinary business purposes for a period of 12 months following the date of the repurchase; and
- The company and the group will, after such repurchase, have sufficient working capital for ordinary business purposes for a period of 12 months following the date of the repurchase.

For purposes of considering this special resolution and in compliance with section 11.26 of the JSE Listings Requirements, the information listed below has been included in the integrated report in the places indicated:

Major shareholders – refer **page 222** of the integrated report;

There have been no material changes in the financial and trading position of the company that have occurred since the end of the last financial period for which audited annual financial statements have been published, as set out in the integrated report, of which this notice forms part;

Share capital of the company – refer **page 209** of the integrated report;

The directors, whose names are given on **pages 72 to 77** of the integrated report, collectively and individually accept full responsibility for the accuracy of the information given in these notes and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement in these notes false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice contains all information required by the JSE Listings Requirements.

11. SPECIAL RESOLUTION NUMBER 3

ISSUE OF SHARES, CONVERTIBLE SECURITIES AND/OR OPTIONS TO PERSONS LISTED IN SECTION 41(1) OF THE COMPANIES ACT FOR THE PURPOSES OF THEIR PARTICIPATION IN A REINVESTMENT OPTION

Resolved that, if and to the extent required in terms of section 41(1) of the Companies Act, but subject to the provisions of the Companies Act, the company's MOI and the JSE Listings Requirements, the directors of the company be and are hereby authorised, as and when they deem appropriate, to allot and issue shares (including securities convertible into shares and/or options over shares) to directors, future directors, prescribed officers, future prescribed officers, persons related or inter-related to the company, or a director or a prescribed officer of the company and/or a nominee of any of the aforementioned persons, for the purpose of affording such persons (as shareholders of the company) an opportunity to participate alongside the company's other shareholders in a reinvestment option or similar corporate action from time to time pursuant to which each of them may elect to reinvest all or part of their dividends in new shares of the company (including securities convertible into shares and/or options over shares).

Additional information in respect of special resolution number 3

The reason for special resolution number 3 is to enable the company to extend an offer, pursuant to a reinvestment option or similar corporate action, to the class of persons contemplated in section 41(1) of the Companies Act (which includes directors, prescribed officers, persons related or inter-related to the company and/or a nominee of any of such persons). In the absence of the authorisation contemplated in terms of the resolution, such persons would not be eligible to participate, as a shareholder of the company, in a reinvestment option or similar opportunity made available to the company's shareholders.

12. SPECIAL RESOLUTION NUMBER 4

FINANCIAL ASSISTANCE TO DIRECTORS, PRESCRIBED OFFICERS AND EMPLOYEE SHARE SCHEME BENEFICIARIES

Resolved, as a special resolution of the company in terms of section 44 and 45 of the Companies Act, that the directors of the company may, subject to compliance with the requirements of the company's MOI, the Companies Act and the JSE, when applicable, each as presently constituted and as amended from time to time during the 2 (two) years commencing on the date of this special resolution, authorise the company to provide direct or indirect financial assistance (as contemplated in sections 44 and 45 of the Companies Act) to, *inter alia*, any present or future director or prescribed officer of the company or of a related or inter-related company (as defined in section 2 of the Companies Act) or any employee share scheme beneficiary on such terms and conditions as the directors of the company determine, provided that nothing in this approval will limit the provision by the company of financial assistance that does not require approval by way of special resolution of the shareholders in terms of sections 44 and 45 of the Companies Act or falls within the exemptions contained in these sections.

Additional information in respect of special resolution number 4

The reason for special resolution number 4 is to grant the directors of the company the authority required by the Companies Act to provide direct or indirect financial assistance through, *inter alia*, the lending of money, guaranteeing of a loan or other obligation and securing any debt or obligation, to directors, prescribed officers of the company or of a related or inter-related company or to employee share scheme beneficiaries.

13. SPECIAL RESOLUTION NUMBER 5

FINANCIAL ASSISTANCE TO RELATED OR INTER-RELATED ENTITIES

Resolved, as a special resolution of the company in terms of section 44 and 45 of the Companies Act, that the directors of the company may, subject to compliance with the requirements of the company's MOI, the Companies Act and the JSE, when applicable, each as presently constituted and as amended from time to time during the 2 (two) years commencing on the date of this special resolution, authorise the company to provide direct or indirect financial assistance (as contemplated in sections 44 and 45 of the Companies Act) to, *inter alia*, any related or inter-related (as contemplated in section 2 of the Companies Act) company, trust or other entity in the company's group (wheresoever incorporated) on such terms and conditions as the directors of the company determine, provided that nothing in this approval will limit the provision by the company of financial assistance that does not require approval by way of special resolution of the shareholders in terms of sections 44 and 45 of the Companies Act or falls within the exemptions contained in these sections.

Additional information in respect of special resolution number 5

The reason for special resolution number 5 is to grant the directors of the company the authority required by the Companies Act to provide direct or indirect financial assistance through *inter alia* the lending of money, guaranteeing of a loan or other obligation and securing any debt or obligation, to any related or inter-related company, trust or other entity in the company's group in the ordinary course of business.

TO TRANSACT ANY OTHER BUSINESS THAT MAY BE TRANSACTED AT AN ANNUAL GENERAL MEETING

APPROVALS REQUIRED FOR RESOLUTIONS

Ordinary resolutions number 1.1 to 1.7, 2, 4, 5.1 to 5.4 and 6 contained in this notice of annual general meeting require the approval of more than 50% (fifty percent) of the votes exercised on each resolution by shareholders present, or represented by proxy, at the annual general meeting.

Ordinary resolution number 3 (general authority to issue shares for cash) and special resolutions number 1 – 5 contained in this notice of annual general meeting require the approval of at least 75% (seventy five percent) of the votes exercised on each resolution by shareholders present, or represented by proxy, at the annual general meeting.

IMPORTANT NOTICE REGARDING ATTENDANCE AT THE ANNUAL GENERAL MEETING

GENERAL

Shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the company that their shares are in fact registered in their name.

CERTIFICATED SHAREHOLDERS

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a shareholder. It is requested that proxy forms be forwarded to reach the company's transfer secretaries, Computershare Investor Services Proprietary Limited at Rosebank Towers, 15 Biermann Avenue, Rosebank (PO Box 61051, Marshalltown, 2107) or at fax number 011 688 5238 and be received by them no later than 11:00 on Monday, 19 November 2018. Any forms of proxy not submitted by this time may nevertheless be submitted to the transfer secretaries before the meeting or handed to the chairman of the annual general prior to the shareholder exercising any rights of a shareholder at the annual general meeting.

DEMATERIALISED SHAREHOLDERS

Shareholders who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement:

- To furnish them with their voting instructions; and
- In the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Voting will be by way of a poll and every shareholder of the company present, whether in person or represented by proxy, shall have one vote for every share held in the company by such shareholder.

Shares held by a share trust or scheme, treasury shares and unlisted shares will not have their votes at the annual general meeting taken into account for the purposes of any resolution proposed in terms of the JSE Listings Requirements.

ELECTRONIC PARTICIPATION

Shareholders or their proxies may participate in the annual general meeting by way of a teleconference call, provided that if they wish to do so they must contact the company secretary by email at company.secretary@rmih.co.za by no later than 17:00 on 19 November 2018 in order to obtain a PIN number and dial-in details for that conference call.

Voting by way of teleconference call will only be permitted if the applicable shareholder is represented by a proxy who is physically present at the meeting and in respect of whom a proxy form has been duly submitted in accordance with the provisions contained in this notice of annual general meeting.

Shareholders wishing to participate in this manner are reminded that they will be billed separately by their respective telephone service providers.

PROOF OF IDENTIFICATION REQUIRED

Kindly note that, in terms of section 63(1) of the Companies Act, participants at the meeting (including shareholders and proxies) will be required to provide reasonably satisfactory identification, and the person presiding at the annual general meeting must be reasonably satisfied that the right of any person to participate in and vote (whether as a shareholder or as proxy for a shareholder) has been reasonably verified, before being entitled to attend or participate in a shareholders' meeting.

Acceptable forms of identification include valid identity documents, driver's licences and passports.

SUMMARY OF SHAREHOLDER RIGHTS

In compliance with the provisions of section 58(8)(b)(i) of the Companies Act, a summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Companies Act, is set out below:

- A shareholder entitled to attend and vote at the annual general meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the annual general meeting in the place of the shareholder. A proxy need not be a shareholder of the company.
- A proxy appointment must be in writing, dated and signed by the shareholder appointing the 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 annual general meeting.
- A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointing the proxy.
- 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.
- The appointment of a proxy is revocable by the shareholder in question by 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.
- 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 MOI 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.

Attention is also drawn to the instructions on signing and lodging the form of proxy.

By order of the board of directors.

JS Human
Company secretary

24 October 2018

Form of proxy

Only for use by shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

RAND MERCHANT INVESTMENT HOLDINGS LIMITED

Incorporated in the Republic of South Africa
Registration number: 2010/005770/06
Share code: RMI
ISIN code: ZAE000210688
(RMI or the company)

For use by shareholders who have not dematerialised their shares or who have dematerialised their shares but with "own name" registration, at the annual general meeting to be held at 12:00 on Wednesday, 21 November 2018, in the Dr AE Rupert boardroom, Remgro head office, Millenia Park, 16 Stellentia Avenue, Stellenbosch, 7600, and at any adjournment thereof.

Shareholders who have dematerialised their shares, other than with "own name" registration, 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 necessary authorisation to attend or they must provide their CSDP or broker with their voting instructions should they not wish to attend the annual general meeting in person.

I/We, the undersigned (name) ____________________

of (address) ____________________

and (contact number) ____________________

the registered holder of ____________________

ordinary shares in Rand Merchant Investment Holdings Limited (Registration number 2010/005770/06), hereby appoint

1. ____________________ , of ____________________ or failing him

2. ____________________ , of ____________________ or failing him

3. the chairman of the annual general meeting,

as my/our proxy to be present and act on my/our behalf, speak and on a poll, vote on my/our behalf as indicated below on the ordinary and special resolutions, with or without modification, to be proposed at the annual general meeting of shareholders of the company to be held at 12:00 on Wednesday, 21 November 2018 and at any adjournment thereof as follows: (see note 2)

	In favour of	Against	Abstain
Ordinary resolutions number 1.1 to 1.7 **Re-election of directors:**			
1.1 Johan Petrus Burger			
1.2 Lauritz Lanser Dippenaar			
1.3 Paul Kenneth Harris			
1.4 Albertinah Kekana			
Vacancies filled during the year:			
1.5 Matsotso Mamongae Mahlare			
1.6 Ralph Tendai Mupita			
1.7 James Andrew Teeger			
Advisory endorsement of remuneration policy			
Advisory endorsement of remuneration implementation report			
Ordinary resolution number 2 Place 5% of the authorised ordinary shares under the control of the directors			
Ordinary resolution number 3 General authority to issue ordinary shares for cash			
Ordinary resolution number 4 Approval of re-appointment of auditor			
Ordinary resolutions number 5.1 to 5.4 **Election of the company's audit and risk committee members:**			
5.1 Johan Petrus Burger			
5.2 Sonja Emilia Ncumisa de Bruyn			
5.3 Per-Erik Lagerström			
5.4 James Andrew Teeger			
Ordinary resolution number 6 Signing authority			
Special resolution number 1 Approval of non-executive directors' remuneration with effect from 1 December 2018			
Special resolution number 2 General authority to repurchase company shares			
Special resolution 3 Issue of shares, convertible securities and/or options to persons listed in section 41(1) of the Companies Act for the purposes of their participation in a reinvestment option			
Special resolution number 4 Financial assistance to directors, prescribed officers and employee share scheme beneficiaries			
Special resolution number 5 Financial assistance to related or inter-related entities			

Signature of registered shareholder (assisted by me as applicable) ____________________ Date ____________________ 2018

PLEASE SEE THE NOTES ON THE REVERSE SIDE OF THIS FORM

NOTES

1. A shareholder, who is entitled to attend and vote at the annual general meeting, may appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company.
2. Every shareholder present in person or by proxy and entitled to vote at the annual general meeting of the company shall, on a show of hands, have one vote only, irrespective of the number of shares such shareholder holds, but in the event of a poll, every ordinary share in the company shall have one vote.
3. Dematerialised shareholders with “own name” registration are shareholders who appointed Computershare Custodial Services as their Central Securities Depository Participant (CSDP) with the express instruction that their uncertificated shares are to be registered in the electronic sub-register of members in their own names.

INSTRUCTIONS FOR SIGNING AND LODGING THE PROXY FORM

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder’s choice in the space/s provided overleaf, with or without deleting “the chairman of the annual general meeting”, but any such deletion must be initialled by the shareholder. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder’s voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that shareholder in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she thinks fit in respect of all the shareholder’s exercisable votes. A shareholder or his/her proxy is not obliged to use all the votes exercisable by him/her or his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the shareholder or by his/her proxy.
3. A minor must be assisted by his/her parent or guardian, unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. The company requests that completed proxy forms be forwarded to reach the company’s transfer secretaries, Computershare Investor Services Proprietary Limited at Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) or at fax number 011 688 5238 to be received by no later than 11:00 on Monday, 19 November 2018 for administrative purposes only. Proxy forms may only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with “own name” registration.
5. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the transfer secretaries or waived by the chairperson of the annual general meeting.
6. The completion and lodging of this proxy form shall 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, should such shareholder wish to do so.
7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.
8. The chairperson of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions, provided that he is satisfied as to the manner in which a shareholder wishes to vote.

Administration

RAND MERCHANT INVESTMENT HOLDINGS LIMITED (RMI)

Registration number:	2010/005770/06
JSE ordinary share code:	RMI
ISIN code:	ZAE000210688

DIRECTORS

JJ Durand (chairman), HL Bosman (chief executive and financial director), JP Burger, P Cooper, (Ms) SEN de Bruyn, LL Dippenaar, PK Harris, (Ms) A Kekana, P Lagerström, (Ms) MM Mahlare, MM Morobe, RT Mupita, O Phetwe and JA Teeger

ALTERNATES

DA Frankel, F Knoetze and DR Wilson

Messrs GT Ferreira, JW Dreyer and KC Shubane retired on 31 March 2018 and Mr PM Goss retired on 10 April 2018. Mr JJ Durand became chairman on 31 March 2018.

Messrs RT Mupita and JA Teeger and Ms Mahlare were appointed as independent non-executive directors and Mr DA Frankel as an alternate non-executive director on 31 March 2018.

SECRETARY AND REGISTERED OFFICE

JS Human

Physical address:	3rd Floor, 2 Merchant Place, Corner of Fredman Drive and Rivonia Road, Sandton, 2196
Postal address:	PO Box 786273, Sandton, 2146
Telephone:	+27 11 282 8000
Telefax:	+27 11 282 4210
Web address:	**www.rmih.co.za**

SPONSOR

(in terms of JSE Listings Requirements)

Rand Merchant Bank (a division of FirstRand Bank Limited)

Physical address:	1 Merchant Place, corner of Fredman Drive and Rivonia Road, Sandton, 2196

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited

Physical address:	Rosebank Towers, 15 Biermann Avenue, Rosebank
Postal address:	PO Box 61051, Marshalltown, 2107
Telephone:	+27 11 370 5000
Telefax:	+27 11 688 5221

RMI
OPTIMISE
DIVERSIFY
MODERNISE

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