



2020

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE



RMI

OPTIMISE
DIVERSIFY
MODERNISE

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NAVIGATION WITHIN THIS REPORT



Indicates further information
available on our website,
www.rmih.co.za



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with supplementary information.

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 (Act 71 of 2008) to prepare audited group and separate annual financial statements. In discharging this responsibility, the directors rely on management to prepare the audited group 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 group 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 group 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 the 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 8 to 13.

The annual financial statements of the group, which appear on pages 14 to 106 and the separate annual financial statements of the company, which appear on pages 107 to 121, were approved by the board of directors on 25 September 2020 and signed on its behalf by:



JJ Durand
Chairman



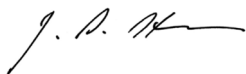
HL Bosman
Chief executive officer



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

25 September 2020

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 chairman 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 chairman, any member of the committee, the board or the external auditor. Comprehensive minutes of meetings are kept. The chief executive officer/financial director attends the meetings. The committee invites, at its discretion, the appropriate representatives of the external auditor, other professional advisers, officers or employees whose input may be required. Board members have the right of attendance. The chairman 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:

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 and in compliance with IFRS; and
- » the appointment of the external auditor and the evaluation of their services and independence.

KING IV

King IV includes 'five lines of assurance' to incorporate all assurance providers to enable an effective control environment to strengthen decision-making. Horizontal assurance includes internal audit and risk and compliance while 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.

THE 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.

	March 2020	September 2019
Per Lagerström (BSc (Accounting), MSc (Economics) (London School of Economics)) (chairperson)	✓	✓
Sonja De Bruyn (LLB (Hons), LSE, MA (McGill), SFA) (chairperson at September 2019 meeting)	✓	✓
Johan Burger (BCom (Hons), CA (SA))	✓	✓
James Teegeer (BCom, BAcc, CA (SA), HDip Tax)	✓	✓

✓ Attended meeting.



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 auditor 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 auditor 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 auditor; and
- » The extent of other work undertaken by the auditor for the group.

Details of fees paid to the external auditor are disclosed in note 28 to the consolidated annual financial statements.

The partner responsible for the audit is required to rotate every five years, with Corlia Volschenk being the designated auditor for the second year.

The committee meets with the auditor independently from senior management.

COMBINED ASSURANCE

The board does not only rely on the adequacy of the internal control embedment 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 are:

- » 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 chairman 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 chairman 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.



Per Lagerström

Chairman of the audit and risk committee

25 September 2020

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 2020 financial year, the following corporate activity took place:

- » RMI Investment Managers Group Proprietary Limited (RMI Investment Managers) was capitalised with a further R11.7 million.
- » RMI Investment Managers 2 Proprietary Limited (Affiliates 2) acquired an additional 4% equity stake in Sentio Capital Management Proprietary Limited in August 2019.
- » Affiliates 2 capitalised Coreshares Proprietary Limited with a further R5 million in January 2020.
- » Affiliates 2 restructured the Granate Asset Management (Granate) business by facilitating the addition of a multi-asset capability and in the process diluted its shareholding from 100% to 30% on 1 July 2019.

- » RMI acquired a 25.1% equity stake in Guidepost in July 2019.
- » RMI increased its equity stake in Prodigy Finance to 13.1% in July 2019.
- » RMI increased its equity stake in Entersekt Proprietary Limited to 28.2% in November 2019.
- » RMI capitalised RMI Treasury Company Limited by a further R343 million during the 2020 financial year.

The table below summarises the RMI group's actual interest in its investee companies as at 30 June 2020 compared to 30 June 2019:

	30 June	
	2020	2019
Discovery Limited	25.0%*	25.0%*
Momentum Metropolitan Holdings Limited	27.3%*	27.3%*
OUTsurace Holdings Limited (OUTsurace)	89.1%*	89.1%*
Hastings Group Holdings plc	29.7%	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 38).



Further details regarding the investments are provided in **notes 39 and 40** to these annual financial statements.

SHARE CAPITAL

The classes of shares in terms of RMI's 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. There was no movement in the total number of issued ordinary shares of 1 531 807 770 during the 2020 financial year.

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. There are no issued cumulative, redeemable par value preference shares.

Cumulative, redeemable no par value preference shares

The total authorised number of cumulative, redeemable no par value preference shares is 100 000 000. There are no issued cumulative, redeemable no par value preference shares.

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	
	2020	2019
Financial Securities Limited (Remgro Limited)	30.6%	30.6%
Royal Bafokeng Holdings Proprietary Limited	14.5%	14.5%
Allan Gray (on behalf of clients)	7.8%	6.7%
Public Investment Corporation	7.3%	6.9%

EARNINGS

Earnings attributable to ordinary shareholders for the year ended 30 June 2020 amounted to R1 592 million or 104.1 cents per share (2019: R4 047 million or 265.1 cents per share). Headline earnings amounted to R1 956 million or 127.9 cents per share (2019: R3 801 million or 249.0 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 2019 of 45.0 cents per ordinary share, declared on 12 March 2020 and paid on 6 April 2020 (31 December 2018: 45.0 cents per ordinary share, declared on 11 March 2019 and paid on 8 April 2019).
- » No final dividend was declared (2019: 65.0 cents per ordinary share, declared on 10 September 2019 and paid on 4 November 2019).

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 Teegee	31 March 2018

Executive director


Name	Date of appointment
HL Bosman (CEO)	2 April 2014

Alternate directors

Name	Date of appointment
DA Frankel	31 March 2018
F Knoetze	1 April 2016
UH Lucht	3 September 2019

Mr DR Wilson resigned as alternate director on 1 July 2019.


DIRECTORS' INTERESTS IN RMI

 Details of individual directors' interests in the company are disclosed on **page 7**.

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 36.

DIRECTORS' EMOLUMENTS AND SERVICE CONTRACTS

 Directors' and prescribed officers' emoluments are disclosed in note 47 to the consolidated annual financial statements.

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/her last election or appointment, he/she 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 approved annually by way of an ordinary resolution 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

Schalk 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 2020 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 14 November 2019:

- » Approval of non-executive directors' remuneration with effect from 1 December 2019;
- » 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 and employee share scheme beneficiaries; and
- » Financial assistance to related or inter-related companies.

OUTsurance passed the following special resolutions at its annual general meeting held on 15 November 2019:

- » General authority to provide financial assistance to related or inter-related companies in terms of section 45 the Companies Act;
- » Approval of the remuneration of non-executive directors; and
- » Amendments to the memorandum of incorporation of OUTsurance Insurance Company Limited, creating 100 authorised B preference shares with rights as set out in the amended memorandum of incorporation.

EVENTS SUBSEQUENT TO REPORTING DATE

Refer to note 37 to the consolidated annual financial statements.

DIRECTORS' INTERESTS IN ORDINARY SHARES OF RMI (AUDITED)

Directors have disclosed the following interest in the ordinary shares of RMI at 30 June 2020:

000's	Direct beneficial	Indirect beneficial	Held by related persons	Total 2020
HL Bosman	–	800	–	800
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	–	–	–	–
UH Lucht	–	–	–	–
MM Mahlare	–	–	–	–
MM Morobe	–	–	–	–
RT Mupita	99	–	–	99
O Phetwe	–	–	–	–
JA Teeger	42	54	–	96
Total interest	936	87 425	3 294	91 655

Mr Bosman has disclosed the following interest in RMI call options as at 30 June 2020:

Class and number of securities:	Call options on 250 000 RMI ordinary shares
Delta reference:	2 182.2 cents per share
Notional amount:	R5 455 500
Strike price:	2 400.42 cents per share
Premium paid:	R1 396 000
Expiry date:	17 March 2022
Nature of interest:	Indirect beneficial

Directors have disclosed the following interest in the ordinary shares of RMI at 30 June 2019:

000's	Direct beneficial	Indirect beneficial	Held by related persons	Total
HL Bosman	–	800	–	800
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	42	54	–	96
DR Wilson (alternate)	–	–	–	–
Total interest	837	87 425	3 294	91 556

Since 30 June 2020 to the date of this report, the interest of directors remained unchanged.



RMI

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Independent auditor's report

To the shareholders of Rand Merchant Investment Holdings Limited

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Rand Merchant Investment Holdings Limited (the company) and its subsidiaries (together the group) as at 30 June 2020, 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 (IFRS) and the requirements of the Companies Act of South Africa.

What we have audited

Rand Merchant Investment Holdings Limited's consolidated and separate financial statements set out on pages 14 to 106 and 107 to 121 comprise:

- » the consolidated and separate statements of financial position as at 30 June 2020;
- » 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;
- » the notes to the annual 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 those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate annual financial statements* section of our report.


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 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 corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

Our audit approach

Overview

	Overall group materiality Overall group materiality: R229.5 million, which represents 5% of the average consolidated profit before tax for the last 3 years.
	Group audit scope <ul style="list-style-type: none">» The components that are in scope include the financially significant components of the group. Financially significant components were identified based on the component's contribution to consolidated profit before tax. All financially significant components were subject to full scope audits.» We performed full scope audits on some of the remaining components due to statutory requirements. Analytical procedures were performed on other non-financially significant components in order to obtain sufficient appropriate audit evidence on which to base the group audit opinion.
	Key audit matters <ul style="list-style-type: none">» Valuation of insurance contract liabilities relating to short-term insurance contracts - OUTsurance Holdings Limited (OUTsurance); and» Equity accounted earnings of financially significant associates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; 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 among 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 whether the 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated 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 financial statements as a whole.

Overall group materiality	R229.5 million.
How we determined it	5% of the average consolidated profit before tax for the last 3 years.
Rationale for the materiality benchmark applied	<p>We chose consolidated 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.</p> <p>The average consolidated profit before tax over the past three years was used due to the performance of the group in the current year being impacted by infrequent items which arose as a result of the COVID-19 pandemic and economic assumptions adjustments by the long term insurance associates on current year earnings. I.e. averaging consolidated profit before tax over the past three years resulted in a more representative benchmark for purposes of calculating overall group materiality.</p> <p>We have chosen 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.</p>

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 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.

Full scope audits were performed on components which are financially significant to the group. We performed full scope audits on some of the remaining components due to statutory requirements. Analytical procedures were performed on other non-financially significant components in order to obtain sufficient appropriate audit evidence on which to base the group audit opinion.

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 which covered those areas that we required the component auditors to focus on, as well as information that we required them to report to us.

We examined the reporting received from the component auditors and assessed the impact thereof on the consolidated financial statements. We examined the working papers of component auditors of financially significant components relating to areas of significant risks in the consolidated financial statements.

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 consolidated financial statements 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 financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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



Key audit matters	How our audit addressed the key audit matters
<p>Valuation of insurance contract liabilities relating to short-term insurance contracts – OUTsurance Holdings Limited (OUTsurance)</p> <p>Refer to the following accounting policies and notes to the consolidated financial statements for detail:</p> <ul style="list-style-type: none"> » Accounting policies note 25, Critical accounting assumptions; » Accounting policies note 18, Insurance contracts; and » Notes to the consolidated annual financial statements note 9, Insurance contracts and reinsurance contracts. <p>Insurance contract liabilities relating to short-term insurance contracts include an outstanding claims provision of R2 063 million and an insurance contract non-claims bonuses provision of R524 million.</p> <p>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 claims provision includes an estimate for claims incurred but not reported.</p> <p>The claims reserve recognised requires significant judgement and is sensitive to the assumptions made. Given the above, an explicit margin for prudence is held over and above the best estimate reserve. The margins held ensure that the claims reserve held is, at the least, sufficient at the 75th percentile, i.e. adequate at least three out of every four years.</p> <p>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.</p> <p>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 with a 75% confidence level i.e. three out of every four years.</p> <p>We considered the valuation of insurance contract liabilities relating to short-term insurance contracts - OUTsurance to be a matter of most significance to the current year audit due to the following:</p> <ul style="list-style-type: none"> » The calculation is subject to inherent uncertainty; » Significant judgement and estimation are applied by management; and » The magnitude of the liabilities. 	<p>Our audit procedures included evaluating and testing the design and operating effectiveness of the controls used in the calculation of the outstanding claims provision and insurance contract non-claims bonuses provision relating to short-term insurance contracts.</p> <p>To assess the validity of the population of claims information recorded on the system (e.g. loss event, claim estimate, items insured) and the valuation of the claims, we performed the following procedures on a sample basis:</p> <ul style="list-style-type: none"> » We assessed the claim values against assessor reports and traced these to claim documentation which detailed the loss event. We noted no exceptions; » We compared the claims to information for the underlying policy recorded on the system in order to test whether the claims were valid claims (e.g. if the insured was covered for the loss event in the original policy and if the premium has been paid up). We found the claims to be consistent with the relevant supporting documents; » We utilised our actuarial expertise to test the calculations underlying the actuarial estimates for reasonability and appropriateness. The testing involved taking into consideration the OUTsurance group's accounting policy in respect of the claims provisions. » We utilised our actuarial expertise to assess the methodology and assumptions applied by management for reasonability and appropriateness, taking into consideration historic experience, actuarial guidance and industry practice. We found the methodologies and assumptions applied by management to be in line with industry practice, actuarial guidance and consistent with historical experience; and » We performed independent calculations of the claims provisions for all material classes of business segments. We found the recommended claims provision, for these classes, to be within a reasonable range of our independent calculations. <p>Utilising our actuarial expertise, we performed the following procedures on the provision for non-claims cash bonuses:</p> <ul style="list-style-type: none"> » We evaluated the appropriateness of the methodology and assumptions applied by management with reference to <i>IFRS 4: Insurance contracts</i>, the nature of the business, our understanding of industry practice and the group's accounting policies. Based on our work performed, we accepted the methodology and assumptions applied by management and noted that it was consistently applied from the prior year; » As described above, we have assessed the data used to value the provisions from a completeness and accuracy perspective. No material differences were noted; » We assessed the actuarial approach applied to the non-claims cash bonus, taking into account the nature of the benefit. Based on our work performed, we accepted the actuarial approach applied; » We have evaluated the actuarial assumptions taking into account the actual historical experience. This included, but was not limited to: reserve rates, future payments, future premiums and loss ratios; and » We reperformed the calculation of the provision for non-claims cash bonuses to obtain an independent value for the provision. We compared this to management's provision and noted no material differences.

Key audit matters	How our audit addressed the key audit matters
<p>Equity accounted earnings of financially significant associates</p> <p>The group holds significant investments which are equity accounted for in terms of <i>International Accounting Standard 28: Investments in associates and joint ventures</i>. The group's share of the after-tax profits of equity accounted investments for the year ended 30 June 2020 was R259 million and the carrying value of the group's equity accounted investments was R29,288 million as at 30 June 2020.</p> <p>The equity accounting of financially significant associates was considered to be a matter of most significance to our current year audit due to the significance of the equity accounted investments in relation to the reported results of the group as well as the manual nature of the calculations to determine the amounts to be equity accounted in the consolidated annual financial statements.</p> <p>Refer to note 4, Investments In Associates to the consolidated financial statements for details.</p>	<p>Due to the significance of the group's share of the after-tax profits in its equity accounted investments, we maintained continual interaction with the audit teams of financially significant components and involvement in their work. We held discussions with the component auditors and issued them with group instructions as described in the section '<i>How we tailored our group audit scope</i>' and we assessed the competence, knowledge and experience of the component auditors. Furthermore, we evaluated the identified audit risks at the financially significant component 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 of the component auditors.</p> <p>We obtained the equity analysis of associates prepared by management and performed the following procedures:</p> <ul style="list-style-type: none"> » We compared the audited financial results of the financially significant components to the equity accounted results and movements recorded in the consolidated financial statements of the group. No material differences were noted; » We evaluated the consistency of accounting policies applied by the significant components with those of the group. No material differences were noted; » We re-performed management's calculation of the effective interest in its financially significant associates. We agreed the inputs in management's calculation to the number of shares held by the group and the issued share capital of the investee companies. We noted no material differences; » We tested the mathematical accuracy of the equity analysis by agreeing the group's share in equity accounted earnings, other comprehensive income and equity movements to the financial statements of the financially significant associates and tracing them to the consolidation journals and the consolidation sheets prepared by management. We noted no material differences; and » We recalculated management's consolidation workings to test for mathematical accuracy and assessed the completeness of journal entries with reference to the prior year journal entries. We noted no material differences.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled 'RMI Annual Financial Statements for the year ended 30 June 2020', 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 document titled 'RMI Integrated Report 2020', which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate 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 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 financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate 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 financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 financial statements.

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

- » Identify and assess the risks of material misstatement of the consolidated and separate 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 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 financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- » 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 financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

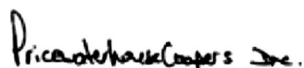
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate 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 Rand Merchant Investment Holdings Limited for 10 years.



PricewaterhouseCoopers Inc.

Director: Corlia Volschenk

Registered Auditor

4 Lisbon Lane, Waterfall City

Jukskei View, 2090

25 September 2020



Consolidated statement of financial position

as at 30 June

R MILLION	Note	2020	2019
ASSETS			
Property and equipment	1	1 160	1 041
Intangible assets	2	117	101
Right-of-use assets	3	83	–
Investments in associates	4	29 288	28 337
Financial assets			
Equity securities			
– fair value through profit or loss	5	1 563	1 597
– fair value through other comprehensive income	5	464	186
Debt securities			
– fair value through profit or loss	5	1 323	1 117
– fair value through other comprehensive income	5	3 205	3 027
– amortised cost	5	6 089	5 496
Derivative asset	6	–	36
Insurance and other receivables	7	3 546	2 771
Deferred acquisition cost	8	463	360
Reinsurance contracts	9	1 338	691
Deferred taxation	10	304	220
Taxation		24	120
Cash and cash equivalents	11	2 414	1 602
Total assets		51 381	46 702
EQUITY			
Share capital and share premium	12	15 342	15 359
Reserves	13	10 506	9 180
Total shareholders' equity		25 848	24 539
Non-controlling interests	40	1 697	1 602
Total equity		27 545	26 141
LIABILITIES			
Financial liabilities			
Preference shares	14	9 514	8 580
Interest-bearing loans	15	2 242	2 697
Financial liabilities at fair value through profit or loss	16	104	104
Derivative liability	6	283	99
Investment contracts at fair value through profit or loss	17	24	–
Insurance contracts	9	9 601	7 457
Lease liabilities	18	89	–
Share-based payment liability	19	121	103
Provisions	20	191	119
Insurance and other payables	21	1 518	1 309
Deferred taxation	10	76	69
Taxation		73	24
Total liabilities		23 836	20 561
Total equity and liabilities		51 381	46 702

Consolidated income statement

for the year ended 30 June

R MILLION	Note	2020	Restated ¹ 2019
Gross insurance premiums	22	17 349	15 906
Less: Reinsurance premiums	22	(774)	(673)
Net insurance premiums	22	16 575	15 233
Gross change in provision for unearned premiums	22	(452)	(219)
Reinsurance relating to provision for unearned premiums	22	30	(2)
Net insurance premiums earned	22	16 153	15 012
Fee and other income	23	64	35
Investment income	24	252	211
Interest income on financial assets using the effective interest rate method	24	458	587
Net fair value (losses)/gains on financial assets	25	(421)	23
Expected credit (losses)/gains on financial assets	25	(20)	10
Net income		16 486	15 878
Gross claims paid	26	(9 310)	(7 898)
Reinsurance recoveries received	26	1 664	755
Provision for non-claims bonuses	26	(500)	(451)
Transfer to policyholder liabilities under insurance contracts	9.4	(34)	(122)
Acquisition expenses	27	(41)	(45)
Fair value adjustment to financial liabilities	41	(139)	(169)
Marketing and administration expenses	28	(4 859)	(4 370)
Profit before finance costs, results of associates and taxation		3 267	3 578
Finance costs	30	(689)	(729)
Share of after-taxation results of associates	4	259	2 612
Profit before taxation		2 837	5 461
Taxation	31	(1 031)	(1 096)
Profit for the year from continuing operations		1 806	4 365
Profit for the year from discontinued operations	42	104	9
Profit for the year		1 910	4 374
Attributable to:			
Equity holders of the company		1 592	4 047
Non-controlling interests		318	327
Profit for the year		1 910	4 374
Earnings per share	33	104.1	265.1
Diluted earnings per share	33	102.7	264.0

¹ Restated for discontinued operation.



Consolidated statement of comprehensive income

for the year ended 30 June

R MILLION	2020	Restated ¹ 2019
Profit for the year	1 910	4 374
Other comprehensive income for the year		
Items that may subsequently be reclassified to profit or loss		
Exchange differences on translation of foreign operations	731	(78)
Fair value (losses)/gains on other comprehensive income financial instruments	(134)	53
Deferred tax on fair value losses/(gains) on other comprehensive income financial instruments	3	(12)
Share of comprehensive income/(loss) of associates	1 159	(82)
Items that may subsequently be reclassified to profit or loss, after taxation	1 548	(81)
Movement in liabilities accounted for as net investment hedge	(460)	22
Items that will not be reclassified to profit or loss, after taxation	71	(23)
Other comprehensive income/(loss) for the year	1 759	(119)
Total comprehensive income for the year	3 669	4 255
Attributable to:		
Equity holders of the company	3 175	3 949
Non-controlling interests	494	306
Total comprehensive income for the year	3 669	4 255

¹ Restated comparatives relating to movement in net investment hedge for separate disclosure of this item during the current year.

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 2018	14 986	5 852	(3 345)	296	4 532	1 329	23 650
Income statement	–	–	–	–	4 047	327	4 374
Other comprehensive income	–	(82)	–	(16)	–	(21)	(119)
Dividends paid	–	–	–	–	(1 679)	(362)	(2 041)
Issue of shares	345	–	–	–	–	–	345
Income of associate companies retained	–	1 602	–	–	(1 602)	–	–
Movement in treasury shares	28	–	–	–	–	–	28
Transactions with non-controlling interest	–	(282)	(292)	–	(27)	33	(568)
Issue of share capital to non-controlling interests by subsidiaries	–	–	–	–	–	278	278
Share-based payment reserve	–	–	–	(5)	164	18	177
Reserve adjustment of associates	–	17	–	–	–	–	17
Balance as at 30 June 2019	15 359	7 107	(3 637)	275	5 435	1 602	26 141
Change in accounting policy – IFRS 16	–	(18)	–	–	–	–	(18)
Income statement	–	–	–	–	1 592	318	1 910
Other comprehensive income	–	1 146	–	437	–	176	1 759
Dividends paid	–	–	–	–	(1 685)	(315)	(2 000)
Income of associate companies retained	–	(828)	–	–	828	–	–
Movement in treasury shares	(17)	(1)	–	–	–	–	(18)
Transactions with non-controlling interest	–	(5)	(219)	–	(1)	(98)	(323)
Issue of share capital to non-controlling interests by subsidiaries	–	–	–	–	–	11	11
Share-based payment reserve	–	31	–	4	3	1	39
Share of equity financial instrument	–	–	–	11	–	1	12
Reserve adjustment of associates	–	31	–	–	–	1	32
Balance as at 30 June 2020	15 342	7 463	(3 856)	727	6 172	1 697	27 545
Note	12	13	13	13	13	40	



Consolidated statement of cash flows

for the year ended 30 June

R MILLION	Note	2020	2019
Cash flows from operating activities			
Cash generated from operations	32	3 188	3 174
Interest income		537	603
Dividends received		1 236	1 149
Cash flows on assets backing policyholder liabilities		(201)	(233)
Purchase of financial assets		(7 935)	(7 867)
Proceeds on disposal of financial assets		8 020	8 078
Income tax paid		(936)	(1 380)
Net cash generated from operating activities		3 909	3 524
Cash flows from investing activities			
Purchase of property and equipment		(98)	(100)
Disposal of property and equipment		3	1
Purchase of financial assets		(519)	(290)
Proceeds on disposal of financial assets		124	187
Proceeds from sale of New Zealand insurance business		78	–
Additional acquisition of associates		(127)	(693)
Net cash outflow from investing activities		(539)	(895)
Cash flows from financing activities			
Proceeds from issue of shares		–	304
Proceeds from the issue of/(redemption of) preference share debt		934	(1 130)
Borrowings repaid		(935)	(11)
Borrowings raised		100	–
Repayment of lease liability		(37)	–
Cost of funding		(80)	(89)
Dividends paid on preference shares in issue		(612)	(650)
Dividends paid by subsidiaries to non-controlling interests		(315)	(362)
Additional shares acquired in subsidiary		–	(201)
Cash dividends paid to shareholders		(1 685)	(1 638)
Proceeds on issue of shares to non-controlling interest		11	278
Net cash outflow from financing activities		(2 619)	(3 499)
Net increase/(decrease) in cash and cash equivalents for the year		751	(870)
Unrealised foreign currency translation adjustment on cash and cash equivalents		61	55
Cash and cash equivalents at the beginning of the year		1 602	2 417
Cash and cash equivalents at the end of the year		2 414	1 602

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).
- » 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, unless where stated under the relevant accounting policy.

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 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 indicators that the group use in this assessment is representation on the board of directors of the investee, participation in



policy-making processes, including participation in decisions about dividends and other distributions, material transactions with the investee company, interchange of managerial personnel and provision of essential technical information.

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 groups' 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

Revenue from insurance contacts

Revenue treatment is detailed in accounting policy 18.

Fee and other income

The group generally recognises fee and other income over time when the performance obligations are met. Other income on acceptances, bills and promissory notes endorsed is credited to income over the lives of the relevant instruments on a time apportionment basis.

Investment income

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 at fair value through profit or loss is recognised in the income statement as investment income. Interest income on instruments at fair value through profit or loss is recognised separately under investment income and not as part of fair value gains or losses on financial assets.

Interest income on financial assets using the effective interest method

The group recognises interest income in profit or loss for all instruments measured at amortised cost and fair value through other comprehensive income using the effective interest method. Interest on cash and cash equivalents is recognised as earned.

Net fair value gains/(losses) on financial assets

The group includes fair value adjustments to financial assets carried at fair value through profit or loss in the income statement.

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 at fair value through other comprehensive income, such as equities, are included 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, equity securities, debt securities, 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:

Financial instruments measured at amortised cost

Financial assets at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest method, if these financial assets are not designated at FVPL. Financial assets classified as amortised cost include debt securities, insurance and other receivables and term deposits

Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss arising on derecognition is recognised directly in profit or loss.

Financial liabilities measured at amortised cost

Financial liabilities are measured at amortised cost using the effective interest method. Net gains and losses including interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss arising on derecognition is recognised directly in profit or loss.

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.

Financial instruments at fair value through other comprehensive income (FVOCI)

Debt instruments

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets cash flows represent solely payments of principal and interest, are measured at FVOCI, if these financial assets are not designated at fair value through profit and loss (FVPL). Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other movements in the carrying amount are taken through OCI. On derecognition of debt securities carried at fair value through OCI, the cumulative gain or loss previously recognised in OCI is reclassified to profit or loss.

Equity instruments

Other long-term financial assets are carried at fair value through other comprehensive income. Unrealised gains and losses arising from changes in the fair value of the financial instruments are recognised in other comprehensive income in the year in which they arise. The fair value gains or losses recognised in other comprehensive income is not subsequently reclassified to profit or loss, however may be reclassified within equity.

Financial instruments at fair value through profit or loss (FVPL)

Financial assets measured at FVPL

Financial assets not classified at amortised cost or FVOCI are measured at FVPL. In addition, on initial recognition the group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Net gains or losses, including any interest or dividend income and foreign exchange gains and losses are recognised in profit or loss.

Financial liabilities measured at FVPL

Financial liabilities classified as FVPL are measured at fair value. Net gains and losses including interest expense and foreign exchange gains and losses are recognised in profit or loss, unless they arise from derivatives designated as hedging instruments in net investment hedges.



The component of fair value changes relating to the company's own credit risk is recognised in OCI. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss but are transferred to retained earnings when realised. Fair value changes relating to market risk are recognised in profit or loss.

Derivatives

Derivatives are either designated as hedging instruments in effective hedging relationships or are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value.

Hedge accounting

Derivative instruments are classified as held either for trading or formally designated as hedging instruments as required by *IFRS 9*, 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 includes its holding in Hastings, an associate in the 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 dominated 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. The ineffective portion is accounted for in profit or loss.

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.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the group recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate or, when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial 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. An exchange of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The group only considers quantitative indicators in assessing whether there is a modification or extinguishment. 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.

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 depreciation 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 is 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.

Impairment of financial instruments

The group recognises loss allowances for expected credit losses (ECL) on:

- » financial assets measured at amortised cost;
- » debt investments measured at FVOCI;
- » loan commitments; and
- » financial guarantee contracts

The group measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- » financial assets that are determined to have low credit risk at the reporting date;
- » financial assets where credit risk has not increased significantly since initial recognition; and
- » financial assets which are callable on demand or within a period of 12 months from reporting date.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument. 12-month ECL are the portion of ECL that results from

default events that are possible within the 12 months after the reporting date. In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the group is exposed to credit risk.

At each reporting date, the group assesses whether financial assets measured at amortised cost and at FVOCI are credit impaired. The group writes off a financial instrument when the entity has no reasonable expectation of recovery of the outstanding balance of the instrument. Determining when to write off financial assets is a matter of judgement and incorporates both quantitative and qualitative information. Evidence that a financial asset is credit-impaired includes observable data:

- » significant financial difficulty of the issuer or debtor;
- » a breach of contract, such as a default or delinquency in payments;
- » a restructuring of an amount due to the group on terms that would not otherwise be considered by the group;
- » it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation; or
- » the disappearance of an active market for that financial asset because of financial difficulties.

A financial asset that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In assessing whether an investment in sovereign debt is credit-impaired, the group considers the following factors:

- » the markets assessment of creditworthiness as reflected in the bond yields;
- » the rating agencies' assessment of creditworthiness;
- » the country's ability to access the capital markets for new debt issuance;
- » the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- » the international support mechanisms in place to provide the necessary support as 'lender of last resort' to the country as well as the intention, communicated in public statements, of governments and agencies to access those mechanisms, including an assessment of the depth of the mechanisms and the capacity to fulfil the required criteria.



Loss allowances for ECL on financial assets measured at amortised cost is deducted from the gross carrying amount of the financial assets. Loss allowances for ECL on debt investments measured at FVOCI is recognised in OCI and does not reduce the carrying amount of the financial asset in the statement of financial position.

The gross carrying amount of a financial asset is written off to the extent that there are no realistic prospects of recovery by the group. Financial assets that are written off may still be subject to enforcement activities in order to comply with the group's procedures for recovery of amounts due.

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 amount 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 in full employees' rights to annual leave entitlement in respect of past service.

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 is 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. SEGMENTAL REPORTING

An operating segment is a component of the group that engages in business activities from which the group may earn revenues and incurs 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 officer of the group. The group's identification and measurement of operating segments is consistent with the internal reporting provided to the chief executive officer. 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 other 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.

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 includes the cost of claims assessments.



Commission and insurance-related fee income

Insurance-related fee income is linked to specific actions such as the inception and renewal of policies and the collection of premiums and 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 and is recognised on the placement of these 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.
- » 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 zeroise negative reserves which may arise from the FSV calculation. Such a margin is allowed for after allowing for the acquisition costs.

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 the underwriting of 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, on 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 the 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 and FirstRand Bank Limited. In terms of this profit-sharing arrangement, ninety percent of the operating profit generated on the homeowners' insurance business referred by FirstRand Bank Limited businesses is paid to FirstRand Bank Limited by way of a biannual preference dividend. Operating losses incurred are for OUTsurance Insurance Company Limited's account. OUTsurance Insurance Company Limited 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.

A profit-sharing arrangement has been entered into between OUTsurance Life Insurance Company Limited and Shoprite Investments Limited. In terms of this profit-sharing arrangement, a portion of the operating profit generated on the funeral insurance business distributed through the Shoprite distribution network is paid to Shoprite Investments Limited by way of a quarterly preference dividend. Operating losses incurred are for the group's account. The group, 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.

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 disclosed separately. Provision for dividends payable is disclosed separately in the statement of financial position under current liabilities.

20. LEASES UNDER IFRS 16 (2020 FINANCIAL YEAR)

General

Agreements where the counterparty retains control of the underlying asset are classified as leases.

Leases are recognised as a right-of-use asset with a corresponding lease liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease



period so as to produce a constant periodic rate of interest (the incremental borrowing rate) on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Periods covered by an option to extend the lease is included if the group is reasonably certain to exercise that option taking into account, among others, the remaining term of the original lease, refurbishments, changing technology and cost saving initiatives. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis discounted using the lessee's incremental borrowing rate.

The incremental borrowing rate utilised by the group for the various lease assets is as follows:

- » Properties – a risk-free rate with a market risk premium/spread added to it.
- » Vehicles – the prime lending rate.
- » Equipment – the prime lending rate.

The above rates take into account what interest rate a lessee would have to pay to borrow over a similar term, with a similar security for an asset of similar value.

Lease liabilities

Lease liabilities include the net present value of the following lease payments:

- » fixed payments (including in-substance fixed payments, but excluding payments for service components), less any lease incentives receivable;
- » amounts expected to be payable by the lessee under residual value guarantees;
- » the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- » payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Subsequently, the lease liability is increased to reflect the interest on the lease liability, decreased to reflect lease payments made and remeasured to reflect any reassessment or lease modifications or revised in-substance fixed lease payments. Interest on the lease liability and variable lease payments not included in the measurement of the lease liability in the period in which event or condition that triggers those payments occurs, are recognised in profit or loss.

The lease liability is remeasured:

- » when there is a change in future lease payments arising from a change in an index or rate;
- » if there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee; or
- » if the group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The group accounts for a lease modification as a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Right-of-use assets

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and adjusted for:

- » lease payments made at or before commencement of the lease;
- » initial direct costs incurred; and
- » the amount of any provision recognised

where the group is contractually required to dismantle, remove or restore the leased asset.

Depreciation

Subsequent to initial measurement, a right-of-use asset is depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter. However, if ownership of the underlying asset transfers to the group at the end of the lease term, the right-of-use assets are depreciated on a straight-line basis over the remaining economic life of the asset.

This depreciation is recognised as part of general marketing and administration expenses.

Short-term leases and low value assets

The group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Derecognition

When the group or lessor terminates or cancels a lease, the right-of-use asset and lease liability are derecognised.

On derecognition of the right-of-use asset and lease liability, any difference is recognised as a derecognition gain or loss together with termination or cancellation costs in profit or loss.

21. OPERATING LEASES (2019 FINANCIAL YEAR)

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

22. DISCONTINUED OPERATIONS

A discontinued operation is a component of the entity 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 co-ordinated 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 statement of profit or loss.

23 . 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:

<i>IFRS 9: – Financial Instruments</i>	1 January 2019 (published October 2017)	<p>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.</p> <p>This narrow-scope amendment confirms that most modifications of financial liabilities will result in the immediate recognition of a gain or loss.</p> <p>This amendment does not have an impact on the group as no such financial assets are issued by the group.</p>
<i>IFRS 16: – Leases</i>	1 January 2019 – earlier adoption is permitted if <i>IFRS 15</i> is also applied (published January 2016)	<p>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. Lessees will recognise right-of-use assets and lease liabilities for operating leases under <i>IAS 17</i>. The nature of expenses related to the leases will change from operating lease charges to depreciation on right-to-use assets and interest expense on lease liabilities. 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).</p> <p><i>IFRS 16</i> supersedes <i>IAS 17: Leases</i>, <i>IFRIC 4: Determining whether an Arrangement contains a Lease</i>, <i>SIC 15: Operating Leases – Incentives</i> and <i>SIC 27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>.</p> <p>The group has entered into leases for regional offices, vehicles and certain office equipment. Based on the assessment of leases at 1 July 2019, the group recognised right-of-use assets of R90 million and lease liabilities of R91 million. The group is not a lessor. On transition, the group has applied the modified retrospective approach. Comparatives are not restated under this approach. Refer to note 43 for details of this change in accounting policy</p>
<i>IAS 28: Investments in Associates and Joint Ventures</i>	1 January 2019 (published October 2017)	<p>This amendment provides clarification that an entity should apply <i>IFRS 9</i> 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.</p> <p>This amendment does not have an impact on the group.</p>
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i>	1 January 2019 (published June 2017)	<p>This IFRIC specifies how an entity should reflect the effects of uncertainties in accounting for income taxes.</p> <p>This amendment does not have a material impact on the group.</p>
<i>IAS 19: Employee Benefits</i>	1 January 2019 (published February 2018)	<p>Plan Amendment, Curtailment or Settlement (Amendments to <i>IAS 19</i>): The amendments require an entity to use the updated assumptions from a remeasurement net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.</p> <p>This amendment does not have an impact on the group as the group does not have defined benefits plans.</p>



Standard	Effective date	Executive summary and impact on the group
<i>Annual improvements 2015 – 2017</i>	Annual periods beginning on or after 1 January 2019 (published December 2017)	<p>These amendments impact the following standards:</p> <ul style="list-style-type: none"> » <i>IFRS 11: Joint Arrangements</i> 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 does not have an impact on the group. » <i>IFRS 12: Income Taxes</i> regarding clarification that all income tax consequences of dividends should be recognised in profit or loss regardless of how the tax arises. This amendment does not have an impact on the group. » <i>IFRS 3: Business Combinations</i> 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 does not have an impact on the group. » <i>IAS 23: Borrowing Costs</i> 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 does not have an impact on the group.

24. 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 these standards and therefore implementation date is the effective date, unless otherwise stated.

<i>IFRS 3: Business Combinations</i>	1 January 2020 (published October 2018)	<p>The amendments:</p> <p>confirmed that a business must include inputs and a process, and clarified that:</p> <ul style="list-style-type: none"> » the process must be substantive; and » the inputs and process must together significantly contribute to creating outputs <p>narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to clients and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and</p> <p>added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.</p> <p>This amendment is not expected to have an impact on the group.</p>
<i>IAS 1: Presentation of Financial Statements</i>	1 January 2020	<p>Disclosure Initiative: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS.</p> <p>This amendment is not expected to have an impact on the group.</p>
<i>IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors</i>	1 January 2020	<p>Disclosure Initiative: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS.</p> <p>This amendment is not expected to have an impact on the group.</p>

Standard	Effective date	Executive summary
<i>IFRS 17: Insurance Contracts</i>	1 January 2023. Earlier application is permitted if both <i>IFRS 15</i> 'Revenue from Contracts with Customers' and <i>IFRS 9</i> 'Financial Instruments' have also been applied.	<i>IFRS 17: Insurance Contracts</i> establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. The objective of <i>IFRS 17</i> is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. <i>IFRS 17</i> supersedes <i>IFRS 4</i> , 'Insurance Contracts'. The standard will have an impact on the group's current reported financial position and future revenue recognition. The group has an <i>IFRS 17</i> committee facilitating implementation of <i>IFRS 17</i> within the group to ensure that the 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.
<i>Amendments to IFRS 10: Consolidated financial statements' and IAS 28: Investments in associates and joint ventures on sale or contribution of assets</i>	Effective date postponed (initially 1 January 2016)	The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to <i>IFRS 10: Consolidated Financial Statements</i> and <i>IAS 28: Investments in Associates and Joint Ventures</i> . Those 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 making the decision to postpone 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. This amendment is not expected to have an impact on the group.

25. 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-term insurance contracts 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 annual financial statements of Discovery Limited (at www.discovery.co.za) for more detail 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 annual financial statements of Momentum Metropolitan Holdings Limited (at www.momentummetropolitan.co.za) for more detail information on critical accounting assumptions and estimates with specific reference to the valuation of insurance contract liabilities.



Refer to the annual financial statements of Hastings Group Holdings plc (at www.hastingsplc.com) for more detail information on critical accounting assumptions and estimates with specific reference to the valuation of insurance contract liabilities.

The critical assumptions and judgements made by Discovery, Momentum Metropolitan and Hastings impact the group only through the share of after-taxation results of associates in the income statement.

Short-term insurance

Claims provisions

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 claims provision includes an estimate for claims incurred but not reported.

The claims reserve is held so as 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 to be an appropriate risk margin. Claims are considered to be the most sensitive to changes in assumptions, therefore a sensitivity analysis is performed.

R MILLION	South African short-term operations	Australian short-term operations
30 June 2020		
70th percentile	987	956
75th percentile	1 013	985
80th percentile	1 041	1 017
30 June 2019		
70th percentile	846	860
75th percentile	868	879
80th percentile	892	900

In the Youi Australia operations, a 5% (80th percentile) upward adjustment in the level of sufficiency of the claims reserve would result in an additional charge of approximately R32 million while a 5% (70th percentile) downward adjustment in the level of sufficiency would result in a release of reserves in profit or loss of approximately R29 million.

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 75th percentile of the ultimate cost distribution.

Long-term insurance

Policyholder liabilities

The following compulsory margins were applied in the valuation of the policyholder liability as at 30 June 2020:

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 rand reserves over and above the allowance of negative rand reserves calibrated to the costs directly attributable to acquiring a policy.

Demographic assumptions

The best estimate assumptions in respect of dread disease and disability, mortality and retrenchment rates were set taking into consideration the rates provided by the reinsurers, actual past experience and modified by expected future trends. These rates have further been reviewed and approved by the Head of Actuarial Function.

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 estimated discounted mean term at the valuation date is 11.37% (2019: 10.4%).

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 estimated discounted mean term at the valuation date is 7.61% (2019: 7.7%).

Taxation

The 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 provisions

In addition to the discounted cash flow liability, a claims provision was held. The claims provision includes an estimate of outstanding claims as at year-end, as well as an estimate of incurred but not yet reported claims calculated using a claims run-off model based on recent experience and best estimates.

Refer to note 9 for a sensitivity analysis of the long-term and short-term insurance contract liability which illustrates the impact of the assumptions and judgments on the measurement of the insurance contract liability.

Negative rand reserve

The level of day one profits allowed in the form of negative rand reserves not zeroed is determined with reference to the costs directly attributable to acquiring a policy. The negative rand reserve is then run off (amortised) over a linear amortisation period of 4 years, which is closely aligned to the discounted payback period.

Measurement of intangible assets component of investments in associates

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.

The client relationships intangible assets identified in the Polar Star, Sesfikile Capital and Visio 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 as calculated in prior years in the 2020 financial year.

Impairment assessment of associates

Since the acquisition of the group's 29.9% interest in Hastings on 1 March 2017, the Hastings share price has declined by approximately 22% as at 30 June 2020. This was partly caused by a disinflationary insurance cycle experienced in the United Kingdom (UK). In addition, the UK motor insurance market, which makes up a material component of Hastings insurance product mix, is known to be cyclical in nature, which impacts the Hastings share price.

The group determined the recoverable amount of its investment in Hastings. The recoverable amount is the greater of an asset's value-in-use or its fair value less cost to sell. Its value-in-use was calculated using a discounted cash flow (DCF) valuation model.

The DCF valuation model valued the group's interest in Hastings higher than the group carrying value of R10.0 billion.

In arriving at Hastings' value-in-use, robust stress testing was performed on the input into the model and the reasonableness thereof. The main assumptions included in the DCF valuation model include:

- » An assumption of 1% premium inflation in the first year, 2% in years two to five and 1% in years six to 10 was used.
- » A retention rate of 76.5% was assumed. Retention rate have increased due to the implementation of the Guidewire system.
- » A loss ratio of 79.5% was assumed.
- » An expense ratio of 15% was assumed.

The group has performed a sensitivity analysis based on the critical assumptions identified in the Hastings value-in-use calculation. The valuation model indicates that a fairly significant change in the premium inflation assumption (in isolation) over the forecast period will still result in the Hastings value-in-use remaining within an acceptable range relative to the carrying value.

In addition to assumptions mentioned above, the following factors could have the largest influence on the Hastings valuation:

- » A change in the Price Comparison Website (PCW) channel's share of new motor business;
- » A change in Hastings' relative competitiveness in the PCW channel;
- » Regulatory changes impacting product distribution and margins; and
- » Loss of intellectual property which erodes the competitive advantage of Hastings.

Based on the outcome of the value-in-use calculation, the group did not impair its investment in Hastings in the 2020 financial year. Refer to note 37 under subsequent events for the impact of the transaction announced after the financial year-end.



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 on 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	
	2020	2019
Gross insurance contracts		
Short-term insurance contracts		
– claims provision	3 249	2 347
– unearned premiums	5 293	4 152
– non-claims bonuses	524	470
Long-term insurance contracts	535	488
Total gross insurance contract liabilities	9 601	7 457

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 in different classes of short-term insurance risk. The table below indicates the risk and the percentage premium written per risk category:

Types of insurance contracts written	30 June 2020	
	Percentage of gross written premium	
	Personal lines	Commercial
Personal accident	<1.0%	<1.0%
Liability	–	11.3%
Miscellaneous	<1.0%	<1.0%
Motor	63.9%	57.9%
Property	35.6%	28.0%
Transportation	<1.0%	2.4%

Types of insurance contracts written	30 June 2019	
	Percentage of gross written premium	
	Personal lines	Commercial
Personal accident	<1.0%	<1.0%
Liability	–	13.0%
Miscellaneous	<1.0%	<1.0%
Motor	65.0%	56.1%
Property	34.4%	28.5%
Transportation	<1.0%	2.2%

The personal lines segment of the business provides insurance to the general public allowing them to cover their personal possessions and property. The commercial segment of the business targets medium and small businesses in South Africa. Insurance products are sold with either a monthly or an annual premium payable by the covered party or entity. The following gives a brief explanation of each risk:

Personal accident

Provides compensation arising out of the 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 the incurring of a liability other than 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. This class includes pet and motor warranty products as well as certain agricultural products related to livestock.

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.

Engineering

Provides cover to risks related to engineering projects.

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, engineering 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 programmes loaded onto the computer system based on information captured by staff for each risk. Conditions and exclusions are also automatically set at an individual risk level. Individual risks are only automatically accepted up to predetermined thresholds which vary by risk type. Risks with larger exposure than the thresholds are automatically referred and underwritten individually by the actuarial department. These limits are set at a substantially lower level than the reinsurance retention limits. No risks which exceed the upper limits of the reinsurance can be accepted without the necessary facultative cover being arranged. No-claims bonuses which rewards clients for not claiming also form part of the group's underwriting strategy.

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

Reinsurance strategy

The group reinsures a portion of the risk it assumes through its reinsurance programme in order to control the exposure of the group to losses arising from insurance contracts and in order to protect the profitability of the group and its capital. A suite of treaties is purchased in order to limit losses suffered from individual and aggregate insurance risks. Facultative reinsurance is purchased for certain individual risks that have been identified as being outside the limits set for these risks. The retention limits are modelled to optimise the balance between acceptable volatility and reinsurance cost. Acceptable volatility is as defined by the limits set by the board of directors. During the current financial year, of the R9 310 million gross claims incurred, R1 664 million was reinsured. The group only enters into reinsurance agreements with reinsurers which have adequate credit ratings.

Concentrations of risk and mitigating policies

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

risk covered. Attention is paid to attract large numbers of relatively small independent risks which would lead to very stable and predictable claims experience.

Based on gross written premiums, the short-term insurance is split 54.4% in South African and 45.6% in Australia. The South African operation is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 49.7% (2019: 49.5%) of the total sum insured is domiciled. The Australian operation is exposed to a concentration of insurance risk in South East Queensland where 21.5% (2019: 21.0%) 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 so as to render satisfactory results to these simulations. The catastrophe cover is also placed with reinsurers with a reputable credit rating and cognisance is taken of the geographical spread of the other risks underwritten by the reinsurers in order to reduce correlation of the group's exposure with the balance of reinsurers' exposure. These reinsurance models are run at least annually to take account of changes in the portfolio and to take the latest potential loss information into account. Due to the multiple natural catastrophe events in the current year, there was an increase in reinsurance recoveries.

Profit-sharing arrangements

A profit-sharing arrangement has been entered into between OUTsurance Insurance Company Limited and FirstRand Bank Limited. In terms of this profit-sharing arrangement, 90% of the operating profit generated on the homeowners' insurance business referred by FirstRand Bank Limited businesses is paid to FirstRand Bank Limited by way of a bi-annual preference dividend. Where operating losses arise, OUTsurance remains liable for such losses in full, but these losses may be offset against future profit distributions.

A profit-sharing arrangement has been entered into between the OUTsurance Life Insurance Company Limited (OUTsurance Life) and Shoprite Investments Limited. In terms of this profit-sharing arrangement, a portion of the operating profit generated on



the funeral insurance business distributed through the Shoprite distribution network is paid to Shoprite Investments Limited by way of a quarterly preference dividend. Operating losses incurred are for OUTsurance Life's account. OUTsurance Life 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.

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;
- » Funeral Plan; and
- » Endowment

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;

Endowment

OUTsurance Life offers a linked endowment policy with a term of 5 years, which is structured as a life insurance policy. The investment risk is referenced to a zero-coupon deposit issued by a large South African bank.

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 within a period. Selection risk is the risk that worse than expected risks are attracted and charged inadequate premiums. There is also a risk that the number of claims can increase due to the emergence of a new disease or pandemic.

Underwriting experience risk is managed through:

» Product design and pricing

Rating factors are applied to different premium rates to differentiate between different levels of risk. Among other, premiums are differentiated by age, gender, smoking status and medical history. Premium rates are approved and reviewed by the Head of Actuarial function.

» Underwriting

Underwriting ensures that only insurable risks are accepted and that premiums accurately reflect the unique circumstances of each risk. The group has developed an advanced medical underwriting system which captures detailed information regarding the clients' medical history and condition which is used for premium adjustments and to indicate where further underwriting is required by experienced medical underwriters. To verify the accuracy of client data, all new clients are subject to various medical tests. Quality audits are performed on the underwriting process to ensure underwriting rules are strictly followed.

» Reinsurance

OUTsurance Life's quota share and excess of loss reinsurance programme mitigates claims volatility and risk accumulation. Reinsurers also assist with pricing and product design decisions.

» Experience monitoring

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

Lapse risk

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

- » appropriate product design and pricing;
- » providing high quality service; and
- » continuous experience monitoring.

Modelling and data risk

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

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

Data risk is managed by using internal systems and warehouse technology which is used by all companies within the group. Data reports are readily available and frequently used by management to track performance and verify experience variables.

Expense risk

Expense risk is the risk that actual expenses are higher than the budgeted expenses on which premium rates are calculated. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from budget is investigated, reported and remedial action taken where necessary.

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.

Interest rate risk

Interest rate risk is mitigated by an asset-liability matching strategy which is executed by the use of interest rate derivative structures which are partially collateralised.

2. MANAGEMENT OF 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.

The group is exposed to various financial risks in connection with its current operating activities, such as market risk (including equity price risk, interest rate risk and currency 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 it has delegated some of its responsibilities in meeting its 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 had invested in foreign subsidiaries operating in Australia and New Zealand. The insurance operations in New Zealand were sold in December 2019. The group had also invested in Hastings during the 2017 financial year and funded a portion of the acquisition price with a £150 million loan, of which £50 million was repaid in the 2020 financial year.

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 below lists the group's exposure to foreign currency risk:

30 June 2020					
R MILLION	Rand	Australian Dollar	New Zealand Dollar	British Pound	Total
Total assets	38 527	12 808	46	–	51 381
Total liabilities	13 077	8 595	21	2 143	23 836
Exchange rates:					
Closing rate		11.96	11.19	21.42	
Average rate		10.54	9.99	19.57	

30 June 2019					
R MILLION	Rand	Australian Dollar	New Zealand Dollar	British Pound	Total
Total assets	36 651	9 360	691	–	46 702
Total liabilities	11 174	6 433	257	2 697	20 561
Exchange rates:					
Closing rate		9.88	9.46	17.98	
Average rate		10.11	9.50	18.33	



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:

30 June 2020						
R MILLION	AUD 10% Appreciation	AUD 10% Depreciation	NZD 10% Appreciation	NZD 10% Depreciation	GBP 10% Appreciation	GBP 10% Depreciation
Profit or loss	(67)	67	(12)	12	(50)	50
Equity	(399)	399	(2)	2	(448)	448

30 June 2019						
R MILLION	AUD 10% Appreciation	AUD 10% Depreciation	NZD 10% Appreciation	NZD 10% Depreciation	GBP 10% Appreciation	GBP 10% Depreciation
Profit or loss	(67)	67	(2)	2	(43)	43
Equity	(293)	293	(43)	43	(376)	376

Currency risk

The group has a foreign currency (GBP) investment in Hastings which is included under investments in associates in the statement of financial position. The conversion of the group's portion of the net asset value of Hastings for equity accounting purposes from the functional currency to presentation currency gives rise to a foreign currency translation movement which is included under equity accounted reserves in the statement of financial position. A depreciation in the presentation currency increases the equity accounted reserve and investment in associate, while an appreciation in the presentation currency decreases the equity accounted reserve and investment in associate.

The group also has a foreign currency (GBP) denominated liability and foreign exchange contracts included under interest-bearing loans and derivative liabilities in the statement of financial position respectively. The liability is converted at each reporting date from GBP to the functional currency of ZAR. This gives rise to a foreign currency gain or loss which is dependent on whether the ZAR appreciates or depreciates relative to the GBP.

The group recognises its exposure to foreign currency fluctuations arising on the changes in the carrying value of the net investment in Hastings on translation from GBP to ZAR and follow an active approach to manage this risk through hedging. The group has applied net investment hedging of the foreign currency risk associated with the foreign currency operation by formally designating the foreign currency dominated financial liabilities and derivative liability ('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.

In terms of the derivative liability, the group has designated the forward rate as a net investment hedge. The hedge ratio is 1:1. The nominal value of the hedge is GBP 54.9 million and the forward rate is R18.69/GBP, with a close-out date of October 2024. The following potential main sources of ineffectiveness are identified:

- » The fair value of the hedging instrument on the hedge relationship designation date (not zero), so the fixed rate of the hypo is slightly different. This will be the main source of ineffectiveness expected during the life of the trade.
- » A change in the credit risk of RMI or the counterparty.

The potential impact on the group profit or loss and the equity of the group in respect of the £100 million loan (2019: £150 million) incurred to partially fund the investment in Hastings and the derivative liability is provided in the following table. There is no impact on profit or loss as net investment hedge accounting is applied where the movement in the loan and the derivative liability due to currency movement is offset against the currency movement of RMI's share in the net asset value of Hastings.

30 June 2020		
R MILLION	GBP 10% Appreciation	GBP 10% Depreciation
Profit or loss	–	–
Equity	214	(214)

30 June 2019		
R MILLION	GBP 10% Appreciation	GBP 10% Depreciation
Profit or loss	–	–
Equity	270	(270)

A hedging gain of R3 million was recognised as a fair value gain in profit or loss (ineffective portion) and R80 million was recognised against the foreign currency translation portion of equity accounted reserves.

The table below provides further information on hedging instruments.

	2020	2019
Carrying amount of hedging instruments (R million)	2 246	2 697
Nominal amount of hedging instruments (GBP million)	154.9	150
	October 2019 to October 2024	March 2017 to March 2022
Maturity date		
Hedge ratio	1:1	1:1
Change in fair value of hedging instruments since inception (R million)	(668)	(330)

2.1.2 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.

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 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):

R MILLION	30 June 2020		30 June 2019	
	200 bps increase	200 bps decrease	200 bps increase	200 bps decrease
Financial assets				
Fixed rate instruments				
Government, municipal and public utility securities	1	(1)	3	(3)
Term deposits	116	(116)	104	(104)
Unsecured loan	1	(1)	1	(1)
Money market instruments	12	(12)	3	(3)
Cash and cash equivalents	3	(3)	1	(1)
Variable rate instruments				
Government, municipal and public utility securities	2	(2)	5	(5)
Money market instruments	50	(50)	50	(50)
Cash and cash equivalents	45	(45)	31	(31)
Derivative instruments	–	–	1	(1)

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:

R MILLION	30 June 2020		30 June 2019	
	10% increase	10% decrease	10% increase	10% decrease
Financial assets				
Listed preference shares (P or L)	30	(30)	39	(39)
Collective investment scheme (P or L)	11	(11)	12	(12)
Listed equity shares (P or L)	114	(114)	109	(109)
Financial liabilities				
Derivative liability (P or L)	–	–	7	(7)



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;
- » insurance and other 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 Insurance Act, 18 of 2017, by setting transaction/exposure limits, which are reviewed at each board and audit 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 the year-end (if available):

30 June 2020								
R MILLION	AAA	AA	A	BBB	BB	B	Not rated	Total
Collective investment schemes	-	-	-	-	-	-	124	124
Zero-coupon deposits	-	-	24	-	835	-	-	859
Term deposits	-	5 782	-	-	-	-	-	5 782
Unsecured loans	-	-	-	-	-	-	149	149
Money market instruments	-	-	93	62	2 920	22	-	3 097
Debt securities	-	-	-	-	104	24	601	729
Convertible loan	-	-	-	-	-	-	11	11
Insurance and other receivables	-	39	5	4	1	-	3 407	3 456
Reinsurance contracts	119	768	333	119	-	-	-	1 339
Cash and cash equivalents	-	688	-	-	1 726	-	-	2 414
Total	119	7 277	455	185	5 586	46	4 292	17 960

30 June 2019								
R MILLION	AAA	AA	A	BBB	BB	B	Not rated	Total
Collective investment schemes	-	-	-	-	-	-	136	136
Zero-coupon deposits	-	-	-	-	590	-	-	590
Term deposits	-	5 195	-	-	-	-	-	5 195
Unsecured loans	-	-	-	-	-	-	37	37
Money market instruments	613	1 771	136	122	1	-	-	2 643
Debt securities	100	248	-	34	407	-	778	1 567
Derivative financial instruments	-	-	-	-	36	-	1	37
Insurance and other receivables	-	59	24	4	1	-	2 630	2 718
Reinsurance contracts	27	341	218	105	-	-	-	691
Cash and cash equivalents	4	525	151	-	923	-	-	1 603
Total	744	8 139	529	265	1 958	-	3 582	15 217

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 to deterioration in the business and economic environment.

Impairment of financial assets

Calculation of Expected Credit Losses (ECL)

The ECL impairment loss allowance is an unbiased, probability-weighted amount determined by evaluating a range of possible outcomes that reflects reasonable and supportable information that is available without undue cost or effort of past events, current conditions and forecasts of forward-looking economic conditions. The ECL model is dependent on the availability of relevant and accurate data to determine whether a significant increase in credit risk has occurred since initial recognition, the probability of default (PD), the loss given default (LGD) and the possible exposure at default (EAD). Of equal importance is sound correlation between these parameters and forward-looking economic conditions.

ECL reflects the group's own expectations of credit losses discounted to its present value. However, when considering all reasonable and supportable information that is available without undue cost or effort in estimating ECL, the group also considers observable market information about the credit risk of the particular financial instrument or similar financial instruments.

The ECL loss allowances are measured on either of the following bases:

- » 12-month ECL: ECL that result from possible default events within the 12 months after the reporting date; and
- » Lifetime ECL: ECL that result from all possible default events over the expected life of a financial instrument.

The group measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- » Financial assets that are determined to have low credit risk at the reporting date; and
- » Financial assets where credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Exposures are assessed on a per instrument type basis unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on future cash flows. Where such evidence exists, the exposure is assessed on an individual instrument basis. Financial assets are also grouped according to the type of financial asset. The group makes use of estimates of PDs, LGDs and EADs to calculate the ECL balance for financial assets.

Depending on the relevant information available, PDs are based on historic default rate factors and linked to national scale credit ratings assigned to the issuing parties.

LGDs are derived from a free cash flow (FCF) forecast taking into account the interest rate spreads attached to the instruments. The FCF is discounted at the discount rates provided by the regulating authority which takes the current and expected macro-economic conditions into account. The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money.

EADs are determined with reference to expected amortisation schedules, historical payment patterns and taking into account credit conversion factors as applicable for undrawn or revolving facilities.

The market risk capital calculation prescribed under the current regulatory regime is used as a reference point in the above calculations.

The maximum period considered when estimating ECL is the maximum contractual period over which the group is exposed to credit risk. The ECL calculation of a financial instrument takes into account both the contractual and available behavioural repayment patterns over the relevant estimation period.

Significant increase in credit risk and default

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the group considers quantitative and qualitative information based on the group's historical experience, credit assessment and forward-looking information. The group's assessment of a significant increase in credit risk from initial recognition consists of market information and the credit quality attached to the instrument as well as that of the issuing party.

The assessment described above is part of the group's ongoing monitoring of its investment portfolios. When making a quantitative assessment, the group uses the change in the PD occurring over the expected life of the financial instrument. This requires a measurement of the PD at initial recognition and at the reporting date.

A financial asset is in default when the financial asset is credit-impaired or if the financial asset is 90 days past due.



Forward-looking information

The curves and discount rates utilised to project the forward rate spreads on the financial instruments takes macro-economic conditions into account. These curves and discount rates are utilised to calculate the present value of future cash flows taking into account the unsystematic risk for future periods. This, coupled with the credit outlook attached to a specific financial instrument, is utilised to calculate the PD and LGD based on the formulas prescribed by the current regulatory regime.

Analysis of credit risk and allowance for expected credit losses (ECL)

The following table provides an overview of the allowance for ECL provided for on the types of financial assets held by the group where credit risk is prevalent:

R MILLION	Gross carrying amount	Allowance for ECL	Net amount	Subject to 12-month ECL allowance
As at 30 June 2020				
Cash and cash equivalents	2 414	–	2 414	–
Term deposits	6 114	(24)	6 090	(24)
Government, municipal, public utility and money market securities	3 225	(20)	3 205	(20)
Total	11 753	(44)	11 709	(44)
As at 30 June 2019				
Cash and cash equivalents	1 602	–	1 602	–
Term deposits	5 496	(8)	5 488	(8)
Government, municipal, public utility and money market securities	3 043	(16)	3 027	(16)
Total	10 141	(24)	10 117	(24)

The following table sets out information about the credit quality of financial assets at 30 June 2020 where it carries credit risk. The total carrying amounts represent the maximum exposure to credit risk at the reporting date:

R MILLION	Investment grade (AAA to BBB)	Sub-investment grade (BB and lower)	Unrated	Total
As at 30 June 2020				
Money market securities (ECL)	1	19	–	20
Term deposits (ECL)	–	–	24	24
Total (ECL)	1	19	24	44
As at 30 June 2019				
Money market securities (ECL)	16	–	–	16
Term deposits (ECL)	–	–	8	8
Total (ECL)	16	–	8	24

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.

Loan commitments and guarantees

As disclosed in note 37, the group has provided loan commitments to an associate for a total amount of R209 million, of which R100 million has been advanced by 30 June 2020. The remaining amount of the loan commitment of R109 million could expose the group to additional credit exposure. The expected credit loss on this exposure is not deemed to be material. The liquidity risk is deemed to be within one year.

The group has also provided a guarantee to an associate amounting to R28 million. The liquidity risk is deemed to be within one year.

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, Momentum Metropolitan and Hastings), with a combined market value of R32.0 billion (2019: 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, during the 2020 financial year, the group extended the remaining period on all its preference share and GBP loan funding.

R million	2020	2019
Liquid financial assets		
Realisable within 30 days		
Cash and cash equivalents	2 414	1 602
Collective investment schemes	124	136
Government, municipal and public utility securities	128	400
Money market securities	3 077	2 643
Exchange traded funds – ordinary shares	1 023	905
Listed equities	112	184
Realisable between one and 12 months		
Term deposits	5 782	5 195
Loans and receivables	3 460	2 719
Total liquid financial assets	16 120	13 784
Illiquid financial assets		
Realisable in more than 12 months		
Zero-coupon deposits	858	590
Listed perpetual preference shares	303	389
Unlisted equities	475	190
Debt securities	423	778
Derivative asset	–	36
Convertible loan	11	–
Unsecured loan	149	37
Total illiquid financial assets	2 219	2 020
Total financial assets held	18 339	15 804
Insurance contract assets		
Realisable within 30 days	299	73
Realisable between one and 12 months	879	531
Realisable after more than 12 months	160	87
Total insurance contract assets held	1 338	691
Total assets (excluding non-monetary assets)	19 677	16 495



Maturity profile of liabilities

R MILLION	2020 Total	Call to 12 months	1–5 years	> 5 years
Expected discounted cash flows				
Insurance contract liabilities – Life	536	(133)	(893)	1 562
Insurance contract liabilities – Non-life	9 046	8 484	550	12
Derivative financial instruments	150	3	40	107
	9 732	8 354	(303)	1 681
Contractual undiscounted cash flows				
Preference shares	11 407	566	10 841	–
Interest-bearing loans	2 315	56	2 259	–
Financial liabilities at fair value through profit or loss	104	65	–	39
Insurance and other payables	1 108	1 108	–	–
Loan commitment	109	109	–	–
Guarantee	28	28	–	–
	15 071	1 932	13 100	39
Other liabilities				
Share-based payment liability	121	100	21	–
Provisions	191	191	–	–
Tax liabilities	73	73	–	–
Insurance and other payables	410	377	33	–
Derivative liability	133	–	133	–
	928	741	187	–
Total liabilities	25 731	11 027	12 984	1 720
Liquid asset coverage ratio	0.63	1.46		
Financial assets coverage ratio	0.71			

R MILLION	2019 Total	Call to 12 months	1–5 years	> 5 years
Expected discounted cash flows				
Insurance contract liabilities	7 482	6 247	(283)	1 518
Contractual undiscounted cash flows				
Preference shares	9 469	6 170	3 299	–
Interest-bearing loans	2 860	1 425	1 435	–
Financial liabilities at fair value through profit or loss	104	65	–	39
Insurance and other payables	289	288	1	–
Loan commitment	154	154	–	–
Guarantee	28	28	–	–
	12 904	8 130	4 735	39
Other liabilities				
Share-based payment liability	103	89	14	–
Provisions	13	13	–	–
Tax liabilities	22	22	–	–
Insurance and other payables	1 026	990	36	–
Derivative liability	74	–	74	–
	1 238	1 114	124	–
Total liabilities	21 624	15 491	4 576	1 557
Liquid asset coverage ratio	0.64	0.89		
Financial assets coverage ratio	0.73			

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.

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 norm and 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 purposes 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 purposes of housing RMI's investments.

The group raised preference share funding amounting to R9.7 billion in RMI Treasury Company during the 2017 financial year. R2.3 billion of this money 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 ratios to ensure that the group is not exposed to unacceptable risks from a capital management perspective. The board will continuously assess RMI's dividend policy through its investment phase and may, when appropriate, resume the utilisation of 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 assesses 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.

» **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 sets 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 2020	SCR ratio 2019	Target SCR
Group		2.5	2.4	1.4
Short-term insurance				
OUTsurance Insurance Company Limited	South Africa	1.9	2.3	1.2
OUTsurance Insurance Company of Namibia (associate)	Namibia	2.3	2.1	1.2
Youi Holdings Limited Group	Australia	3.5	4.5	2.0
Long-term insurance				
OUTsurance Life Insurance Company Limited	South Africa	3.0	3.2	1.5



The regulated solvency capital requirement for the various regulated entities are calculated as follows:

Southern African operations

The financial soundness for insurers and financial soundness for groups prudential standards prescribe certain measures which insurers and groups measure their eligible own funds and prescribes the manner in which the solvency capital requirement (SCR) needs to be calculated. The group and solo entities apply the standard formula approach to determine the SCR.

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, OUTsurance and its subsidiaries have been 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.

Notes to the consolidated annual financial statements

for the year ended 30 June

	Land and buildings	Leasehold improvements	Furniture, fittings and equipment	Motor vehicles	Total
R MILLION					
1. PROPERTY AND EQUIPMENT					
30 June 2020					
Net book value at the beginning of the year	879	4	157	1	1 041
Additions	3	16	74	5	98
Disposals	–	–	(4)	–	(4)
Reclassification	–	–	(25)	–	(25)
Foreign exchange adjustments	132	–	7	–	139
Depreciation (note 28)	(35)	(2)	(51)	(1)	(89)
Net book value at the end of the year	979	18	158	5	1 160
Cost	1 180	36	559	8	1 783
Accumulated depreciation	(201)	(18)	(401)	(3)	(623)
Net book value at the end of the year	979	18	158	5	1 160
30 June 2019					
Net book value at the beginning of the year	930	5	174	–	1 109
Additions	–	2	97	1	100
Disposals	–	–	(8)	–	(8)
Foreign exchange adjustments	(18)	–	(1)	–	(19)
Depreciation (note 28)	(33)	(3)	(105)	–	(141)
Net book value at the end of the year	879	4	157	1	1 041
Cost	1 037	45	766	3	1 851
Accumulated depreciation	(158)	(41)	(609)	(2)	(810)
Net book value at the end of the year	879	4	157	1	1 041

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. The Australian head office for the Youi group is situated on the Sunshine Coast. Both these properties are owner-occupied.

Information regarding land and buildings is kept at the group's registered offices. This information is open for inspection in terms of section 20 of the Companies Act.

Refer to note 46 for the current/non-current split.

R MILLION

2.

INTANGIBLE ASSETS**30 June 2020**

Net book value at the beginning of the year

Additions

Reclassification

Accruals

Settlements

Service cost relating to intellectual property (amortisation) (note 28)

Foreign exchange adjustments

Amortisation charge (note 28)

Net book value at the end of the year

Cost

Accumulated amortisation

Net book value at the end of the year**30 June 2019**

Net book value at the beginning of the year

Additions

Accruals

Settlements

Service cost relating to intellectual property (amortisation) (note 28)

Net book value at the end of the year

Cost

Accumulated amortisation

Net book value at the end of the year

Internally developed computer software	Purchased computer software	Intellectual property bonuses	Total
14	–	87	101
75	4	43	122
–	25	–	25
–	–	(28)	(28)
–	–	(2)	(2)
–	–	(96)	(96)
4	1	–	5
(2)	(8)	–	(10)
91	22	4	117
93	148	184	425
(2)	(126)	(180)	(308)
91	22	4	117
–	–	124	124
14	–	17	31
–	–	31	31
–	–	(1)	(1)
–	–	(84)	(84)
14	–	87	101
14	–	271	285
–	–	(184)	(184)
14	–	87	101

The intellectual property bonuses are recognised as current service costs in the income statement over a range of retention periods from six months to two years.

Internally developed software relates to a project to redevelop the core insurance technology of the group's insurance operations. This intangible asset will be amortised once the software development is substantially completed and used in production.

In addition to the above, internally developed software also includes banking software that will be sold as Software as a Service, which will be amortised once it is completed and ready for sale.

The estimated useful life of the computer software ranges between 2 to 7 years.

Refer to note 46 for the current/non-current split.

3. RIGHT-OF-USE ASSETS

Right-of-use assets are calculated in accordance with *IFRS 16*, which was adopted by the group with effect from 1 July 2019.

R MILLION	Properties	Motor vehicles	Total
30 June 2020			
Net book value at the beginning of the year	–	–	–
Additions on adoption of <i>IFRS 16</i>	67	23	90
Adjusted net book value at the beginning of the year	67	23	90
Additions	11	14	25
Depreciation (note 28)	(21)	(15)	(36)
Terminations/cancellations	(7)	(1)	(8)
Foreign currency adjustments	8	4	12
Net book value at the end of the year	58	25	83
Cost	78	38	116
Accumulated depreciation	(20)	(13)	(33)
Net book value at the end of the year	58	25	83

R MILLION	2020	2019
4. INVESTMENTS IN ASSOCIATES		
Shares at cost	21 162	21 027
Treasury shares	(90)	(73)
Equity accounted reserves	8 216	7 383
Investments in associates	29 288	28 337
Analysis of the movement in the carrying value of associates:		
Balance at the beginning of the year	28 337	26 413
Additional acquisition of associates	127	693
Dilution of investment in subsidiary to investment in associate	12	–
Treasury shares	(17)	27
Share of after-taxation results of associates	259	2 612
Dividends received for the year	(1 094)	(1 009)
Share of associates' other reserves	1 664	(399)
Balance at the end of the year	29 288	28 337
Carrying value comprises:		
Discovery Limited	12 017	11 649
Hastings Group Holdings plc	10 028	9 298
Momentum Metropolitan Holdings Limited	6 305	6 409
OUTsurance associates	89	99
RMI Investment Managers associates	659	745
AlphaCode associates	190	137
Total carrying value	29 288	28 337
Market value of listed associates (RMI's share)		
Discovery Limited	17 231	24 575
Hastings Group Holdings plc	8 117	6 912
Momentum Metropolitan Holdings Limited	7 062	7 608
Total market value of listed associates	32 410	39 095



R MILLION	2020	2019
4. INVESTMENTS IN ASSOCIATES continued		
The group's interests in associates are as follows:		
Discovery Holdings Limited – Number of shares	164 810 590	164 810 590
Discovery Holdings 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	29.7	29.9
Momentum Metropolitan Holdings Limited – Number of shares	401 048 075	401 048 075
Momentum Metropolitan Holdings Limited – % of equity*	27.7	27.5
OUTsurance Insurance Company of Namibia Limited – Number of shares	1 960 000	1 960 000
OUTsurance Insurance Company of Namibia Limited – % of equity	49	49
AutoGuru Australia Proprietary Limited – Number of shares	2 752 278	2 752 278
AutoGuru Australia Proprietary Limited – % of equity	30	30
Truffle Capital (Pty) Limited – Number of shares	6 876	6 876
Truffle Capital (Pty) Limited – % of equity	27.7	27.7
Northstar Asset Management Proprietary Limited – Number of shares	16 216	16 216
Northstar Asset Management Proprietary Limited – % of equity	30	30
Tantalum Capital Proprietary Limited – Number of shares	960	960
Tantalum Capital Proprietary Limited – % of equity	30	30
Sentio Capital Management Proprietary Limited – Number of shares	246	246
Sentio Capital Management Proprietary Limited – % of equity	30	26
Polar Star Management – Number of shares	155 000	155 000
Polar Star Management – % of equity	25	25
Coreshares Holdings Proprietary Limited – Number of shares	57 556	57 556
Coreshares Holdings Proprietary Limited – % of equity	55.4	55.4
Royal Investment Managers Proprietary Limited – Number of shares	1 764 342	1 741 662
Royal Investment Managers Proprietary Limited – % of equity	50.0	46.5
Ethos Private Equity Proprietary Limited – Number of shares	32 141	32 141
Ethos Private Equity Proprietary Limited – % of equity	14	14
Merchant Capital Advisory Services Proprietary Limited – Number of shares	333 430	333 430
Merchant Capital Advisory Services Proprietary Limited – % of equity	24.8	25.8
Entersekt Proprietary Limited – Number of shares	128 467	102 588.0
Entersekt Proprietary Limited – % of equity	28.2	25.1
Sancreed Proprietary Limited (Guidepost) – Number of shares	49 338	–
Sancreed Proprietary Limited (Guidepost) – % of equity	25.1	–
Perpetua Investment Managers Proprietary Limited – Number of shares	300	300
Perpetua Investment Managers Proprietary Limited – % of equity	15	15
Granate Asset Management Proprietary Limited – Number of shares	10 020	501
Granate Asset Management Proprietary Limited – % of equity	30	100

* After consolidation of share trusts.

The group does not control Coreshares Holdings Proprietary Limited, nor Royal Investment Managers Proprietary Limited, notwithstanding the fact that it owns 55.4% and 50% of the issued share capital respectively. 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 and Perpetua Investment Managers 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 39.

Refer to note 46 for the current/non-current split.

R MILLION	2020	2019
5. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES		
The group's equity and debt securities are summarised by measurement category below:		
Fair value through other comprehensive income	3 669	3 213
– Equity	464	186
– Debt	3 205	3 027
Fair value through profit or loss	2 886	2 714
– Equity	1 563	1 597
– Debt	1 323	1 117
Amortised cost – Debt	6 089	5 496
Total financial assets – Equity and debt securities	12 644	11 423
Refer to note 46 for the current/non-current split.		
The assets included in each of the categories above are detailed below:		
Fair value through other comprehensive income		
Equity securities		
– Unlisted shares	464	186
Debt securities		
– Government, municipal and public utility securities	128	400
– Money market securities	3 077	2 627
Total debt securities	3 205	3 027
Total financial assets through other comprehensive income	3 669	3 213
Equity securities at fair value through other comprehensive income		
Financial assets at fair value through other comprehensive income comprise unlisted equity securities which are not held for trading, and which the group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the group consider this classification to be more relevant.		
These unlisted equity securities relate to the group's investments in fintech businesses where the group does not exercise significant influence and therefore does not equity account the investments.		
On disposal of these equity investments, any related balance within the FVOCI reserve will be reclassified to retained earnings.		
There were no disposals or dividends during the current or prior financial year.		
During the year, the following losses and gains were recognised in other comprehensive income:		
(Losses)/gains recognised in other comprehensive income	(108)	44



R MILLION	2020	2019
5. FINANCIAL ASSETS–EQUITY AND DEBT SECURITIES continued		
Financial assets at fair value through profit or loss		
Equity securities		
– Listed	1 439	1 478
– Unlisted	124	119
Total equity securities	1 563	1 597
Debt securities		
– Collective investment scheme assets	11	21
– Zero-coupon deposits	858	590
– Unsecured loans	61	37
– Convertible loans	11	–
– Other fixed rate debt securities	382	469
Total debt securities	1 323	1 117
Total equity and debt securities at fair value through profit or loss	2 886	2 714
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.		
Refer to note 41 for information relating to the fair value of investment securities.		
Financial assets at amortised cost		
Debt securities – interest-bearing instruments	6 089	5 496

The following is a reconciliation of movements in equity and debt security balances:

R MILLION	Available-for-sale	Fair value through profit or loss	Amortised cost	Fair value through OCI	Total
30 June 2020					
Financial assets at the beginning of the year	–	2 714	5 496	3 213	11 423
Additions (including net interest accruals)	–	455	5 140	3 060	8 655
Interest accrued	–	–	7	–	7
Dividends accrued	–	–	24	–	24
Disposals (sales and redemptions)	–	(55)	(5 595)	(2 494)	(8 144)
Unrealised fair value adjustment through profit or loss	–	(254)	–	–	(254)
Unrealised fair value adjustment through other comprehensive income	–	–	–	(108)	(108)
Foreign exchange difference	–	26	1 033	2	1 061
Expected credit loss	–	–	(16)	(4)	(20)
Financial assets at the end of the year	–	2 886	6 089	3 669	12 644
30 June 2019					
Financial assets at the beginning of the year	1 169	10 093	–	–	11 262
Reclassification due to change in accounting policy	(1 169)	(7 974)	5 661	3 482	–
Reclassified balance at the beginning of the year	–	2 119	5 661	3 482	11 262
Additions (including net interest accruals)	–	500	5 219	2 671	8 390
Interest accrued	–	32	–	–	32
Dividends accrued	–	–	25	–	25
Disposals (sales and redemptions)	–	(27)	(5 261)	(2 977)	(8 265)
Unrealised fair value adjustment through profit or loss	–	90	–	–	90
Unrealised fair value adjustment through other comprehensive income	–	–	–	53	53
Foreign exchange difference	–	–	(140)	–	(140)
Expected credit loss	–	–	(8)	(16)	(24)
Financial assets at the end of the year	–	2 714	5 496	3 213	11 423

6. DERIVATIVE FINANCIAL INSTRUMENTS

The group utilises derivative financial instruments for the following:

- » to reduce the impact of the interest rate risk contained in the policyholder liabilities in its long-term insurance business;
- » to reduce the impact of the currency risk contained in its open foreign currency exposures; and
- » to provide price certainty related to future equity investments.

The group undertakes transactions involving derivative financial instruments with other financial institutions. Management has established limits commensurate with the credit quality of the institutions it deals with and manages the resulting exposures such that a default by any individual counterparty is unlikely to have a materially adverse impact on the group.

The following table provides a detailed breakdown of the group's derivative financial instruments outstanding at year-end.

R MILLION	Assets	Liabilities	Net derivatives
30 June 2020			
Interest rate swap	284	(419)	(135)
Effect of assets relating to the floating rate swap	284	–	284
Effect of liability relating to the fixed rate swap	–	(419)	(419)
Collateralised swap	–	(46)	(46)
Forward exchange contracts	125	(227)	(102)
Net derivative financial liability	409	(692)	(283)

	Assets	Liabilities	Net derivatives
30 June 2019			
Interest rate swap	322	(351)	(29)
Effect of assets relating to the floating rate swap	322	–	322
Effect of liability relating to the fixed rate swap	–	(351)	(351)
Collateralised swap	36	–	36
Equity swap	–	(70)	(70)
Total derivative financial instruments	358	(421)	(63)
– Disclosed as derivative asset			36
– Disclosed as derivative liability			(99)

R MILLION	2020	2019
Movement analysis		
Balance at the beginning of the year	(63)	(36)
Additions (purchased and issued)	2	58
Settlement (purchased and issued)	53	–
Fair value adjustments	(275)	(85)
Balance at the end of the year	(283)	(63)

Of the R284 million derivative financial asset related to the interest rate swap, R5 million is recoverable within 12 months from reporting date. The forward exchange contract is recoverable within 12 months. The collateralised swap is recoverable in more than 12 months.

The collateralised swap arrangement is intended to match payments due to policyholders in the future, after a specified date. The portion of the policyholder liability that this arrangement has been matched to is R549 million at 30 June 2020.

On 30 April the group entered into deliverable currency option transactions to hedge the currency risk inherent in an incoming foreign dividend payment. As at 30 June 2020, this derivative position fell outside of the limits of the value of the collar and as such had a value of R nil.

Currency derivatives fair values are calculated using standard market calculation conventions with reference to the relevant closing spot exchange rates and forward foreign exchange rates.

On 12 May Youi purchased a 4% equity investment in Blue Zebra Insurance Pty Limited for a consideration of A\$1.1 million. The fair value of Blue Zebra Insurance Pty Limited (BZI) investment is supported by an equal put option agreement with Envest Pty Limited who acquired 29.22% of BZI at the same valuation price as Youi's investment. In addition, Youi has a call option to acquire additional shares in BZI over the next three years. As at 30 June 2020 this option is not considered to be substantive and the fair value is determined to be nil. No option premium was payable by Youi to participate in this option.

Refer to note 46 for the current/non-current split.



R MILLION		2020	2019
7.	INSURANCE AND OTHER RECEIVABLES		
	Receivables arising from insurance and reinsurance contracts:		
	– Due from policyholders	3 077	2 385
	– Due from reinsurers	212	111
	Other receivables:		
	– Other receivables and prepayments	257	275
	Total insurance and other receivables	3 546	2 771
	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.		
	Insurance and other receivables are considered current assets.		
	Included in other receivables and prepayments are amounts due by related parties. Refer to note 36 for further details thereof.		
	The carrying amount of insurance and other receivables approximates the fair value based on the short-term nature of this asset.		
8.	DEFERRED ACQUISITION COST		
	Balance at the beginning of the year	360	307
	DAC raised	865	757
	DAC charged to the income statement	(833)	(683)
	Foreign exchange movement	78	(9)
	Discontinued operations	(7)	(12)
	Deferred acquisition cost at the end of the year	463	360
	In order to better align the initial acquisition expenses with the premium portions designed to cover the initial expenses, IFRS allows us to set up an asset (a Deferred Acquisition Cost, or DAC, asset) equal to the initial acquisition expenses incurred, leading to a closer alignment of cash flows. The DAC is then run off (amortised) over time as the premium portions are received to cover the initial expenses. For OUTsurance Life, a linear amortisation over 4 years was chosen, which is closely aligned to the Discounted Payback Period. Any DAC created from commission payments is amortised in line with regulated commission earned percentages.		
	Refer to note 46 for the current/non-current split.		

R MILLION	2020	2019
9. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS		
Gross insurance contracts		
Short-term insurance contracts		
– Claims provisions	3 249	2 347
– Unearned premium provision	5 293	4 152
– Insurance contract non-claims bonuses provision	524	470
Total short-term insurance contracts	9 066	6 969
Long-term insurance contracts	535	488
Total gross insurance liabilities	9 601	7 457
Recoverable from reinsurers		
Short-term insurance contracts		
– Claims provisions	(1 186)	(530)
– Unearned premium provision	(34)	(56)
Total short-term insurance contracts	(1 220)	(586)
Long-term insurance contracts	(118)	(105)
Total recoverable from reinsurers	(1 338)	(691)
Net insurance contracts		
Short-term insurance contracts		
– Claims provisions	2 063	1 817
– Unearned premium provision	5 259	4 096
– Insurance contract non-claims bonuses provision	524	470
Total short-term insurance contracts	7 846	6 383
Long-term insurance contracts	417	383
Total net insurance liabilities	8 263	6 766



Analysis of movement in short-term insurance contract liabilities

R MILLION		Gross	Re- insurance	Net
9.	INSURANCE CONTRACTS AND REINSURANCE			
	CONTRACTS continued			
9.1	Analysis of movement in claims provisions			
	30 June 2020			
	Balance at the beginning of the year	2 347	(530)	1 817
	Current year	2 422	(953)	1 469
	– Claims incurred	8 775	(1 547)	7 228
	– Claims paid	(7 102)	670	(6 432)
	– Claims handling expenses raised	433	–	433
	– Risk margins raised	316	(76)	240
	Prior year	(1 831)	443	(1 388)
	– Claims incurred	(107)	(1)	(108)
	– Claims paid	(1 440)	429	(1 011)
	– Claims handling expenses released	(55)	–	(55)
	– Risk margins released	(229)	15	(214)
	Foreign exchange movement	348	(173)	175
	Discontinued operations	(37)	27	(10)
	Claims provisions at the end of the year	3 249	(1 186)	2 063
	30 June 2019			
	Balance at the beginning of the year	1 910	(148)	1 762
	Current year	1 742	(486)	1 256
	– Claims incurred	7 466	(679)	6 787
	– Claims paid	(6 249)	215	(6 034)
	– Claims handling expenses raised	319	–	319
	– Risk margins raised	206	(22)	184
	Prior year	(1 267)	91	(1 176)
	– Claims incurred	(11)	(14)	(25)
	– Claims paid	(1 048)	100	(948)
	– Claims handling expenses released	(66)	–	(66)
	– Risk margins released	(142)	5	(137)
	Foreign exchange movement	(41)	11	(30)
	Discontinued operations	3	2	5
	Claims provisions at the end of the year	2 347	(530)	1 817

The claims handling expenses raised in the current year and released in the prior year used to be disclosed as a single line called 'change in claims handling cost'. Similarly, the risk margins raised in the current year and risk margins released in the prior year were previously disclosed as a single line called 'change in risk margin'. The additional analysis provides a better understanding of the movement in the claims reserves.

R MILLION		Gross	Re-insurance	Net
9.	INSURANCE CONTRACTS AND REINSURANCE			
	CONTRACTS continued			
9.2	Analysis of movement in unearned premium provision			
	30 June 2020			
	Balance at the beginning of the year	4 152	(56)	4 096
	UPP raised	8 385	(600)	7 785
	UPP earned	(7 933)	570	(7 363)
	Foreign exchange movement	811	52	863
	Discontinued operations	(122)	–	(122)
	Unearned premium provision at the end of the year	5 293	(34)	5 259
	30 June 2019			
	Balance at the beginning of the year	4 032	(52)	3 980
	UPP raised	7 449	(503)	6 946
	UPP earned	(7 230)	504	(6 726)
	Foreign exchange movement	(94)	–	(94)
	Discontinued operations	(5)	(5)	(10)
	Unearned premium provision at the end of the year	4 152	(56)	4 096
R MILLION			2020	2019
9.3	Analysis of movement in insurance contract non-claims bonuses provision			
	Balance at the beginning of the year		470	436
	Charge to profit or loss for the year		498	449
	Cash bonuses paid during the year		(444)	(415)
	Insurance contract non-claims bonuses provision at the end of the year		524	470



9. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

9.4 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 policyholder liabilities	Net long-term insurance contract liabilities	Negative rand reserve	Net long-term insurance contract liabilities including deferral of acquisition costs
30 June 2020					
Balance at the beginning of the year	649	(105)	544	(161)	383
Policyholder liability	590	(86)	504	(161)	343
Claims provision	59	(19)	40	–	40
Transfer to policyholder liabilities under insurance contracts	56	(13)	43	(9)	34
Unwind of discount rate and release of profits	138	9	147	–	147
Experience variance	25	(20)	5	–	5
Modelling methodology changes	63	(15)	48	–	48
Change in non-economic assumptions	(11)	1	(10)	–	(10)
Change in economic assumptions	(213)	32	(181)	–	(181)
New business	1	(1)	–	–	–
Change in claims provision	(1)	(1)	(2)	–	(2)
Change in negative rand reserve	–	–	–	(9)	(9)
COVID-19 adjustment	54	(18)	36	–	36
Long-term insurance contract liabilities at the end of the year	705	(118)	587	(170)	417
Policyholder liability	647	(98)	549	(170)	379
Claims provision	58	(20)	38	–	38
30 June 2019					
Balance at the beginning of the year	490	(86)	404	(143)	261
Policyholder liability	461	(77)	384	(143)	241
Claims provision	29	(9)	20	–	20
Transfer to policyholder liabilities under insurance contracts	159	(19)	140	(18)	122
Unwind of discount rate and release of profits	159	(11)	148	–	148
Experience variance	(14)	(1)	(15)	–	(15)
Modelling methodology changes	(6)	(3)	(9)	–	(9)
Change in non-economic assumptions	15	3	18	–	18
Change in economic assumptions	(28)	5	(23)	–	(23)
New business	3	(2)	1	–	1
Change in claims provision	30	(10)	20	–	20
Change in negative rand reserve	–	–	–	(18)	(18)
Long-term insurance contract liabilities at the end of the year	649	(105)	544	(161)	383
Policyholder liability	590	(86)	504	(161)	343
Claims provision	59	(19)	40	–	40

9. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

9.4 Analysis of movement in long-term insurance contract liabilities 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 and profit and loss 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 2020			
Claims provision	7 846	206	(206)
Insurance contract non-claims bonuses provision	7 846	52	(52)
30 June 2019			
Claims provision	6 383	182	(182)
Insurance contract non-claims bonuses provision	6 383	47	(47)

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, amounting to R901 million (2019: R821 million), are not eliminated in order to derive sensitivity stresses which are more closely aligned with economic reality. An increase in liability will result in a reduction in profit and a decrease in liability will result in an increase in profit in the income statement.

	Change in variable	Increase/ (decrease) in policyholder liabilities R million	Increase/ (decrease) in policyholder liabilities %
30 June 2020			
Lapses	+10%	–	0%
	-10%	2	1%
Interest rate environment	+1%	(7)	(2%)
	-1%	29	8%
Mortality, morbidity, disability, retrenchment	+10%	156	44%
	-10%	(158)	(45%)
Mortality, morbidity, disability, retrenchment	+1%	78	22%
	-1%	(79)	(22%)
Expenses	+10%	44	12%
	-10%	(44)	(12%)
30 June 2019			
Lapses	+10%	(29)	(9%)
	-10%	36	11%
Interest rate environment	+1%	(1)	–
	-1%	34	11%
Mortality, morbidity, disability, retrenchment	+10%	173	55%
	-10%	(176)	(56%)
Mortality, morbidity, disability, retrenchment	+5%	87	28%
	-5%	(88)	(28%)
Expenses	+10%	39	12%
	-10%	(39)	(12%)

Refer to note 46 for the current/non-current split.



R MILLION	2020	2019
10. 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.		
Deferred taxation assets		
Provisions	370	272
Special transfer credit	20	20
Fair value adjustment	24	39
Service cost on employee benefits	18	12
Difference between accounting and tax values of assets	3	4
Operating lease charges	1	–
Financial assets at fair value through other comprehensive income	1	–
Set-off in same legal entities	(139)	(131)
Expected loss adjustment	6	4
Total deferred taxation assets	304	220
Deferred taxation liabilities		
Deferred acquisition costs	(168)	(141)
Prepayments	(8)	(7)
Set-off in same legal entities	139	131
Financial assets at fair value through other comprehensive income	(14)	(18)
Unrealised fair value on investment in equity instruments	(25)	(34)
Total deferred taxation liabilities	(76)	(69)
Reconciliation of movement		
Deferred taxation asset at the beginning of the year	220	220
Deferred taxation charge for the year	44	6
Prior year adjustment	(2)	–
Dilution of holding in subsidiary to associate	(1)	–
Foreign exchange movement	51	(6)
Unrealised fair value adjustment through profit or loss	–	9
Deferred tax asset before set-off in same legal entities	312	229
Set-off in same legal entities	(8)	(9)
Total deferred taxation asset at the end of the year	304	220
Deferred taxation liability at the beginning of the year	(69)	(54)
Deferred taxation charge for the year	7	(15)
Foreign exchange movement	(24)	3
Financial assets at fair value through other comprehensive income (1)	2	(12)
Deferred tax liability before set-off in same legal entities	(84)	(78)
Set-off in same legal entities	8	9
Total deferred taxation liabilities at the end of the year	(76)	(69)

1 These amounts have been charged directly to other comprehensive income.

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 amounting to R195 million (2019: R195 million) relating to the individual policyholder tax fund in OUTsurance Life Insurance Company has not been recognised.

Refer to note 46 for the current/non-current split.

R MILLION	2020	2019
11. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	1 518	1 208
Money market investments	896	394
Total cash and cash equivalents	2 414	1 602

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 share capital*	Share premium	Treasury shares	Total
30 June 2020					
Balance at the beginning of the year	1 530	–	15 431	(72)	15 359
Movement in treasury shares	(1)	–	–	(17)	(17)
Balance at the end of the year	1 529	–	15 431	(89)	15 342
30 June 2019					
Balance at the beginning of the year	1 520	–	15 086	(100)	14 986
Issue of shares	9	–	345	–	345
Movement in treasury shares	1	–	–	28	28
Balance at the end of the year	1 530	–	15 431	(72)	15 359

* 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 2020 was 1 531 807 770 shares (2019: 1 531 807 770 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 (2019: 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 (2019: 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 yet.

RMI had no issued preference shares as at 30 June 2020. 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 2020 was 2 878 468 (2019: 2 176 323).

R MILLION	2020	2019
Number of treasury shares held at 30 June (million)	3	2
Weighted number treasury of shares held during the year (million)	3	3
The treasury sharers 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)	1 532	1 529
Less: Weighted number of treasury shares (million)	(3)	(3)
Weighted number of shares in issue	1 529	1 526



R MILLION	2020	2019
13. RESERVES		
Distributable reserves		
Retained earnings	6 172	5 435
Equity accounted reserves		
Balance at the beginning of the year	7 107	5 881
Income from associates retained	(828)	1 602
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss, after taxation	1 548	(81)
Non-controlling interest	(13)	–
Items that will not be reclassified to profit or loss, after taxation	71	(23)
Movement in liabilities accounted for as net investment hedge	(380)	22
Movement in derivative liability accounted for as a net investment hedge	(80)	–
Other movement in reserves	56	(265)
Change in accounting policies	(18)	(29)
Total equity accounted reserves	7 463	7 107
Transactions with non-controlling interests	(3 856)	(3 637)
Other reserves		
Currency translation reserve	781	213
Other comprehensive income reserve	(65)	55
Share-based payments reserve	11	7
Total other reserves	727	275
Total reserves	10 506	9 180

Nature and purpose of reserves

Equity accounted reserves

All equity accounted earnings less dividends received plus the group's portion of other reserve movements of investments in associates, net of the net investment hedge accounting, are allocated to the equity accounted reserves.

Transactions with non-controlling interests

Cumulative profits and losses on transactions with non-controlling interests are reflected in this reserve.

Currency translation reserve

All foreign currency translation gains and losses arising upon the consolidation of foreign operations are included in this reserve.

Other comprehensive income reserve

The cumulative fair value movement on financial instruments through other comprehensive income is included in this reserve.

Share-based payments reserve

The cumulative value of the equity-settled share incentive scheme is reflected in this reserve.

R MILLION		2020	2019
14.	PREFERENCE SHARES		
	Unlisted preference shares issue by RMI Treasury Company Limited		
	Class B cumulative redeemable non-participating preference shares	1 130	1 130
	Class C cumulative redeemable non-participating preference shares	2 650	5 650
	Class D cumulative redeemable non-participating preference shares	1 800	1 800
	Class E cumulative redeemable non-participating preference shares	3 000	–
	Class F cumulative redeemable non-participating preference shares	934	–
	Total cumulative redeemable non-participating preference shares	9 514	8 580
	<p>RMI Treasury Company Limited issued 1 130 class B cumulative redeemable non-participating preference shares on 22 February 2017. These preference shares were initially redeemable at the discretion of the company at any time and compulsorily redeemable on 22 February 2022. During the 2020 financial year, the compulsory redeemable date was extended to 31 October 2024 and the rate was fixed at an annual rate of 7.3346%, compounded semi-annually. Dividends are payable on 30 April and 31 October every year.</p> <p>RMI Treasury Company Limited issued 5 650 class C cumulative redeemable non-participating preference shares on 27 February 2017. These preference shares were initially redeemable at the discretion of the company at any time and compulsorily redeemable on 28 February 2020. During the 2020 financial year, the compulsory redeemable date was extended to 31 October 2022 and R3 000 million of these class C preference shares were reallocated to class E preference shares with a fixed rate of 6.67%, compounded semi-annually. The remaining R2 650 million of the class C preference shares continue to pay preference 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.</p> <p>RMI Treasury Company Limited issued 1 800 class D cumulative redeemable non-participating preference shares on 27 February 2017. These preference shares were initially redeemable at the discretion of the company at any time and compulsorily redeemable on 27 February 2022. During the 2020 financial year, the compulsory redeemable date was extended to 31 October 2024. 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.</p> <p>RMI Treasury Company Limited issued 934 class F cumulative redeemable non-participating preference shares on 30 October 2019. These preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 31 October 2024. These preference shares pay dividends at a fixed rate of 7.06%, compounded semi-annually. Dividends are payable on 30 April and 31 October every year.</p> <p>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 41.</p> <p>Refer to note 46 for the current/non-current split.</p>		



R MILLION		2020	2019
15. INTEREST-BEARING LOANS			
Bank borrowings at amortised cost		2 142	2 697
Bank loan facility at amortised cost		100	–
Total interest-bearing loans		2 242	2 697
Bank borrowings at amortised cost			
Balance at the beginning of the year		2 697	2 730
Interest accrued		72	89
Interest paid		(72)	(89)
Loans repaid		(935)	(10)
Extinguishment of Facility B		(467)	–
Recognition of new Facility B at fair value		467	–
Foreign currency movement		380	(23)
Bank borrowings at the end of the year		2 142	2 697
<p>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, comprising a £75 million Facility A which is a 3-year loan and a £75 million Facility B which is a 5-year loan. During the 2020 financial year, an amount of £50 million of the Facility B loan was repaid, the repayment date on the £75 million Facility A loan was extended to 15 November 2022 and on the remaining £25 million Facility B loan was extended to 15 November 2024. The interest rate on the £75 million Facility A loan is LIBOR (fixed at 0.51% with an interest rate swap) plus a margin of 1.85% (2019: 1.9%) and the interest rate on the Facility B loan of £25 million is LIBOR (fixed at 0.98% with an interest rate swap) plus a margin of 2.45% (2019: 2.75%).</p> <p>The new cash flows in respect of the modification to Facility A in respect of the duration and interest rate were considered for a substantial modification and no material impact was noted.</p> <p>The new cash flows in respect of the modification to Facility B in respect of the duration and interest rate were considered to be substantial modification, resulting in the derecognition of the original facility and the recognition of a new facility at fair value. No significant gain or loss arose on derecognition.</p>			
Bank loan facility at amortised cost			
Balance at the beginning of the year		–	–
Amount accessed during the year		100	–
Bank loan facility at the end of the year		100	–
<p>During the current financial year, the group entered into an agreement whereby an amount of R700 million was made available under Facility A and a further R300 million under Facility B. A commitment fee is charged on the available facility and interest is charged at a rate per annum compounded quarterly on the amount drawn down. The rate of interest charged on each loan is calculated on the relevant quarterly JIBAR plus a margin of 100 bps. During the current financial year the group accessed R100 million of the funds available from Facility A.</p> <p>Refer to note 46 for the current/non-current split.</p>			
16. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS			
Shareholders for preference dividends on profit-share arrangement		65	65
Other loans at fair value through profit or loss		39	39
Total financial liabilities at fair value through profit or loss		104	104
<p>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 profit or loss 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.</p> <p>The other loans have no fixed terms of repayment and carry no interest.</p> <p>Refer to note 46 for the current/non-current split.</p>			
17. INVESTMENT CONTRACTS AT FAIR VALUE THROUGH PROFIT OR LOSS			
Balance at the beginning of the year		–	–
Investment contract receipts		21	–
Fair value adjustments		2	–
Interest income		1	–
Balance at the end of the year		24	–

R MILLION	2020	2019
18. LEASE LIABILITIES		
Balance at the beginning of the year	–	–
Addition on adoption of <i>IFRS 16</i>	91	–
Adjusted balance at the beginning of the year	91	–
Cash movements		
Lease payments	(38)	–
Non-cash movements		
New leases entered into and lease extensions during the year	25	–
Termination of leases	(6)	–
Interest	4	–
Foreign exchange adjustments	13	–
Balance at the end of the year	89	–

The following table summarises the contractual maturity dates for lease liabilities. The maturity analysis is represented on an undiscounted contractual cash flow basis.

R MILLION	Within 1 year	1 – 5 years	More than 5 years	Total
30 June 2020				
Lease liability	37	46	6	89
The expense relating to payments not included in the measurement of the lease liability is as follows:				
Short-term leases	8	–	–	8

Short-term leases are leases that have a duration of 12 months or less from date of inception.

At 30 June 2020 the group was committed to short-term leases and the total commitment at that date was R3 million.

R MILLION	2020	2019
19. SHARE-BASED PAYMENT LIABILITY		
RMI share appreciation rights	30	19
OUTsurance Holdings Limited cash-settled share scheme	91	84
Total share-based payments liability	121	103
Balance at the beginning of the year	103	134
Charge for the year	35	24
Liability settled	(17)	(55)
Balance at the end of the year	121	103
Refer to note 46 for the current/non-current split.		
The income statement charge for share-based payments comprise:		
Equity-settled scheme	(6)	(1)
Cash-settled scheme	(35)	(24)
Total share-based payment expense	(41)	(25)

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 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. The performance conditions for share appreciation rights tranches issued since September 2018 have changed so that 45% of vesting is dependent on growth in normalised earnings of nominal CPI, 45% of vesting is dependent on total shareholders' return of nominal GDP and 10% of vesting dependent on the discretion of the remuneration committee based on the performance of new investments.



19. SHARE-BASED PAYMENT LIABILITY continued

Valuation methodology

The share appreciation rights scheme issues are valued using the Cox Rubenstein binomial tree. The scheme is cash-settled and will thus be 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.
- » 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 Holdings cash-settled share scheme
- » Youi Holdings equity-settled share scheme
- » OUTsurance Holdings Divisional Incentive cash-settled scheme
- » Bateleur cash-settled 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.

OUTsurance Holdings Limited cash-settled share scheme

In terms of the current trust deed, 12% of the issued share capital of the company is potentially available to the employees under the scheme. The OUTsurance Holdings Share Trust and employees currently hold 7.6% (2019: 4.5%) 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 option pricing model with all notional shares (share appreciation rights) vesting in one tranche at the end of year three. The scheme is cash-settled and will thus be repriced at each reporting date.

Market data consists of the following:

- » Since OUTsurance Holdings Limited is not listed, expected volatility is derived with reference to the volatility of RMI. The volatility reflects a 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:

- » 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 Pty Limited 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. Employees of the Youi Holdings Group currently own 15.5% (2019: 15.5%) of the issued ordinary shares of the group.

Valuation methodology

The fair value of share options is determined at grant date and expensed over the vesting period. The fair value of options at grant date 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.

Market data consists of the following:

- » Since Youi Holdings Pty Limited is not listed, expected volatility is derived with reference to similar listed peers and volatility of RMI. The volatility reflects a 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.

19. SHARE-BASED PAYMENT LIABILITY continued

Dividend data consists of the following:

- » Dividend growth is based on the best estimate of expected future dividends.

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.

OUTsurance Holdings Divisional cash-settled scheme

With effect 1 July 2019, a new Divisional Incentive Scheme (DIS) was implemented with the objective to incentivise senior management based on the success of new and emerging business units which are in the South African and Australian operations. These new and emerging business units include OUTsurance Business, OUTsurance Life, OUTvest and Youi Business and are considered to be growth catalysts for the group over the next decade. The Youi incentives will only be established in the next financial year.

The scheme is designed to closely align management and shareholders by mirroring an equity participation in these business units.

The mechanics of the DIS are as follows:

- » The DIS is exposed to the net economic value created by the business unit. This gain is calculated as the difference between increase in the valuation of the business unit and a capital charge levied, on a cumulative basis, on the valuation of the business unit at 1 July 2019. The capital charge is referenced to weighted average cost of capital and reduced for any dividend distributions deemed to have been made from the business unit. Subsequent capital contributions also attract the capital charge.
- » Notional Incentive Units have been created to reference individual participation in each of the business units. These Notional Incentive Units are valued annually in accordance with the net measurement above. The valuation technique applied will be a discounted cash flow model and will be independently reviewed by a valuation specialist.
- » The scheme vests as follows:
 - » 50% of the Notional Incentive Units vest on the 5th anniversary
 - » 25% of the Notional Incentive Units vest on the 6th anniversary
 - » 25% of the Notional Units vest on the 7th anniversary

Participants may elect to defer the exercise of the vested Notional Incentive Units up the 10th anniversary of the DIS.

Upon exercise, participants will receive either OUTsurance Holdings or Youi Holdings ordinary shares depending on the gain released and their participation in the Business Units.

These shares will be held for a year before it can be disposed of at the ruling market value of the shares on date of disposal. The following conditions apply:

- » Minimum group and company normalised earnings hurdles as vesting conditions.
- » The DIS allows for the claw-back of vested gains where warranted by the conduct of the participants.

The scheme is accounted for as a cash-settled scheme for the purposes of IFRS 2. This accounting approach results in the cost of the scheme being expensed through profit and loss over the lifetime thereof. A corresponding liability is recognised until settlement.

The fair value of the scheme is updated annually and calculated with reference to the Black-Scholes option valuation model.

The respective subsidiaries participating in the DIS are allocated the cost associated with the Business Units represented by such entities.

To determine IFRS 2 charge for the financial year ending 30 June 2020, the following input assumptions were used for the Business Units which have commenced trading:

	OUTsurance Business	OUTsurance Life/Invest
Risk-free rate	9.24%	9.24%
Volatility (reduced by 13% cost of capital charge)	15%	15%
Dividend yield (0% yield as cost of capital charge will be reduced by dividends distributed)	0%	0%
Employee exit rate	10%	10%

Bateleur cash-settled share scheme

The Scheme comprises the Option Scheme and the Notional Share Scheme. The purpose of the Scheme is to retain and incentivise Employees by giving them the opportunity to:

- » acquire shares in the company, in terms of the Option Scheme; and
- » participate in the growth in value of the company's shares, in terms of the Notional Share Scheme.

In terms of the current scheme agreement, 24.99% of the issued share capital of the company is potentially available to employees under the scheme.

19. SHARE-BASED PAYMENT LIABILITY continued

Under the cash-settled scheme, participants receive notional shares in terms of the Notional Share Scheme and, if applicable, Options in terms of the Option Scheme. The value of a Notional Share on a Vesting Date (or at any other point in time) will be equal to the market value of a Bateleur Technologies (Pty) Limited Ordinary Share as at the immediately preceding Valuation Date. Participants will receive the after-tax gain in the market value of a vested notional share over the vesting period as a cash payment.

Valuation methodology

The cash-settled scheme issues are valued using a Black Scholes option pricing model with all notional shares (share appreciation rights) and options, if applicable, vesting in four equal tranches, with 25% of the total number of Notional Shares and, if applicable, Options vesting on the first, second, third and fourth anniversaries of the Award. The scheme is cash-settled and will thus be repriced at each reporting date.

Market data consists of the following:

- » Since Bateleur Technologies (Pty) Limited is not listed, 'expected volatility' is derived with reference to similar listed peers, as well as taking into account the specific circumstances affecting the growth of the company.
- » 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 yield assumption is set to zero as the company has no history of paying a dividend.

Employee statistic assumptions

- » The number of rights granted is reduced by the expected staff turnover over the vesting period.

The table below summarises the options issued under the various schemes as at 30 June 2020:

	RMI	OUTsurance cash-settled	Youi equity-settled	OUTsurance Holdings Divisional Incentive cash-settled scheme	Bateleur cash-settled scheme	
					Equity options	Notional shares
Number of options at the beginning of the year (000's)	5 937	73 410	41 800	–	–	–
Adjustment to number of options in force at the beginning of the year (000's)	–	40	–	–	–	–
Range of strike prices of opening balances (cents)	2 645 – 4 341	848 – 1 028	AUS\$ 0.10 – AUS\$ 0.53	–	–	–
Number of options granted/ transferred during the year (000's)	1 114	44 665	39 550	1 845	172	77
Strike price of options granted/ transferred during the year (cents)	3 091	1 034	AUS\$ 0.47	14 048 – 28 934	6 175	6 175
Number of options delivered during the year (000's)	–	(17 120)	–	–	–	–
Range of strike prices on date of delivery (cents)	–	848 – 1 028	–	–	–	–
Number of options cancelled/ forfeited during the year (000's)	(71)	(3 035)	(9 050)	–	–	–
Range of strike prices of forfeited options (cents)	3 941 – 4 341	848 – 1 028	AUS\$ 0.10 – AUS\$ 0.53	–	–	–
Number of options in force at the end of the year (000's)	6 980	97 960	72 300	1 845	172	77
Range of strike prices of closing balances (cents)	2 645 – 4 341	930 – 1 034	AUS\$ 0.41 – AUS\$0.47 AUS\$ 0.41 – AUS\$0.47	14 048 – 28 934 13 195 – 22 180	6 175	6 175
Price per ordinary share*		979			3 525	3 525
Number of scheme participants	9	177	77	53	17	15
Weighted average remaining vesting period (years)	1.14	1.35	1.88	5.25	2	2

19. SHARE-BASED PAYMENT LIABILITY continued

The table below summarises the options issued under the various schemes as at 30 June 2019:

	RMI	OUTsurance cash-settled	Youi equity-settled
Number of options at the beginning of the year (000's)	4 663	64 160	222 427
Adjustment to number of options in force at the beginning of the year (000's)	–	240	–
			AUS\$ 0.10 –
Range of strike prices of opening balances (cents)	2 645 – 4 341	715 to 930	AUS\$ 0.53
Number of options granted/transferred during the year (000's)	1 299	34 555	29 600
Strike price of options granted/transferred during the year (cents)	3 955	1008 to 1028	AUS\$ 0.42
Number of options delivered during the year (000's)	(25)	(18 360)	(197 582)
			AUS\$ 0.10 –
Range of strike prices on date of delivery (cents)	3 937	715 to 930	AUS\$ 0.48
Number of options cancelled/forfeited during the year (000's)	–	(7 185)	(12 645)
			AUS\$ 0.10 –
Range of strike prices of forfeited options (cents)	–	848 to 1008	AUS\$ 0.53
Number of options in force at the end of the year (000's)	5 937	73 410	41 800
			AUS\$ 0.10 –
Range of strike prices of closing balances (cents)	2 645 – 4 341	848 to 1028	AUS\$ 0.53
			AUS\$ 0.10 –
Price per ordinary share*		1 028	AUS\$ 0.51
Number of scheme participants	9	162	64
Weighted average remaining vesting period (years)	3	1.29	2.33

* The price of ordinary shares resets six monthly on the 1st July and 1st January each year.

OUTsurance Holdings Share Trust

OUTsurance Holdings Limited shares are issued to the Trust on the share option grant date. The Trust's investment in OUTsurance Holdings Limited for the year ending 30 June was as follows:

R MILLION	2020	2019
Number of shares and market value		
Number of shares in portfolio at the beginning of the year ('000)	54 639	46 591
Number of shares purchased during the year ('000)	41 180	36 014
Number of shares released during the year ('000)	(12 115)	(27 966)
Number of shares held in portfolio at the end of the year ('000)	83 704	54 639
Market value per share held in portfolio at year-end (Rand)*	9.79	10.28
Market value of portfolio at year-end	819	562
Cost price of treasury shares		
Cost price of shares held in portfolio at the beginning of the year	229	144
Cost price of shares purchased during the year	428	367
Cost price of shares released during the year	(125)	(282)
Cost price of shares held in portfolio at the end of the year	532	229
Loans to the share trust		
Value of loans made to the trust at the beginning of the year	229	144
Value of loans made to the trust at the end of the year	532	229

* The market value of ordinary shares resets six monthly on the 1st July and 1st January each year.



19. SHARE-BASED PAYMENT LIABILITY continued

Youi Holdings Share Trust

Youi Holdings shares are issued to the Trust on the share option grant date. The Trust's investment in Youi Holdings for the year ending 30 June was as follows:

AUS \$'000	2020
Number of shares and market value	
Number of shares purchased during the year ('000)	2 809
Number of shares held in portfolio at the end of the year ('000)	2 809
Market value per share held in portfolio at year-end (Rand)*	0.485
Market value of portfolio at year-end	1 362
Cost price of treasury shares	
Cost price of shares purchased during the year	1 399
Cost price of shares held in portfolio at the end of the year	1 399
Loans to the share trust	
Value of loans made to the trust at the end of the year	1 399

Assumptions:

The following assumptions were applied in determining the cash-settled share-based payment liability:

	OUTsurance Holdings cash-settled scheme	
	2020	2019
Share price (cents)	979	1 028
Exercise price range (cents)	979	848 – 1 028
Remaining duration (years)	0 to 3	0 to 3
Expected volatility	22.0%	22.0%
Risk-free interest rate	7.65%	7.24%
Dividend yield	7.0%	4.0%
Annual employee turnover	7.0%	7.0%

The inputs to the share option pricing model to determine the fair value of equity-settled grants were as follows:

	Divisional Incentive cash-settled scheme	
	OUTsurance Business	OUTsurance Life/OUTvest
Share price (cents)	31 028	15 269
Exercise price range (cents)	31 028	15 269
Remaining duration (years)	4 to 6	4 to 6
Expected volatility (reduced by 13% capital charge)	15.0%	15.0%
Risk-free interest rate	9.24%	9.24%
Dividend yield (0% yield as cost of capital charge will be reduced by dividends distributed)	0.0%	0.0%
Annual employee turnover	10.0%	10.0%

The following assumptions were applied in determining the cash-settled share-based payment liability:

	Bateleur cash-settled scheme	
	Equity options	Notional shares
Share price (cents)	3 125	15 269
Exercise price range (cents)	6 175	15 269
Remaining duration (years)	3	3
Expected volatility	40.0%	40.0%
Risk-free interest rate	5.15%	5.15%
Annual employee turnover	10.0%	10.0%

The fair value of the equity options and notional shares range from R2.56 to R3.50 per share.

19. SHARE-BASED PAYMENT LIABILITY continued

The inputs to the share option pricing model to determine the fair value of equity-settled grants were as follows:

Youi Holdings equity – settled scheme		
	2020	2019
Share price (AUS \$)	AUS \$ 0.47	AUS \$ 0.42
Exercise price range (AUS \$)	AUS \$ 0.47	AUS \$ 0.42
Remaining duration (years)	5	5
Expected volatility	15.0%	22.0%
Risk-free interest rate	6.92%	2.13%
Annual employee turnover	6.0%	8.0%

RMI management 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 *IFRS 2* liability as at 30 June 2020 was Rnil (2019: Rnil).

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 occur after 10 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.

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.

	2020	2019
Number of shares issued at the beginning of the year	29 302	13 376
Number of shares allocated during the year at zero value	5 908	16 321
Number of shares bought back from participants at zero value	(1 180)	(395)
Number of shares issued to participants at the end of the year	34 030	29 302

The shares have a cumulative value of Rnil (2019: Rnil) as at 30 June 2020.



R MILLION	2020	2019
20. PROVISIONS		
Short-term employee benefits		
Staff incentive bonus		
Balance at the beginning of the year	119	189
Dilution of holding in subsidiary to associate	(2)	–
Additional provisions	220	152
Amount utilised during the year	(154)	(220)
Foreign translation difference	8	(2)
Balance at the end of the year	191	119
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 become payable.		
All amounts are expected to be settled within 12 months and are therefore considered to be current.		
21. INSURANCE AND OTHER PAYABLES		
Insurance-related payables		
Due to intermediaries	2	2
Due to reinsurers	118	134
Other payables	10	12
Non-insurance-related payables		
Trade creditors and accrued expenses	124	136
Short-term employee benefits – leave pay liability	242	171
Redeemable preference share dividends payable	95	98
VAT liability	79	55
Indirect tax on debtors	462	386
Other payables	386	315
Total insurance and other payables	1 518	1 309
The outstanding balance of the leave pay liability represents the value of leave due to employees currently in the employ of companies within the group.		
The carrying amount of payables approximates the fair value.		
Refer to note 46 for the current/non-current split.		
22. NET INSURANCE PREMIUMS EARNED		
Long-term insurance contracts		
– Premiums received	539	488
– Policyholders' fees written	13	15
Short-term insurance contracts		
– Premiums written	16 778	15 313
– Policyholders' fees written	19	90
– Change in unearned premium provision	(452)	(219)
Premium revenue arising from insurance contracts issued	16 897	15 687
Long-term reinsurance contracts		
– Premiums payable	(48)	(42)
Short-term reinsurance contracts		
– Premiums payable	(726)	(631)
– Change in unearned premium provision	30	(2)
Premium revenue ceded to reinsurers on insurance contracts issued	(744)	(675)
Net insurance premiums earned	16 153	15 012

R MILLION		2020	2019
23.	FEE AND OTHER INCOME		
	Commission earned from reinsurers, net of deferred acquisition revenue	–	3
	Other income	64	32
	Total fee and other income	64	35
	During the current financial year, the group qualified for a job-creation incentive associated with offshored call centre activities of the Youi Holdings Group, offshored to South Africa. The incentive is accounted for based on the actual incentive qualified for during the year under review.		
24.	INVESTMENT INCOME		
	Investment income	252	211
	– Interest – financial assets at fair value through profit or loss	86	47
	– Dividends – listed equities	80	77
	– Dividends – other financial assets	86	87
	Interest income on financial assets using the effective interest rate method	458	587
	– Interest – financial assets measured at amortised cost	134	172
	– Interest – financial assets at fair value through other comprehensive income	324	415
	Total investment income	710	798
25.	NET FAIR VALUE (LOSSES)/GAINS ON FINANCIAL ASSETS		
	Fair value gains	20	128
	Fair value losses	(441)	(105)
	Net fair value (losses)/gains on financial assets	(421)	23
	Expected credit (losses)/gains on financial assets	(20)	10
	Net fair value (losses)/gains and expected credit (losses)/gains on financial assets	(441)	33
	Net fair value (losses)/gains comprise:		
	Equity securities		
	– Fair value (losses)/gains	(175)	77
	Debt securities	(89)	61
	– Fair value (losses)/gains	(69)	51
	– Expected credit loss	(20)	10
	Derivative instruments	(177)	(105)
	Net fair value (losses)/gains and expected credit (losses)/gains on financial assets	(441)	33



R MILLION		Gross	Re- insurance	Net
26.	INSURANCE BENEFITS AND CLAIMS INCURRED			
30 June 2020				
Short-term insurance		(9 133)	1 609	(7 524)
Claims paid net of salvages and recoveries		(8 546)	1 100	(7 446)
Change in claims provisions		(587)	509	(78)
Long-term insurance				
Claims paid		(177)	55	(122)
Life claims		(154)	51	(103)
Disability claims		(7)	1	(6)
Retrenchment claims		(2)	–	(2)
Critical illness claims		(14)	3	(11)
Total insurance benefits and claims incurred		(9 310)	1 664	(7 646)
30 June 2019				
Short-term insurance		(7 772)	710	(7 062)
Claims paid net of salvages and recoveries		(7 297)	314	(6 983)
Change in claims reserves		(475)	396	(79)
Long-term insurance				
Claims paid		(126)	45	(81)
Life claims		(103)	41	(62)
Disability claims		(11)	2	(9)
Retrenchment claims		(2)	–	(2)
Critical illness claims		(10)	2	(8)
Total insurance benefits and claims incurred		(7 898)	755	(7 143)
R MILLION			2020	2019
Provision for non-claims bonuses				
– Short-term insurance business			(500)	(451)
– Long-term insurance business			–	–
Provision for non-claims bonuses			(500)	(451)
27.	ACQUISITION EXPENSES			
Commission paid			(41)	(45)
Acquisition expenses relate to payments for intermediary sourced business.				

R MILLION	2020	2019
28. MARKETING AND ADMINISTRATION EXPENSES		
Expenses by nature:		
Employee benefit expenses	(2 907)	(2 557)
Professional fees and regulatory compliance costs	(176)	(121)
Depreciation and amortisation (notes 1, 2 and 3)	(135)	(141)
Operating lease expenses	–	(79)
Asset management services	(10)	(11)
Audit fees	(22)	(22)
Loss on sale of property and equipment	(1)	(7)
Other expenses	(1 608)	(1 432)
Total marketing and administration expenses	(4 859)	(4 370)
Employee benefit expenses		
Salaries and incentive bonuses	(2 467)	(2 131)
Retirement funding	(217)	(196)
Service cost relating to intellectual property (amortisation) (note 2)	(96)	(84)
Share-based payment charge (including IAS 19 share liability charge)	(5)	(39)
Medical aid contributions	(122)	(107)
Total employee benefit expenses	(2 907)	(2 557)
Depreciation		
Buildings	(35)	(33)
Leasehold improvements	(2)	(3)
Furniture, fittings and equipment	(51)	(105)
Motor vehicles	(1)	–
Total depreciation (note 1)	(89)	(141)
Depreciation (right-of-use assets)		
Properties	(21)	–
Motor vehicles	(15)	–
Total depreciation (note 3)	(36)	–
Amortisation		
Purchased computer software	(8)	–
Internally generated computer software	(2)	–
Total amortisation (note 2)	(10)	–
Audit fees		
Statutory audit – Current year	(16)	(16)
Fees for other services	(6)	(6)
Total audit fees	(22)	(22)

29. 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, 1956.



R MILLION		2020	2019
30.	FINANCE COSTS		
	Interest on bank borrowings	(76)	(89)
	Dividends on redeemable preference shares	(609)	(640)
	Interest charge related to <i>IFRS 16</i>	(4)	–
	Total finance costs	(689)	(729)
31.	TAXATION		
	South African normal taxation		
	Current taxation		
	– Current year	(773)	(785)
	Deferred taxation		
	– Current year	31	(5)
	Australian taxation		
	Current taxation		
	– Current year	(309)	(303)
	– Prior year	2	1
	Deferred taxation		
	– Current year	20	(4)
	– Prior year	(2)	–
	Total taxation	(1 031)	(1 096)
	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 (including profit from discontinued operations)	2 941	5 470
		%	%
	Effective tax rate	34.36	20.04
	Income not subject to taxation	2.59	0.66
	Finance costs not deductible	(5.20)	(3.73)
	Expenses not deductible due to the large proportion of dividends received in a holding company structure	(2.03)	(0.84)
	Fair value adjustments	(1.18)	(0.87)
	Income taxation rate differential	(0.64)	(0.36)
	Capital gains tax	(1.29)	0.06
	Deferred tax asset not recognised	(1.62)	(0.33)
	Associates equity accounted using after-taxation profits	3.01	13.37
	Standard income taxation rate in South Africa	28.00	28.00

R MILLION	2020	2019
32. CASH FLOWS FROM OPERATING ACTIVITIES		
Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation (including profit from discontinued operations)	2 941	5 470
Adjusted for:		
Loss on sale of property and equipment	1	7
Profit on sale of New Zealand insurance business	(103)	–
Foreign currency translation difference	(724)	(112)
Equity accounted earnings	(259)	(2 612)
Depreciation - Property and equipment	89	141
Depreciation - Right of use asset	36	–
Amortisation of intangible assets	10	–
Service cost relating to intellectual property	96	84
Intellectual property bonuses paid	(120)	(30)
Provisions	100	(101)
Share option expenses	35	19
Cash paid in terms of share option liability	(13)	(55)
Investment income	(710)	(799)
Finance costs	689	729
Termination of leases	2	–
Net fair value losses on assets at fair value through profit or loss	578	41
Fair value adjustment to financial liabilities	–	(28)
Purchase of treasury shares of subsidiary by share scheme participants	125	282
Purchase of treasury shares of subsidiary by share trust from share scheme participants	(428)	(367)
Other non-cash items	(12)	207
Changes in insurance balances:		
– Gross provision for unearned premiums	330	214
– Reinsurers' share of provisions for unearned premiums	(30)	(4)
– Provision for cash bonus on insurance contracts	498	449
– Cash bonus paid on insurance contracts	(444)	(415)
– Insurance contracts	1 143	83
– Deferred acquisition costs	(103)	(53)
Investment contracts	24	–
Changes in working capital		
Current receivables and prepayments	(775)	(137)
Current payables and provisions	212	161
Cash generated from operations	3 188	3 174
Net debt reconciliation		
Opening balance	(9 675)	(10 023)
Movement in cash and cash equivalents	811	(815)
Movement in gross borrowings–fixed rate	(4 509)	33
Movement in gross borrowings–variable rate	4 030	1 130
Net debt	(9 343)	(9 675)
Current	2 413	1 602
Due within 1 year	(100)	(6 998)
Due within 2 to 5 years	(11 656)	(4 279)
Net debt	(9 343)	(9 675)



R MILLION	2020	2019
33. EARNINGS PER SHARE		
Earnings per share is calculated by dividing the earnings attributable to shareholders by the weighted number of ordinary shares in issue during the year.		
Continuing and discontinued operations		
Earnings attributable to ordinary shareholders	1 592	4 047
Weighted average number of ordinary shares in issue (full amount)	1 529 280 375	1 526 456 819
Earnings per share (cents)	104.1	265.1
Earnings attributable to ordinary shareholders	1 592	4 047
Dilution on earnings from associates	(21)	(17)
Diluted earnings attributable to ordinary shareholders	1 571	4 030
Weighted average number of ordinary shares in issue (full amount)	1 529 280 375	1 526 456 819
Diluted earnings per share (cents)	102.7	264.0
Continuing operations		
Earnings attributable to ordinary shareholders	1 512	4 040
Weighted average number of ordinary shares in issue (full amount)	1 529 280 375	1 526 456 819
Earnings per share (cents)	98.9	264.6
Earnings attributable to ordinary shareholders	1 512	4 040
Dilution on earnings from associates	(21)	(17)
Diluted earnings attributable to ordinary shareholders	1 491	4 023
Weighted average number of ordinary shares in issue (full amount)	1 529 280 375	1 526 456 819
Diluted earnings per share (cents)	97.5	263.5

R MILLION		2020	2019
34. 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.			
Headline earnings reconciliation			
Earnings attributable to ordinary shareholders		1 592	4 047
Adjustments for:		364	(246)
– Impairment of intangible assets		192	23
– Impairment of owner-occupied building below cost		152	14
– Profit on sale of subsidiary		(111)	(2)
– Loss/(gain) on dilution and disposal of equity accounted investments		62	(129)
– Derecognition of assets		38	–
– Impairments relating to held for sale entities		14	24
– FCTR reversal on sale of foreign subsidiary		12	–
– Impairment of goodwill		2	4
– Loss on step-up of joint venture		2	–
– Loss on disposal of property and equipment		1	5
– Gain on previously held interests in DiscoveryCard business		–	(191)
– Impairment of fixed assets		–	6
Headline earnings attributable to ordinary shareholders		1 956	3 801
Continuing and discontinued operations			
Headline earnings attributable to ordinary shareholders		1 956	3 801
Weighted average number of ordinary shares in issue (full amount)		1 529 280 375	1 526 456 819
Headline earnings per share (cents)		127.9	249.0
Headline earnings attributable to ordinary shareholders		1 956	3 801
Dilution on earnings from associates		(26)	(18)
Diluted headline earnings attributable to ordinary shareholders		1 930	3 783
Weighted average number of ordinary shares in issue (full amount)		1 529 280 375	1 526 456 819
Diluted headline earnings per share (cents)		126.2	247.8
Continuing operations			
Headline earnings attributable to ordinary shareholders		1 954	3 794
Weighted average number of ordinary shares in issue (full amount)		1 529 280 375	1 526 456 819
Headline earnings per share (cents)		127.8	248.5
Headline earnings attributable to ordinary shareholders		1 954	3 794
Dilution on earnings from associates		(26)	(18)
Diluted headline earnings attributable to ordinary shareholders		1 928	3 776
Weighted average number of ordinary shares in issue (full amount)		1 529 280 375	1 526 456 819
Diluted headline earnings per share (cents)		126.1	247.4
35. DIVIDEND PER SHARE			
Total dividends paid during the year		1 685	1 679
Total dividends declared relating to the profit for the year		689	1 685
Number of issued shares at the beginning of the year		1 531 807 770	1 522 719 206
– Shares issued on 22 October 2018		–	9 088 564
Number of issued shares at the end of the year		1 531 807 770	1 531 807 770
Dividend declared per share (cents)		45.0	110.0



36. RELATED PARTIES

Principal shareholders

Details of major shareholders are disclosed in the directors' report. The principal shareholders are Remgro Limited and Royal Bafokeng Holdings Proprietary Limited (2019: 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 directors' report.

Subsidiaries

Details of income from and investments in RMI's main subsidiaries are disclosed in note 40.

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
- » OUTsurance Properties Proprietary Limited
- » OUTvest Nominees RF Proprietary Limited
- » OUTvest Proprietary Limited
- » Bateleur Technologies Proprietary Limited
- » Youi Proprietary Limited (South Africa)
- » Youi Holdings Proprietary Limited
- » Youi Proprietary Limited (Australia)
- » Youi New Zealand Proprietary Limited
- » Youi Properties Proprietary Limited
- » RMI Treasury Company Limited
- » RMI Asset Holdings Proprietary Limited
- » Firness International Proprietary Limited
- » AlphaCode Proprietary Limited
- » RMI Investment Managers Group 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
- » RMI Invest Four Proprietary Limited
- » RMI Invest Five Proprietary Limited
- » RMI Invest Six Proprietary Limited
- » Main Street 1353 Proprietary Limited

Associates

» Details of income from and investments of RMI's main associates are disclosed in note 39.

» The following companies are associates of RMI:

- » Discovery Limited
- » Momentum Metropolitan Holdings Limited
- » OUTsurance Insurance Company of Namibia Limited
- » AutoGuru Australia Proprietary 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
- » Granate Asset Management Proprietary Limited
- » Ethos Private Equity Proprietary Limited
- » Royal Investment Managers Proprietary Limited
- » Merchant Capital Advisory Services Proprietary Limited
- » Entersekt Proprietary Limited
- » Entersekt International Limited
- » Sancreed Proprietary Limited (Guidepost)
- » Hastings Group Holdings plc
- » Perpetua Investment Managers Proprietary Limited

R MILLION	2020	2019
Related party transactions		
Transactions of RMI and its subsidiary companies with:		
Principal shareholders		
Dividends paid	762	756
Key management personnel		
Salaries and other benefits	14	14
Value of share appreciation rights vesting	2	1
	16	15
Transactions of RMI's key management with associates of the group		
Investment products		
Balance at the beginning of the year	1 217	1 288
Net withdrawals	(203)	(32)
Net investment return	23	(36)
Commission and other transaction fees	(3)	(3)
Balance at the end of the year	1 034	1 217
Associates		
Income statement effect:		
– Dividends received	1 094	1 009
– Investment income	5	9
– Administration fees received	222	153
– Retirement fund contributions	110	107
– Group life	10	9
– Disability premiums	10	9
– Medical aid premiums paid	121	107
Effect on the statement of financial position:		
– Preference share investment	34	48
– Administration fee receivable	3	3
– Loan	104	55
– Collective investment scheme investment	124	136



37. SUBSEQUENT EVENTS, CONTINGENCIES AND COMMITMENTS

Subsequent events

Corporate actions after 30 June 2020

On 5 August 2020, RMI announced its intention to transfer its 29.7% holding in Hastings Group Holdings plc to a newly formed BidCo incorporated in the United Kingdom in exchange for a 29.7% equity stake in BidCo. RMI will then increase its equity stake in BidCo to 30%. Sampo, a leading Nordic insurance group listed on the Nasdaq Helsinki, intends to acquire a 70% equity stake in BidCo. The cash proceeds will be utilised to acquire the remaining 70% shareholding in Hastings. The intention is then to delist Hastings, with RMI holding an option to acquire another 10% of BidCo from Sampo at the transaction price for a period of 18 months from the conclusion of the transaction. The transaction is still subject to all the necessary regulatory approval in the United Kingdom and Gibraltar and European Commission antitrust approval and it is expected that the transaction will become effective in late 2020.

RMI sold its investment in Luno to Digital Currency Group in September 2020.

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 that comprise the following:

- » RMI acquired a 25.1% equity stake in Merchant Capital in September 2015.
- » A junior loan facility to Merchant Capital of not more than R9 228 000.
- » A senior loan facility to Merchant Capital of not more than R200 000 000.

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 2020, R95 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

In 2020, the new lease standard, *IFRS16*, was applied. Details of the group's obligations can be found in note 18.

38. 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 B-BBEE 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:

%	2020	2019
Discovery effective	25.1%	25.1%
Discovery actual	25.0%	25.0%
Hastings effective	29.7%	29.9%
Hastings actual	29.7%	29.9%
MMH effective	27.7%	27.5%
MMH actual	27.3%	27.3%
OUTsurance effective	91.1%	90.4%
OUTsurance actual	89.1%	89.1%
RMI Investment Managers effective	100.0%	100.0%
RMI Investment Managers actual	100.0%	100.0%
Merchant Capital effective	24.8%	25.8%
Merchant Capital actual	24.8%	25.8%
Entersekt effective	28.2%	25.1%
Entersekt actual	28.2%	25.1%
Guidepost effective	25.1%	–
Guidepost actual	25.1%	–

39. 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 45 for a description of the business activities of Discovery, Momentum Metropolitan and Hastings.

R MILLION	2020	2019
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)	164 811	161 945
Interest held (%) (after consolidation of share trust)	25.1%	25.1%
Total net asset value of Discovery Limited	44 549	43 083
Perpetual preference share capital	(779)	(779)
Net asset value attributable to ordinary shareholders	43 770	42 304
RMI's effective interest in net asset value	10 986	10 618
Notional goodwill	1 031	1 031
Group carrying value	12 017	11 649
The group carrying value comprises:		
RMI's effective interest in at acquisition net asset value	4 083	4 083
Notional goodwill	1 031	1 031
Cost price of investment	5 114	5 114
RMI's effective interest in post-acquisition movement in net asset value	6 903	6 535
Group carrying value	12 017	11 649
Market value of the 25% stake (actual holding)	17 231	24 575
Income attributable to RMI for the year	25	1 638
Less: Dividends received	(354)	(351)
Share of retained (loss)/income for the year	(329)	1 287



R MILLION	2020	2019
39. ASSOCIATES continued		
DISCOVERY LIMITED continued		
Statement of financial position		
Assets		
Assets arising from insurance contracts	48 042	48 781
Property and equipment	4 643	4 212
Intangible assets and deferred acquisition costs	7 013	6 133
Assets arising from contracts with clients	954	752
Goodwill	5 070	4 642
Investment in associates	2 713	1 950
Financial assets	119 891	101 538
Deferred taxation	3 511	2 372
Current income tax asset	182	136
Reinsurance contracts	400	314
Cash and cash equivalents	17 909	9 403
Total assets	210 328	180 233
Shareholders' equity and liabilities		
Total equity	44 553	43 083
Liabilities arising from insurance contracts	82 411	70 522
Liabilities arising from reinsurance contracts	12 465	10 835
Financial liabilities	46 267	35 865
Deferred taxation	8 514	8 697
Deferred revenue	–	–
Contract liabilities to clients	808	433
Employee benefits	284	260
Trade and other payables	14 233	10 262
Current income tax liability	793	276
Total shareholders' equity and liabilities	210 328	180 233
Net insurance premium revenue	43 467	37 441
Statement of comprehensive income		
Profit for the year	176	6 614
Other comprehensive income for the year	2 663	(334)
Total comprehensive income for the year	2 839	6 280
Contingencies and commitments	577	479
Reconciliation of headline earnings to normalised earnings¹		
Headline earnings	296	5 147
Economic assumption adjustments net of discretionary margin and interest rate derivative	3 584	–
Deferred tax asset raised on assessed losses	(275)	(326)
Unrealised (gains)/losses on foreign exchange contracts not designated as a hedge	(189)	97
Time value of money movement of swap contract in VitalityLife	97	–
Restructuring costs: VitalityLife	80	–
Amortisation of intangible assets relating to business combinations	60	84
Initial expenses related to Prudential Book transfer	57	23
Transaction costs related to VitalityLife	37	–
Policyholder fund assessed loss	–	(38)
Debt restructuring costs resulting from DiscoveryCard joint venture transaction	–	33
Costs relating to disposal of equity accounted investments net of tax	–	15
Normalised earnings	3 747	5 035

¹ Normalised earnings is headline earnings adjusted for non-recurring items and accounting anomalies.

R MILLION	2020	2019
39. ASSOCIATES continued		
MOMENTUM METROPOLITAN 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)	401 048	401 048
Interest held (%) (after consolidation of share trust)	27.7%	27.5%
Total net asset value of Momentum Metropolitan Holdings Limited	22 947	23 546
Non-controlling interest	(410)	(526)
Net asset value attributable to ordinary shareholders	22 537	23 020
RMI's effective interest in net asset value	6 242	6 337
Notional goodwill	153	153
Treasury shares	(90)	(81)
Group carrying value	6 305	6 409
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	100	195
Treasury shares	(90)	(81)
Group carrying value	6 305	6 409
Market value of the 27.3% stake (actual holding) (2019: 27.3%)	7 062	7 608
Income attributable to RMI for the year	39	581
Less: Dividends received	(301)	(140)
Share of retained (loss)/profit for the year	(262)	441
Statement of financial position		
Assets		
Intangible assets	10 339	9 633
Owner-occupied properties	3 598	3 698
Property and equipment	387	381
Investment properties	9 042	9 034
Properties under development	118	192
Investments in associates	905	792
Employee benefits assets	652	469
Financial instrument assets	436 630	438 375
Insurance and other receivables	5 371	5 286
Deferred taxation	862	599
Reinsurance contracts	6 142	5 912
Current tax asset	371	184
Assets relating to disposal groups held for sale	229	989
Cash and cash equivalents	31 747	27 061
Total assets	506 393	502 605



R MILLION	2020	2019
39. ASSOCIATES continued		
MOMENTUM METROPOLITAN HOLDINGS LIMITED continued		
Shareholders' equity and liabilities		
Total equity	22 947	23 546
Insurance contract liabilities	125 841	129 869
Reinsurance contract liabilities	2 277	1 912
Financial instrument liabilities	330 730	316 423
Deferred taxation	2 926	3 222
Employee benefits obligations	1 228	1 339
Other payables	19 979	24 976
Provisions	76	112
Liabilities relating to disposal groups held for sale	151	747
Current tax liability	238	459
Total shareholders' equity and liabilities	506 393	502 605
Net insurance premiums	33 281	36 801
Statement of comprehensive income		
Profit for the year	286	2 410
Other comprehensive income/(loss) for the year	665	(57)
Total comprehensive income for the year	951	2 353
Contingencies and commitments	924	1 094
Reconciliation of headline earnings to normalised earnings		
Headline earnings	1 036	2 474
Amortisation of intangible assets relating to business combinations	466	522
Momentum Metropolitan shares held by policyholder funds	(18)	35
B-BBEE cost	–	23
Normalised earnings	1 484	3 054
Finance costs – convertible preference shares	37	37
Dilutory effect of subsidiaries	–	(17)
Diluted normalised earnings¹	1 521	3 074

¹ Diluted normalised earnings is headline earnings adjusted for non-recurring items and accounting anomalies as well as the impact on earnings relating to convertible preference shares.

R MILLION	2020	2019
39. ASSOCIATES continued		
HASTINGS GROUP HOLDINGS PLC		
Financial year	31 December	31 December
	Year to	Year to
	30 June 2020	30 June 2019
Period used for equity accounting	UK	UK
Country of incorporation	196 508	196 508
Number of shares held ('000)	29.7%	29.9%
Interest held (%)		
Net asset value attributable to ordinary shareholders of Hastings (including intangible assets recognised)	15 094	12 563
RMI's effective interest in net asset value	4 484	3 754
Notional goodwill	5 544	5 544
Group carrying value	10 028	9 298
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	5 544
Cost price of investment	8 556	8 556
RMI's effective interest in post-acquisition net asset value	1 472	742
Group carrying value	10 028	9 298
Market value of the 29.7% stake¹	8 117	6 912
Income attributable to RMI for the year	347	427
Less: Dividends received	(412)	(486)
Share of retained loss for the year	(65)	(59)
Statement of financial position as at 30 June		
Assets		
Goodwill	10 070	8 452
Intangible assets	1 990	1 467
Property and equipment	510	417
Deferred income tax assets	161	86
Reinsurance assets	29 395	24 276
Deferred acquisition costs	771	629
Prepayments	221	156
Current tax assets	116	–
Insurance and other receivables	9 264	8 743
Financial assets at fair value	13 074	10 205
Cash and cash equivalents	5 148	2 714
Total assets	70 720	57 145
Shareholders' equity and liabilities		
Total equity	14 276	11 469
Loans and borrowings	5 266	4 402
Insurance contract liabilities	43 875	35 705
Insurance and other payables	7 097	5 301
Deferred income tax liabilities	206	115
Current tax liabilities	–	153
Total shareholders' equity and liabilities	70 720	57 145
Net earned premiums	4 281	3 952

¹ An impairment test was performed on the basis of calculating the recoverable amount as the higher of the fair value less cost to sell and the value-in-use. The value-in-use was calculated on a discounted cash flow basis which indicated that the asset was not impaired as at 30 June 2020 (2019: No impairment). After the announcement of the intended transaction on 5 August 2020 as described in note 37, the share price of Hastings increased above the group carrying value.

R MILLION	2020	2019
39. ASSOCIATES continued		
HASTINGS GROUP HOLDINGS PLC continued		
Statement of comprehensive income for the six months ended 30 June		
Profit for the six months	1 072	700
Other comprehensive income for the six months	43	117
Total comprehensive income for the six months	1 115	817
Contingencies and commitments	728	545
Reconciliation of headline earnings to normalised earnings ¹		
Headline earnings for the six months	1 072	700
Amortisation of intangible assets relating to business combinations	18	20
Normalised earnings for the six months	1 090	720

1 Normalised earnings is 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.

R MILLION	Total comprehensive income	Assets	Liabilities
30 June 2020			
RMI Investment Managers associates	88	1 140	269
AlphaCode associates	(44)	651	539
OUTsurance associates	21	267	154
30 June 2019			
RMI Investment Managers associates	69	1 072	300
AlphaCode associates	(72)	457	425
OUTsurance associates	(32)	239	167

R MILLION	2020	2019
40. SUBSIDIARIES		
Unlisted subsidiaries		
OUTSURANCE HOLDINGS LIMITED¹		
Financial year	30 June	30 June
Year used for consolidation	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held ('000)	3 385 573 803	3 385 573 803
Interest held (%) (after consolidation of share trust)	91.1%	90.4%
Equity shares at cost	8 271	8 271
Net profit for the year	2 540	2 182
Valuation of RMI's investment	33 145	35 582
Results for the year ended 30 June		
Income statement		
Gross insurance premiums	17 349	15 906
Less: Reinsurance premiums	(774)	(678)
Net insurance premiums	16 575	15 228
Change in provision for unearned premiums net of reinsurance	(422)	(216)
Net insurance premiums earned	16 153	15 012
Fee income	26	12
Investment income	132	116
Interest income on financial assets using the effective interest rate method	389	452
Net fair value (losses)/gains on financial assets	(295)	81
Net income	16 405	15 673
Gross claims paid	(9 310)	(7 898)
Reinsurance recoveries received	1 664	755
Provision for non-claims bonuses	(500)	(450)
Transfer to policyholder liabilities under insurance contracts	(34)	(122)
Acquisition expenses	(41)	(45)
Fair value adjustment to financial liabilities	(139)	(169)
Marketing and administration expenses	(4 734)	(4 215)
Result of operating activities	3 311	3 529
Finance costs	(8)	–
Share of after-tax results of associates	120	158
Impairment of investment in associate ²	–	(450)
Profit before taxation	3 423	3 237
Taxation	(988)	(1 064)
Profit for the year from continuing operations	2 435	2 173
Profit for the year from discontinued operations	104	9
Profit for the year	2 539	2 182

¹ Held via Firness International Proprietary Limited and RMI Asset Holdings Proprietary Limited.

² When OUTsurance acquired its interest in Main Street 1353 Proprietary Limited in 2017, the initial take-on value was marked-to-market to reflect the significant appreciation in the share price of Hastings Group Holdings plc between the date on which the purchase agreement was reached to acquire the interest and the effective date. This movement resulted in a derivative gain of R750 million being capitalised to the carrying value of the investment in Main Street 1353 Proprietary Limited. This accounting treatment resulted in the initial carrying value being significantly above the actual acquisition cost of the investment. The R450 million associate impairment relates to the impairment in Main Street 1353 Proprietary Limited.



R MILLION	2020	2019
40. SUBSIDIARIES continued		
Non-controlling interest relating to Youi Holdings Proprietary Limited		
Balance at the beginning of the year	484	199
Profit attributable to non-controlling interests (15.5% in underlying subsidiary (2019: 15.5%))	122	82
FCTR attributable to non-controlling interests	107	(15)
Shares issued to non-controlling interest	–	213
Dividends paid	(70)	(111)
Transactions with non-controlling interests	(7)	116
Total non-controlling interest in respect of Youi Holdings Proprietary Limited	636	484
Non-controlling interest relating to OUTsurance Holdings Limited		
Balance at the beginning of the year	976	1 047
Non-controlling interest portion of change in accounting policy	–	(3)
Profit attributable to non-controlling interests (9.3% (2019: 9.9%))	225	253
Dividends paid	(245)	(250)
Non-controlling interest in other reserves	70	–
Movement in shares acquired from non-controlling interests	–	(48)
Movement in treasury shares	(90)	(23)
Total non-controlling interest in respect of OUTsurance Holdings Limited	936	976
Reconciliation of shares acquired from minorities		
Movement in transactions with non-controlling interests reserve	–	(142)
Movement in non-controlling interest	–	(48)
Cash paid for additional shares acquired from non-controlling interests	–	(190)
Current assets	14 089	11 729
Non-current assets	9 222	8 220
Current liabilities	10 092	7 755
Non-current liabilities	1 732	1 216
Cash inflow from operating activities	(944)	110
Cash outflow from investing activities	65	34
Cash (outflow)/inflow from financing activities	(224)	116
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)	149	142
Interest held (%)	100.0%	100.0%
Equity shares at cost	719	708
Net loss for the year	3	(11)
Valuation of RMI's investment	719	708
Results for the year ended 30 June		
Fee and other income	5	8
Investment income	1	2
Net fair value losses	(1)	–
Marketing and administration expenses	(21)	(35)
Result of operating activities	(16)	(25)
Finance costs	(1)	(2)
Share of after-tax results of associates	21	15
Profit/(loss) before taxation	4	(12)
Taxation	(1)	1
Profit/(loss) for the year	3	(11)

R MILLION	2020	2019
40. SUBSIDIARIES 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	142	86
Loss attributable to non-controlling interests (49% in underlying subsidiary (2019: 49%))	(28)	(8)
Transactions with non-controlling interest	11	64
Total non-controlling interest in respect of RMI Investment Managers Group Proprietary Limited	125	142
Current assets	15	48
Non-current assets	882	838
Current liabilities	11	12
Non-current liabilities	49	62
Cash outflow from operating activities	(18)	(15)
Cash outflow from investing activities	(11)	(226)
Cash (outflow)/inflow from financing activities	(2)	263
Total non-controlling interests		
Youi Holdings Proprietary Limited	636	484
OUTsurance Holdings Limited	936	976
RMI Investment Managers Group Proprietary Limited	125	142
Total non-controlling interests	1 697	1 602

41. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The table 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.



41. 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 2020				
Financial assets				
Equity securities				
– Exchange traded funds	1 023	–	–	1 023
– Listed preference shares	303	–	–	303
– Collective investment schemes	–	114	–	114
– Listed equity securities	112	–	–	112
– Unlisted equity securities	–	–	475	475
Debt securities				
– Unsecured loans	–	18	42	60
– Zero-coupon deposits	–	858	–	858
– Convertible loan	–	–	11	11
– Government, municipal and public utility securities	–	128	–	128
– Money market securities	–	3 077	–	3 077
– Collective investment schemes	–	10	–	10
– Other debt securities at fair value through profit or loss	–	–	384	384
Total financial assets recognised at fair value	1 438	4 205	912	6 555
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	104	104
Investment contract liability	–	24	–	24
Derivative liability	–	283	–	283
Total financial liabilities recognised at fair value	–	307	104	411

R MILLION	2020	2019
Reconciliation of movement in level 3 assets		
Balance at the beginning of the year	696	798
Reclassification to amortised cost	–	(270)
Additions in the current year	396	154
Disposals (sales and redemptions)	(46)	(15)
Fair value movement	(134)	60
Investment income accrued	–	31
Dividends received	–	(62)
Balance at the end of the year	912	696
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	104	132
Preference dividends charged to profit or loss	139	169
Preference dividends paid	(139)	(197)
Balance at the end of the year	104	104

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 accrue on a monthly basis.

R MILLION	Level 1	Level 2	Level 3	Total carrying amount
41. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued				
30 June 2019				
Financial assets				
Equity securities				
– Exchange traded funds	905	–	–	905
– Listed preference shares	389	–	–	389
– Collective investment schemes	–	115	–	115
– Listed equity securities	184	–	–	184
– Unlisted equity securities	–	–	190	190
Debt securities				
– Unsecured loans	–	–	37	37
– Unlisted preference shares	–	–	–	–
– Zero-coupon deposits	–	590	–	590
– Government, municipal and public utility securities	–	400	–	400
– Money market securities	–	2 643	–	2 643
– Collective investment schemes	–	21	–	21
– Other debt securities at fair value through profit or loss	–	–	469	469
Derivative asset	–	36	–	36
Total financial assets recognised at fair value	1 478	3 805	696	5 979
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	104	104
Derivative liability	–	99	–	99
Total financial liabilities recognised at fair value	–	99	104	203

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 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 fifty 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 derivatives, debt and short-term money market instruments where the value is determined by using a market observable input, e.g. JIBAR, prime rate, foreign currency rates, listed bond rates of similar instruments, without significant adjustments.

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 and are typically listed on the JSE Interest Rate Market. These listed instruments 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.

The collective investment scheme is fair valued monthly by multiplying the number of units held by the closing market price which is based on the most recently available observable inputs.

Zero-coupon deposits are not traded actively during a financial reporting period and are classified as Level 2 financial instruments.

The group uses zero-coupon deposits to offset the interest rate risk inherent in 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 Johannesburg Securities Exchange 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. The zero-coupon deposits have specifically remained classified as fair value through profit or loss under the 'accounting mismatch' rule as these financial assets have specifically been acquired to match the non-claims bonus portion of the policyholder liability.



41. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

Level 2 continued

The group makes use of an interest rate swap as well as a collateralised swap arrangement to manage the interest rate risk contained in the non-bonus portion of the policyholder liability. The interest rate swap is a fixed for floating instrument. The fixed leg is priced at a fixed percentage plus a contractually agreed basis point adjustment and the floating leg is priced at 3 month JIBAR. The fair value of the collateralised swap arrangement, whereby the R2048 government bond serves as collateral and is the underlying, is determined in the same manner as other money market instruments held by the group.

The group makes use of forward exchange contracts to reduce the impact of the currency risk contained in its open foreign currency exposure. The fair value of forward exchange contracts are determined using the spot closing exchange rate at the statement of financial position date.

Whilst the above instruments are not traded on an active market, the variable inputs relating to their valuation are readily available in the market place. The remaining inputs have been contractually agreed and are reflective of market-related terms and conditions.

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 the following:

- » Profits arising out of the profit-sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends biannually to FirstRand Bank 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.
- » B-BBEE Supplier Development Scheme loan.
- » The loan with AutoGuru Australia Pty Limited (AutoGuru). The only significant unobservable input in the calculation is the market value of the AutoGuru shares, as this is an unlisted private company.
- » Unlisted equity.

A specific valuation technique is used to value the Level 3 financial instruments which represents an accrued profit related to the FirstRand Bank Limited Homeowners profit-sharing arrangement:

- » The fair value is determined based on valuation techniques where the input is determined by management, and is not readily available in the market or where market observable input is significantly adjusted, i.e. profits arising out of profit-sharing arrangements.
- » 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 are made in the form of preference dividends.

The profit or loss of these profit-sharing arrangements is sensitive to:

- » claims ratio of the pool of business;
- » expense ratio of the pool of business; and investment income on this pool of business.

A specific valuation technique is used to value the AutoGuru convertible loan:

- » The fair value is determined based on valuation techniques where the input is determined by management, and is not readily available in the market or where market observable input is significantly adjusted, i.e. market value of the AutoGuru ordinary shares as well as a risk adjusted market interest rate.

Included as a Level 3 financial asset is the loan made to the ASISA Enterprise Development Fund to the value of R49 million. This loan relates to funding provided for a B-BBEE supplier development scheme that the group is partaking in. The loan has a five-year term with no contractual interest rate. In calculating the fair value of the loan at 30 June 2020, the interest rate attached to a risk-free government bond with a term based on the remaining contract period at the date of fair value measurement was utilised as the discount rate. This resulted in the value of R49 million being discounted at 5.04% (2019: 7.75%), arriving at a fair value of R42.3 million (2019: R36.9 million). This discount will unwind over the remaining maturity period.

42. DISCONTINUED OPERATIONS

On 25 September 2019 OUTsurance Holdings Limited agreed to transfer the New Zealand insurance portfolio business to Tower Insurance Limited, New Zealand's third largest general insurer for consideration of N\$12.6 million. Following regulatory approval by the Reserve Bank of New Zealand, the transfer was effected on 31 December 2019.

The insurance business was not previously classified as held for sale or as a discontinued operation. The comparative consolidated income statement has been represented to show the discontinued operation separately from continuing operations.

The sale provides an opportunity for Youi to unlock value on favourable terms and, going forward, will allow the Youi group to focus on its Australian business where the greater scale and diversity of the market offers more growth opportunities for a challenger brand like Youi.

R MILLION	2020	2019
Income statement		
Gross insurance premium	106	229
Outward reinsurance premiums	(89)	(183)
Net premiums	17	46
Change in provision for unearned premiums	8	5
Earned premiums, net of reinsurance	25	51
Commission income	33	72
Interest income on financial assets using the effective interest rate method	1	1
Income	59	124
Policyholder benefits on insurance contract net of reinsurance	(14)	(29)
Gross policyholder benefits under insurance contract	(54)	(116)
Reinsurers' share of insurance contract claims	40	87
Marketing and administration expenses	(44)	(86)
Result of operating activities	1	9
Profit on sale of business unit	103	–
Net profit for the year from discontinued operations	104	9

There were no items that affected other comprehensive income and therefore the reconciliation of other comprehensive income has not been disclosed.

R MILLION	2019
Statement of financial position	
Carrying value amounts of assets and liabilities as at date of sale were:	
Assets	
Reinsurance share of insurance contract provisions	23
Financial assets – Amortised cost	42
Insurance and other receivables	92
Total assets	157
Liabilities	
Insurance contract liabilities	145
Insurance and other payables	12
Total liabilities	157



43. CHANGES IN ACCOUNTING POLICIES

The *IFRS 16* classification, measurement, presentation and disclosure requirements are applied using the modified retrospective approach. Therefore, the cumulative effect of adopting *IFRS 16* was recognised as an adjustment to the opening retained earnings and deferred tax balances of the statement of financial position, with no restatement of comparatives.

The weighted average incremental borrowing rates applied to the lease liabilities range from 2.55% to 10.25%.

On date of initial application, 1 July 2019, the lease liability of the group was as follows, with any reclassifications noted:

R MILLION	2019
Operating lease commitments disclosed as at 30 June 2019	86
(Less): contracts reassessed as service agreements	(4)
Add: Contracts reassessed under <i>IFRS 16</i>	17
Restated operating lease commitments as at 30 June 2019	99
Discounted using the lessee's incremental borrowing rate on 1 July 2019	93
(Less): short-term leases recognised on a straight-line basis as expense	(2)
Lease liability recognised as at 1 July 2019	91
Of which are:	
Current lease liabilities	25
Non-current lease liabilities	66
	91

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

R MILLION	2020	2019
Properties	58	67
Equipment	25	–
Motor vehicles	–	23
Total right-of-use assets	83	90

The change in accounting policy affected the following items in the statement of financial position on 1 July 2019:

R MILLION	30 June 2019	Change	1 July 2019
Lease liabilities (note 18)	–	91	91
Right-of-use assets (note 3)	–	90	90
Equity accounted reserves	7 107	(18)	7 089

Segment assets and segment liabilities both increased as a result of the change in accounting policy. The right-of-use asset of R83 million and the lease liability of R89 million relate to OUTsurance in the group's segmental analysis.

There has been no change in earnings per share with the adoption of *IFRS 16*.

In applying *IFRS 16* for the first time, the group has used the following permitted practical expedients:

- » reliance on previous assessments on whether leases are onerous;
- » the accounting for leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- » the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- » the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying *IAS 17* and *IFRIC 4: Determining whether an Arrangement contains a Lease*.

44. IMPACT OF THE COVID-19 PANDEMIC AND GOING CONCERN POSITION

Material subsidiary – OUTsurance

Operational impact

Since the commencement of the lockdown period, all the operations of the group have adapted well to continue to service clients and maintain all key operational processes. The business continuity approach has allowed for the majority of the workforce to work remotely with a minimum presence at our respective campuses. The latter is influenced by the COVID-19 conditions in each country or region together with regulations which are strictly adhered to.

All our operational entities are well equipped to continue working remotely and maintain operations in a protracted pandemic scenario.

The key operating entities have delivered satisfactory new business and policy lapse experience over the last quarter of the 2020 financial year, the period most impacted by the pandemic. New business levels have largely recovered to levels before the outbreak of the pandemic. Although marginally higher, policy lapses have also remained in range with the experience before the pandemic. There is a risk of lapse rates increasing within a continued economic downturn. At reporting date this risk is not considered material to the going concern status of any of the operating entities or the group.

We forecast that motor claims frequencies will remain lower than historic average until such time that full economic activity is resumed, and the lockdown restrictions are lifted. A lower motor claims frequency will result in lower claims costs.

Financial impact

The solvency position of the group and the operating entities was highly resilient since the outbreak of the pandemic. The strong solvency positions overlaid with the high rate of capital production provides capacity to absorb financial shocks and supports the continued payment of ordinary dividends.

The geographically diverse nature of the group mitigates against the depreciation of the Rand and provides a diverse earnings base in hard currency.

The regulatory capital position of the short-term insurance operations is highly correlated to the size of the in force book. Financial scenarios which result in a reduction in the client base is therefore unlikely to result in solvency pressure.

The risk margins applied to the insurance liabilities of OUTsurance have been strengthened to allow for uncertainty. In addition, OUTsurance Life has provided for a COVID-19 scenario which simulates higher mortality and retrenchment claims coupled with adverse lapse experience.

Extensive stress testing has been performed for the operating entities and the group as part of the annual Own Risk and Solvency Assessment (ORSA) which demonstrates the resilience of the respective solvency positions.

Business Interruption claims related to Tourist Attraction Losses have been conservatively provided for by OUTsurance. The target solvency capital ratio of the group and its regulated entities is informed by various stress scenarios which cover financial and operational risk scenarios which are deemed appropriate given the nature of each business.

The group performs an impairment assessment of its associate investments on an annual basis. These assessments are based on discounted cash flow models with company forecasts, that have considered the impact of COVID-19.

The group's financial instruments recovered the fair value lost due to the market collapse that occurred during March 2020 as a result of the COVID-19 pandemic by 30 June 2020. Across all of the instrument types held by the group the fair values have increased or remained stable since the financial year-end.

The group's Expected Credit Loss (ECL) provision has also remained stable since 30 June 2020 but management is continuously monitoring the credit quality of the counterparties that it is exposed to.

The group continuously assessed the solvency capital requirement during the COVID-19 pandemic. The group achieved a solvency coverage ratio of 2.5 at year-end, exceeding the target ratio of 1.4.

The liquidity note demonstrates the strong liquidity position of the group at 30 June 2020. The liabilities of the group remain adequately covered by the liquid assets. The liquidity of the financial markets are being monitored. The majority of the financial assets of the group and the operating entities are largely invested in highly liquid money markets and bank deposits. Liquidity stress testing performed as part of the ORSA illustrates that the liquidity of OUTsurance is adequate to support a 1 in 200 year catastrophe event.



44. IMPACT OF THE COVID-19 PANDEMIC AND GOING CONCERN POSITION continued

Going concern

The group and its operating entities have considered various stress scenarios related to the pandemic. These risk scenarios indicate that the pandemic will not change the going concern status of the group and its operating entities. The group and its operating entities trade from strong capital positions and are expected to remain financially resilient under various financial and operational stress scenarios.

Material associates – MMH, Discovery and Hastings

MMH and Discovery recognised significant provisions for the expected future effects of COVID-19. Certain owner-occupied property and goodwill impairments and the continued volatility in long-term interest rates in both South Africa and the United Kingdom further strained equity accounted earnings from these two associates for the financial year ended 30 June 2020.

Hastings performed exceptionally well under the difficult trading circumstances with an improvement in profitability it experienced in the six months from January to June 2020.

All three of these material associates of the group have continued to service clients and maintain all key operational processes and the business continuity processes operated as planned.

MMH, Discovery and Hastings remain adequately capitalised and have performed stress testing which confirmed the going concern status of these entities.

45. 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	MMH	OUTsurance	Hastings	Other ¹	RMI group
Year ended 30 June 2020						
Net income	–	–	16 405	–	81	16 486
Policyholder benefits and transfer to policyholder liabilities	–	–	(8 180)	–	–	(8 180)
Depreciation	–	–	(124)	–	(1)	(125)
Amortisation	–	–	(10)	–	–	(10)
Other expenses	–	–	(4 641)	–	(124)	(4 765)
Finance costs	–	–	(8)	–	(681)	(689)
Fair value adjustment to financial liabilities	–	–	(139)	–	–	(139)
Share of after-tax results of associates	49	24	120	231	(165)	259
Profit/(loss) before taxation	49	24	3 423	231	(890)	2 837
Taxation	–	–	(988)	–	(43)	(1 031)
Profit/(loss) for the year from continuing operations	49	24	2 435	231	(933)	1 806
Profit for the year from discontinued operations	–	–	104	–	–	104
Profit/(loss) for the year	49	24	2 539	231	(933)	1 910
Hastings included in OUTsurance	–	–	(116)	116	–	–
Profit/(loss) for the year	49	24	2 423	347	(933)	1 910
Normalised earnings	933	407	2 411	293	(958)	3 086
Hastings included in OUTsurance	–	–	(193)	193	–	–
Normalised earnings	933	407	2 218	486	(958)	3 086
As at 30 June 2020						
Assets	–	–	19 462	–	2 514	21 976
Associates	12 017	6 305	3 732	6 388	846	29 288
Intangible assets	–	–	117	–	–	117
Total assets	12 017	6 305	23 311	6 388	3 360	51 381
Hastings included in OUTsurance	–	–	(3 640)	3 640	–	–
Total assets	12 017	6 305	19 671	10 028	3 360	51 381
Total liabilities	–	–	11 825	–	12 011	23 836
Year ended 30 June 2019						
Net income	–	–	15 673	–	205	15 878
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 716)	–	–	(7 716)
Depreciation	–	–	(139)	–	(2)	(141)
Amortisation	–	–	(84)	–	–	(84)
Other expenses	–	–	(4 036)	–	(154)	(4 190)
Finance costs	–	–	–	–	(729)	(729)
Fair value adjustment to financial liabilities	–	–	(169)	–	–	(169)
Share of after-tax results of associates	1 638	581	158	262	(27)	2 612
Profit/(loss) before taxation	1 638	581	3 687	262	(707)	5 461
Taxation	–	–	(1 064)	–	(32)	(1 096)
Profit/(loss) for the year from continuing operations	1 638	581	2 623	262	(739)	4 365
Profit for the year from discontinued operations	–	–	9	–	–	9
Profit/(loss) for the year	1 638	581	2 632	262	(739)	4 374
Hastings included in OUTsurance	–	–	(165)	165	–	–
Profit/(loss) for the year	1 638	581	2 467	427	(739)	4 374
Normalised earnings	1 261	825	2 634	308	(947)	4 081
Hastings included in OUTsurance	–	–	(244)	244	–	–
Normalised earnings	1 261	825	2 390	552	(947)	4 081
As at 30 June 2019						
Assets	–	–	16 225	–	2 039	18 264
Associates	11 649	6 409	3 623	5 774	882	28 337
Intangible assets	–	–	101	–	–	101
Total assets	11 649	6 409	19 949	5 774	2 921	46 702
Hastings included in OUTsurance	–	–	(3 524)	3 524	–	–
Total assets	11 649	6 409	16 425	9 298	2 921	46 702
Total liabilities	–	–	8 971	–	11 590	20 561

¹ Other includes RMI, RMI Investment Managers, Merchant Capital, Entersekt, Prodigy, Luno and consolidation entries.



45. SEGMENTAL REPORT continued

Reconciliation of normalised earnings to headline earnings attributable to ordinary shareholders as per note 34

R MILLION	2020	2019
Normalised earnings as per segment report	3 086	4 081
RMI's share of normalised adjustments made by associates:	(1 153)	(286)
– Economic assumption adjustments net of discretionary margin and interest rate derivative	(897)	–
– Amortisation of intangible assets relating to business combinations	(305)	(329)
– Deferred tax asset raised on assessed losses	69	82
– Unrealised gains on foreign exchange contracts not designated as a hedge	47	(24)
– Time value of money movement of swap contract in VitalityLife	(24)	–
– Restructuring cost of VitalityLife	(20)	–
– Initial expenses related to Prudential Book transfer	(14)	(6)
– Transaction costs related to VitalityLife interest rate derivatives	(9)	–
– Policyholder funds assessed loss	–	9
– Debt restructuring costs resulting from DiscoveryCard joint venture transaction	–	(8)
– B-BBEE cost	–	(6)
– Costs relating to disposal of equity accounted investments	–	(4)
Group treasury shares	23	6
Headline earnings attributable to ordinary shareholders as per note 34	1 956	3 801

The normalised adjustments made by associates can be split as follows:

R MILLION	Discovery	MMH	Hastings	Other	Total
30 June 2020					
Economic assumption adjustments net of discretionary margin and interest rate derivative	(897)	–	–	–	(897)
Amortisation of intangible assets relating to business combinations	(15)	(127)	(136)	(27)	(305)
Deferred tax asset raised on assessed losses	69	–	–	–	69
Unrealised gains on foreign exchange contracts not designated as a hedge	47	–	–	–	47
Time value of money movement of swap contract in VitalityLife	(24)	–	–	–	(24)
Restructuring cost of VitalityLife	(20)	–	–	–	(20)
Initial expenses related to Prudential Book transfer	(14)	–	–	–	(14)
Transaction costs related to VitalityLife interest rate derivatives	(9)	–	–	–	(9)
	(863)	(127)	(136)	(27)	(1 153)
30 June 2019					
Amortisation of intangible assets relating to business combinations	(21)	(141)	(142)	(25)	(329)
Deferred tax asset raised on assessed losses	82	–	–	–	82
Unrealised gains on foreign exchange contracts not designated as a hedge	(24)	–	–	–	(24)
Policyholder funds assessed loss	9	–	–	–	9
Debt restructuring costs resulting from DiscoveryCard joint venture transaction	(8)	–	–	–	(8)
B-BBEE cost	–	(6)	–	–	(6)
Initial expenses related to Prudential Book transfer	(6)	–	–	–	(6)
Costs relating to disposal of equity accounted investments	(4)	–	–	–	(4)
	28	(147)	(142)	(25)	(286)

45. SEGMENTAL REPORT continued

Geographical segments

R MILLION	South Africa	Australasia	UK	Total
Year ended 30 June 2020				
Net income	9 475	7 011	–	16 486
Policyholder benefits and transfer to policyholder liabilities	(4 454)	(3 726)	–	(8 180)
Other expenses	(3 413)	(2 315)	–	(5 728)
Share of after-tax results of associates	538	–	(279)	259
Profit/(loss) before taxation	2 146	970	(279)	2 837
Taxation	(742)	(289)	–	(1 031)
Profit/(loss) for the year from continuing operations	1 404	681	(279)	1 806
Profit for the year from discontinued operations	–	104	–	104
Profit/(loss) for the year	1 404	785	(279)	1 910
As at 30 June 2020				
Assets				
Property and equipment	336	824	–	1 160
Investments in associates	19 260	–	10 028	29 288
Financial assets	6 650	5 994	–	12 644
Other assets	2 263	6 026	–	8 289
Total assets	28 509	12 844	10 028	51 381
Liabilities				
Insurance contract liabilities	2 617	6 984	–	9 601
Other liabilities	10 471	1 621	2 143	14 235
Total liabilities	13 088	8 605	2 143	23 836
Year ended 30 June 2019				
Net income	9 462	6 416	–	15 878
Policyholder benefits and transfer to policyholder liabilities	(4 309)	(3 407)	–	(7 716)
Other expenses	(3 299)	(2 014)	–	(5 313)
Share of after-tax results of associates	1 899	–	713	2 612
Profit before taxation	3 753	995	713	5 461
Taxation	(790)	(306)	–	(1 096)
Profit for the year from continuing operations	2 963	689	713	4 365
Profit for the year from discontinued operations	–	9	–	9
Profit for the year	2 963	698	713	4 374
As at 30 June 2019				
Assets				
Property and equipment	343	698	–	1 041
Investments in associates	19 039	–	9 298	28 337
Financial assets	6 674	7 556	–	14 230
Other assets	1 798	1 296	–	3 094
Total assets	27 854	9 550	9 298	46 702
Liabilities				
Insurance contract liabilities	2 375	5 082	–	7 457
Other liabilities	9 242	1 165	2 697	13 104
Total liabilities	11 617	6 247	2 697	20 561

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.

Momentum Metropolitan

Momentum Metropolitan 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 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).



46. CURRENT/NON-CURRENT SPLIT OF ASSETS AND LIABILITIES

		30 June 2020		
R MILLION		Total	Current	Non-current
ASSETS				
Property and equipment		1 160	–	1 160
Intangible assets		117	4	113
Right-of-use assets		83	–	83
Investments in associates		29 288	–	29 288
Financial assets				
Equity securities				
– fair value through profit or loss		1 563	–	1 563
– fair value through other comprehensive income		464	–	464
Debt securities				
– fair value through profit or loss		1 323	82	1 241
– fair value through other comprehensive income		3 205	1 827	1 378
– amortised cost		6 089	5 959	130
Insurance and other receivables		3 546	3 546	–
Deferred acquisition cost		463	463	–
Reinsurance contracts		1 338	1 178	160
Deferred taxation		304	–	304
Taxation		24	24	–
Cash and cash equivalents		2 414	2 414	–
Total assets		51 381	15 497	35 884
LIABILITIES				
Financial liabilities				
– Preference shares		9 514	–	9 514
– Interest-bearing loans		2 242	–	2 242
– Financial liabilities at fair value through profit or loss		104	65	39
– Derivative liability		283	3	280
– Investment contracts at fair value through profit or loss		24	–	24
Insurance contracts		9 601	8 351	1 250
Lease liabilities		89	37	52
Share-based payment liability		121	45	76
Provisions		191	191	–
Insurance and other payables		1 518	1 481	37
Deferred taxation		76	14	62
Taxation		73	73	–
Total liabilities		23 836	10 260	13 576

46. CURRENT/NON-CURRENT SPLIT OF ASSETS AND LIABILITIES continued

R MILLION	30 June 2019		
	Total	Current	Non-current
ASSETS			
Property and equipment	1 041	–	1 041
Intangible assets	101	84	17
Investments in associates	28 337	–	28 337
Financial assets			
Equity securities			
– fair value through profit or loss	1 597	–	1 597
– fair value through other comprehensive income	186	–	186
Debt securities			
– fair value through profit or loss	1 117	58	1 059
– fair value through other comprehensive income	3 027	1 811	1 216
– amortised cost	5 496	5 234	262
Derivative asset	36	–	36
Insurance and other receivables	2 771	2 771	–
Deferred acquisition cost	360	360	–
Reinsurance contracts	691	577	114
Deferred taxation	220	–	220
Taxation	120	120	–
Cash and cash equivalents	1 602	1 602	–
Total assets	46 702	12 617	34 085
LIABILITIES			
Financial liabilities			
– Preference shares	8 580	5 650	2 930
– Interest-bearing loans	2 697	1 368	1 329
– Financial liabilities at fair value through profit or loss	104	65	39
– Derivative liability	99	1	98
Insurance contracts	7 457	6 406	1 051
Share-based payment liability	103	50	53
Provisions	119	119	–
Insurance and other payables	1 309	1 264	45
Deferred taxation	69	–	69
Taxation	24	24	–
Total liabilities	20 561	14 947	5 614



47. DIRECTORS' EMOLUMENTS

Schedule of directors' emoluments paid for services rendered to RMI in respect of the year ended 30 June 2020:

	Services as director	Cash package	Other benefits ¹	Share appre- ciation rights ²	Total 2020
R'000					
Executive					
HL Bosman ³	–	8 458	1 177	2 271	11 906
– Paid by RMI	–	11 277	1 569	–	12 846
– Recovered from RMH	–	(2 819)	(392)	–	(3 211)
– Value of share appreciation rights vesting	–	–	–	2 271	2 271
Non-executive					
JJ Durand ⁴	526	–	–	–	526
JP Burger	364	–	–	–	364
P Cooper	306	–	–	–	306
SEN De Bruyn	358	–	–	–	358
LL Dippenaar	312	–	–	–	312
DA Frankel (alternate)	232	–	–	–	232
PK Harris	279	–	–	–	279
A Kekana ⁴	285	–	–	–	285
F Knoetze (alternate)	–	–	–	–	–
P Lagerström	349	–	–	–	349
UH Lucht (alternate)	–	–	–	–	–
MM Mahlare	232	–	–	–	232
MM Morobe	350	–	–	–	350
RT Mupita ⁴	232	–	–	–	232
O Phetwe	232	–	–	–	232
JA Teeger	291	–	–	–	291
Total	4 348	8 458	1 177	2 271	16 254

1. Other benefits comprise pension fund, provident fund and medical aid contributions.

2. Includes the value of share appreciation rights by RMI which vest and exercisable in the 12 months following the end of the reporting period.

3. Mr Bosman's executive remuneration is paid for by RMI. A portion of his remuneration is recovered from RMH.

4. Directors' fees for services rendered by Messrs Durand and Mupita and Ms Kekana were paid to Remgro, MTN and Royal Bafokeng respectively for their time spent on the RMI board.

5. There were no other services rendered by non-executive directors to RMI.

Directors' participation in RMI's share schemes

RMI share appreciation rights

R'000	Strike price (cents)	Vesting date	Balance 1 July 2019	Issued	Forfeited	Exercised	Balance 30 June 2020	Value 30 June 2020
HL Bosman	2 874	02/04/2017	631	–	–	–	631	3 070
HL Bosman	2 874	02/04/2018	631	–	–	–	631	3 070
HL Bosman	2 874	02/04/2019	631	–	–	–	631	3 070
HL Bosman	4 125	14/09/2018	27	–	–	–	27	121
HL Bosman	4 125	14/09/2019	27	–	–	–	27	121
HL Bosman	4 125	14/09/2020	26	–	–	–	26	116
HL Bosman	4 341	14/09/2019	167	–	–	–	167	940
HL Bosman	4 341	14/09/2020	167	–	–	–	167	892
HL Bosman	4 341	14/09/2021	167	–	–	–	167	713
HL Bosman	3 992	19/09/2020	179	–	–	–	179	1 263
HL Bosman	3 992	19/09/2021	180	–	–	–	180	948
HL Bosman	3 992	19/09/2022	180	–	–	–	180	757
HL Bosman	3 947	14/09/2021	249	–	–	–	249	1 310
HL Bosman	3 947	14/09/2022	249	–	–	–	249	982
HL Bosman	3 947	14/09/2023	250	–	–	–	250	782
HL Bosman	3 091	14/09/2022	–	130	–	–	130	398
HL Bosman	3 091	14/09/2023	–	130	–	–	130	297
HL Bosman	3 091	14/09/2024	–	131	–	–	131	235

47. DIRECTORS' EMOLUMENTS continued
RMI management ownership participation structure

Participant	Investment	Number of shares	Percentage of investment	Hurdle rate	Value R000's
HL Bosman	RMI IM	2 451	1.4%	Prime	–
HL Bosman	RMI Invest One (Merchant Capital)	389	3.51%	Prime	–
HL Bosman	RMI Invest Two (Entersekt)	375	3.71%	Prime	–
HL Bosman	RMI Invest Three (Prodigy)	1 787	3.67%	Prime	–
HL Bosman	AlphaCode (Luno)	365	3.65%	Prime	–

Schedule of directors' emoluments paid for services rendered to RMI in respect of the year ended 30 June 2019:

R'000	Services as director	Cash package	Bonus	Other benefits ¹	Share appreciation rights ²	Total 2019
Executive						
HL Bosman ³	–	8 177	46	1 108	1 035	10 366
Paid by RMI	–	10 903	61	1 477	–	12 441
Recovered from RMH	–	(2 726)	(15)	(369)	–	(3 110)
Value of share appreciation rights vesting	–	–	–	–	1 035	1 035
Non-executive						
JJ Durand ⁴	649	–	–	–	–	649
JP Burger	477	–	–	–	–	477
P Cooper	374	–	–	–	–	374
SEN De Bruyn	438	–	–	–	–	438
LL Dippenaar	374	–	–	–	–	374
DA Frankel (alternate)	266	–	–	–	–	266
PK Harris	374	–	–	–	–	374
A Kekana ⁴	374	–	–	–	–	374
F Knoetze (alternate)	–	–	–	–	–	–
P Lagerström	361	–	–	–	–	361
MM Mahlare	266	–	–	–	–	266
MM Morobe	316	–	–	–	–	316
RT Mupita ⁴	266	–	–	–	–	266
O Phetwe	266	–	–	–	–	266
JA Teegeer	333	–	–	–	–	333
Total	5 134	8 177	46	1 108	1 035	15 500

1. Other benefits comprise pension fund, provident fund and medical aid contributions.

2. Includes the value of share appreciation rights by RMI which vest and exercisable in the 12 months following the end of the reporting period.

3. Mr Bosman's executive remuneration is paid for by RMI. A portion of his remuneration is recovered from RMH.

4. Directors' fees for services rendered by Messrs Durand and Mupita and Ms Kekana were paid to Remgro, MTN and Royal Bafokeng respectively for their time spent on the RMI board.

5. There were no other services rendered by non-executive directors to RMI.



47. DIRECTORS' EMOLUMENTS continued

Directors' emoluments paid by subsidiaries and associates

Schedule of directors' emoluments paid by subsidiaries and associates in respect of the year ended 30 June 2020:

R'000	Total 2020	Total 2019
Executive		
HL Bosman ¹	1 895	1 853
Non-executive		
P Cooper ²	1 692	1 664
SEN De Bruyn ³	1 364	1 247
LL Dippenaar ⁴	580	519
Total	5 531	5 283

1 Directors' fees for serviced rendered by Mr Bosman were paid to RMI. R1 525 000 (2019: R1 448 000) was received from Discovery and R370 000 (2019: R405 000) was received from OUTsurance.

2 R1 160 000 (2019: R1 136 000) was received from Momentum Metropolitan and R532 000 (2019: R528 000) was received from OUTsurance.

3 Received from Discovery.

4 Received from OUTsurance.

Emoluments paid to prescribed officers

In addition to Mr HL Bosman, financial director and chief executive officer of RMI, Mr MC Visser, chief executive officer of OUTsurance, also meet the definition of prescribed officer as defined in the Companies Act, 71 of 2008. His emoluments are set out below:

R'000	Cash package	Performance bonus	Benefit derived from share incentive scheme	Total
30 June 2020				
MC Visser	4 945	–	1 116	6 061
30 June 2019				
MC Visser	5 364	8 621	1 758	15 743

OUTsurance Holdings share incentive scheme

Participant	Strike price (cents)	Vesting date	Balance 1 July 2019 000's	Issued 000's	Forfeited 000's	Exercised 000's	Balance 30 June 2020 000's	Benefit derived R000's
MC Visser	848	01/07/2016 to 01/07/2019	600	–	–	(600)	–	1 116
MC Visser	930	01/07/2017 to 01/07/2020	700	–	–	–	700	–
MC Visser	1 008	01/09/2018 to 01/09/2021	935	–	–	–	935	–
MC Visser	1 034	01/09/2019 to 01/09/2022	–	2 418	–	–	2 418	121

Mr Visser has been granted rights to participate in the Divisional Incentive Scheme as follows:

- » –7.5% participation in the OUTsurance Business and OUTsurance Life/OUTvest schemes.
- » 7.5% participation in the Youi schemes to be launched in 2021.

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SEPARATE ANNUAL FINANCIAL STATEMENTS



Separate statement of financial position

as at 30 June

R MILLION	Note	2020	2019
ASSETS			
Property and equipment	1	12	2
Investment in subsidiaries	2	20 367	20 024
Financial assets			
Equity securities			
– fair value through profit or loss	3	122	188
Debt securities			
– fair value through profit or loss	3	382	469
Other receivables		6	5
Taxation		4	2
Deferred taxation	4	8	38
Cash and cash equivalents	5	178	162
Total assets		21 079	20 890
EQUITY			
Share capital and share premium	6	15 432	15 432
Reserves	7	5 564	5 300
Total equity		20 996	20 732
LIABILITIES			
Share-based payment liability	8	30	20
Employee benefit liability		4	29
Financial liabilities			
Derivative liability	9	–	70
Financial guarantee contract liability		18	18
Provisions	10	4	4
Trade and other payables	11	27	17
Total liabilities		83	158
Total equity and liabilities		21 079	20 890

Separate income statement

for the year ended 30 June

R MILLION	Note	2020	2019
Revenue – Investment income	12	2 124	2 044
Interest income on financial assets using the effective interest rate method	12	19	20
Fair value loss		(98)	(57)
Fee and other income		34	16
Net income		2 079	2 023
Marketing and administration expenses	13	(100)	(112)
Profit before taxation		1 979	1 911
Taxation	14	(30)	6
Profit for the year		1 949	1 917
Attributable to:			
Equity holders of the company		1 949	1 917

Separate statement of comprehensive income

for the year ended 30 June

R MILLION	2020	2019
Profit for the year	1 949	1 917
Other comprehensive income for the year	–	–
Total comprehensive income for the year	1 949	1 917
Attributable to:		
Equity holders of the company	1 949	1 917



Separate statement of changes in equity

for the year ended 30 June

R MILLION	Share capital	Share premium	Retained earnings	Total equity
Balance as at 30 June 2018	–	15 087	5 062	20 149
Shares issued	–	345	–	345
Total comprehensive income for the year	–	–	1 917	1 917
Dividends paid	–	–	(1 679)	(1 679)
Balance as at 30 June 2019	–	15 432	5 300	20 732
Total comprehensive income for the year	–	–	1 949	1 949
Dividends paid	–	–	(1 685)	(1 685)
Balance as at 30 June 2020	–	15 432	5 564	20 996
Note	6	6	7	

Separate statement of cash flows

for the year ended 30 June

R MILLION	Note	2020	2019
Cash flows from operating activities			
Cash utilised by operations	15	(70)	(94)
Dividends received		2 124	2 044
Interest received		19	20
Settlement of derivative liability		(54)	–
Taxation paid		(2)	(7)
Net cash generated from operating activities		2 017	1 963
Cash flows from investing activities			
Investment in debt securities		(2)	(171)
Proceeds on sale of debt securities		46	42
Investment in equity securities		(6)	(4)
Acquisition of property and equipment		(11)	–
Subscription for additional shares in subsidiary		(343)	(600)
Net cash outflows from investing activities		(316)	(733)
Cash flows from financing activities			
Proceeds from shares issued		–	304
Dividends paid to shareholders		(1 685)	(1 638)
Net cash outflows from financing activities		(1 685)	(1 334)
Net increase/(decrease) in cash and cash equivalents for the year		16	(104)
Cash and cash equivalents at the beginning of the year		162	266
Cash and cash equivalents at the end of the year		178	162



Notes to the separate annual financial statements

for the year ended 30 June

R MILLION		Leasehold improve- ments	Furniture, fittings and equipment	Total
1.	PROPERTY AND EQUIPMENT			
	30 June 2020			
	Net book value at the beginning of the year	1	1	2
	Additions	11	–	11
	Depreciation (note 13)	(1)	–	(1)
	Net book value at the end of the year	11	1	12
	Cost	25	4	29
	Accumulated depreciation	(14)	(3)	(17)
	Net book value at the end of the year	11	1	12
	30 June 2019			
	Net book value at the beginning of the year	2	2	4
	Depreciation (note 13)	(1)	(1)	(2)
	Net book value at the end of the year	1	1	2
	Cost	14	4	18
	Accumulated depreciation	(13)	(3)	(16)
	Net book value at the end of the year	1	1	2

R MILLION		2020	2019
2.	INVESTMENTS IN SUBSIDIARIES		
	Unlisted subsidiaries		
	Ordinary shares at cost		
	– OUTsurance Holdings Limited	5 365	5 365
	– RMI Treasury Company Limited	3 276	2 933
	– RMI Asset Holdings Proprietary Limited	11 726	11 726
	Total investments in subsidiaries	20 367	20 024
	Balance at the beginning of the year	20 024	19 424
	Investment in:		
	Subscription for additional shares in RMI Treasury Company Limited		
	– 8 August 2019	43	–
	– 30 October 2019	300	–
	– 25 October 2018	–	400
	– 12 November 2018	–	200
	Total investment in subsidiaries at the end of the year	20 367	20 024
	OUTsurance Holdings Limited		
	Number of shares ¹	3 385 573 803	3 385 573 803
	% of equity ²	91.1	90.4
	Principal place of business	Centurion	Centurion
	RMI Treasury Company Limited		
	Number of shares	19 500	19 000
	% of equity	100,0	100,0
	Principal place of business	Sandton	Sandton
	RMI Asset Holdings Proprietary Limited		
	Number of shares	44 604	44 604
	% of equity	100.0	100.0
	Principal place of business	Sandton	Sandton

1 Held indirectly via Firness International Proprietary Limited and RMI Asset Holdings Proprietary Limited

2 After consolidation of share trust.

R MILLION		2020	2019
3.	EQUITY AND DEBT SECURITIES		
	Equity securities		
	– Listed investments		
	– fair value through profit or loss	112	184
	– Unlisted investments		
	– fair value through profit or loss	10	4
	Total equity securities	122	188
	Debt securities		
	– Unlisted investments		
	– fair value through profit or loss	382	469
	Total equity and debt securities	504	657
	Listed equity securities carried at fair value through profit or loss		
	Balance at the beginning for the year	184	166
	Fair value movement	(72)	18
	Total listed equity securities at the end of the year	112	184
	Unlisted equity securities carried at fair value through profit or loss		
	Balance at the beginning of the year	4	–
	Additions	6	4
	Total unlisted equity securities at the end of the year	10	4
	The unlisted debt securities carried at fair value through profit or loss include an investment in the OUTsurance Investment Trust, OUTsurance Equity Trust, OUTsurance Equity Trust 2 and OUTsurance Equity Trust 3.		
	Balance at the beginning for the year	469	365
	Additions	2	171
	Disposals	(46)	(42)
	Fair value movement	18	37
	Dividends received from the OUTsurance Investment Trust	(33)	(38)
	Dividends received from the OUTsurance Equity Trust	(18)	(19)
	Dividends received from the OUTsurance Equity Trust 2	–	(1)
	Dividends received from the OUTsurance Equity Trust 3	(10)	(4)
	Total debt securities at the end of the year	382	469
4.	DEFERRED TAXATION		
	Deferred taxation asset – Fair value adjustments	8	38
	Reconciliation of movement		
	Deferred taxation asset at the beginning of the year	38	27
	Deferred taxation (charge)/credit in the income statement	(30)	11
	Deferred taxation asset at the end of the year	8	38
5.	CASH AND CASH EQUIVALENTS		
	Cash at bank and in hand	178	162
	Cash and cash equivalents represent current accounts and call deposits. The fair value approximates the carrying value.		



6. SHARE CAPITAL AND SHARE PREMIUM

R MILLION	Number of shares	Ordinary shares	Share premium	Total
Share capital and share premium as at 30 June 2018	1 523	–	15 087	15 087
Issue of shares	9	–	345	345
Share capital and share premium as at 30 June 2019	1 532	–	15 432	15 432
Movement in the current year	–	–	–	–
Share capital and share premium as at 30 June 2020	1 532	–	15 432	15 432

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 2 July 2018 was 1 522 719 206 shares. An additional 9 088 564 ordinary shares with par value of R0.0001 at a premium of R37.9999 per share were issued on 22 October 2018. This increased the number of issued ordinary shares as at 30 June 2019 to 1 531 807 770 shares. There was no movement in the number of issued shares during the year ended 30 June 2020. 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 (2019: 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 (2019: 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 yet.

R MILLION	2020	2019
7. RESERVES		
Retained earnings	5 564	5 300
8. SHARE-BASED PAYMENT LIABILITY		
Balance at the beginning of the year	20	31
Share-based payment expense accrued during the year	10	(11)
Share-based payment liability at the end of the year	30	20
For additional information on the share scheme, refer to note 19 to the consolidated annual financial statements.		
9. DERIVATIVE LIABILITY		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	–	70
Notional value of derivative liability	–	120
The total return swap derivative relates to the RMI share incentive scheme, which serves as 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.		
10. PROVISIONS		
Staff incentive bonus		
Balance at the beginning of the year	4	4
Provision	4	4
Utilised during the year	(4)	(4)
Total provisions	4	4
11. TRADE AND OTHER PAYABLES		
Trade payables and accrued expenses	27	17

R MILLION		2020	2019
12. REVENUE – INVESTMENT INCOME			
Revenue – Investment income		2 124	2 044
Dividend income from subsidiaries and associates		2 059	1 974
Dividend income from investment in OUTsurance Investment Trust		33	38
Dividend income from investment in OUTsurance Equity Trust		18	19
Dividend income from investment in OUTsurance Equity Trust 2		–	1
Dividend income from investment in OUTsurance Equity Trust 3		10	4
Dividend income from listed fair value through profit or loss equity securities		4	8
Interest income on financial assets using the effective interest rate method		19	20
Total investment income		2 143	2 064
13. MARKETING AND ADMINISTRATION EXPENSES			
Expenses by nature			
Directors' remuneration		(14)	(14)
Personnel costs		(28)	(33)
Professional fees and regulatory compliance cost		(37)	(37)
Printing costs		(3)	(3)
Operating lease rentals		–	(3)
Depreciation		(1)	(2)
Audit fees		(3)	(4)
Other expenses		(14)	(15)
Total marketing and administration expenses		(100)	(112)
Audit fees			
Statutory audit – current year		(3)	(4)
Total audit fees		(3)	(4)
The company is leasing its office space on a monthly basis, therefore there is no commitment under non-cancellable operating lease agreements.			
14. TAXATION			
SA normal taxation			
Current taxation			
– Current year		–	(5)
Deferred taxation			
– Current year		(30)	11
Total taxation		(30)	6
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		1 979	1 911
		%	%
Effective tax rate		1.52	(0.29)
Dividend income not subject to taxation		30.05	29.64
Capital gains tax		(1.52)	–
Non-deductible expenses		(2.05)	(1.35)
Standard income taxation rate in South Africa		28.00	28.00
15. CASH UTILISED BY OPERATIONS			
Reconciliation of profit before taxation to cash generated from operations:			
Profit before taxation		1 979	1 911
Adjusted for:			
Dividends received		(2 124)	(2 044)
Interest income		(19)	(20)
Fair value loss		98	57
Non-cash income and expenses included in the income statement		(13)	1
Changes in working capital			
– Other receivables		(1)	(3)
– Trade and other payables		10	4
Total cash utilised by operations		(70)	(94)



R MILLION	2020	2019
16. DIVIDEND PER SHARE		
Total dividends paid during the year	1 685	1 679
Total dividends declared relating to the earnings for the year	689	1 685
Number of ordinary shares in issue at the beginning of the year	1 531 807 770	1 522 719 206
Shares issued on 22 October 2018	–	9 088 564
Number of ordinary shares in issue at the end of the year	1 531 807 770	1 531 807 770
Dividend declared per share (cents)		
– Interim	45.0	45.0
– Final	–	65.0
Total dividend per share declared	45.0	110.0

17. RELATED PARTIES**Principal shareholders**

Details of major shareholders are disclosed in the directors' report. 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 note 47 to the consolidated annual financial statements and in the directors' report respectively.

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
- » Firness International Proprietary Limited (which owns 80.3% of OUTsurance Holdings Limited)

R MILLION	2020	2019
Related party transactions		
Transactions of RMI and its subsidiary companies with:		
Principal shareholders		
Dividends paid	762	756
Key management personnel		
Salaries and other benefits	14	14
Value of share appreciation rights vesting	2	1
Subsidiaries		
Income statement effect:		
– Dividends received	2 059	1 974
– Financial guarantee contract liability	–	(18)

The financial guarantee contract liability expense relates to the fair value loss on financial guarantees provided to certain subsidiaries of RMI in relation to external funding raised by these subsidiaries.

18. 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 that comprise the following:

- » RMI acquired a 25.1% equity stake in Merchant Capital in September 2015 via a subsidiary, RMI Invest One Proprietary Limited.
- » A junior loan facility to Merchant Capital of not more than R9 228 000.
- » A senior loan facility to Merchant Capital of not more than R200 000 000.

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 2020, an amount of R5 million of the junior loan facility has been issued to Merchant Capital by RMI and R95 million by a subsidiary of RMI.

All the class B, C, D, E and F preference shares (R9 514 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 guarantees the loan of R2 143 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.

19. 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.

19.1 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.

19.1.1 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 company had no exposure to currency risk at 30 June 2020 (2019: none).

19.1.2 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.

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	2020	2019
Cash and cash equivalents–200 bps increase	4	3
Cash and cash equivalents–200 bps decrease	(4)	(3)

19.1.3 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.

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:

R MILLION	30 June 2020		30 June 2019	
	10% increase	10% decrease	10% increase	10% decrease
Equity securities at fair value through profit or loss	11	(11)	18	(18)
Derivative liability	–	–	(7)	7
	11	(11)	11	(11)



19. FINANCIAL RISK MANAGEMENT continued

19.2 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 company is exposed to credit risk are:

- » Unlisted debt securities;
- » Other 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.

The table below provides information on the credit risk exposure by credit ratings at year-end:

R MILLION	BB	Not rated	Total
30 June 2020			
Debt securities			
– fair value through profit or loss–unlisted	–	382	382
Other receivables	–	6	6
Cash and cash equivalents	178	–	178
Total	178	388	566
30 June 2019			
Debt securities			
– fair value through profit or loss–unlisted	–	469	469
Other receivables	–	5	5
Cash and cash equivalents	162	–	162
Total	162	474	636

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 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.

RMI has evaluated the expected credit loss (ECL) on its cash and cash equivalents and concluded that the amount is immaterial.

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 Trust, 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.

19. 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.

As disclosed in note 18, RMI has provided loan commitments and a guarantee to associates and intergroup guarantees. From a liquidity perspective, these are viewed to be a liquidity risk in the call category.

R MILLION	Call to 6 months	7-12 months	1-5 years/no contractual maturity	Total
30 June 2020				
Assets				
Property and equipment	-	-	12	12
Investment in subsidiaries	-	-	20 367	20 367
Equity securities – fair value through profit or loss	-	-	122	122
Debt securities – fair value through profit or loss	-	-	382	382
Other receivables	6	-	-	6
Deferred taxation	-	-	8	8
Taxation	4	-	-	4
Cash and cash equivalents	178	-	-	178
Total assets	188	-	20 891	21 079
30 June 2020				
Liabilities				
Share-based payment liability	18	-	12	30
Employee benefit liability	-	-	4	4
Financial liabilities				
Financial guarantee contract liability	18	-	-	18
Provisions	4	-	-	4
Trade and other payables	27	-	-	27
Loan commitments to associate	109	-	-	109
Guarantee to associate	28	-	-	28
Intergroup guarantees	11 657	-	-	11 657
Total liabilities	11 861	-	16	11 877
30 June 2019				
Assets				
Property and equipment	-	-	2	2
Investment in subsidiaries	-	-	20 024	20 024
Equity securities – fair value through profit or loss	-	-	188	188
Debt securities – fair value through profit or loss	-	-	469	469
Other receivables	5	-	-	5
Deferred taxation	-	-	38	38
Taxation	2	-	-	2
Cash and cash equivalents	162	-	-	162
Total assets	169	-	20 721	20 890
30 June 2019				
Liabilities				
Share-based payment liability	13	-	7	20
Employee benefit liability	22	-	7	29
Financial liabilities				
Derivative liability	-	-	70	70
Financial guarantee contract liability	18	-	-	18
Provisions	4	-	-	4
Trade and other payables	17	-	-	17
Loan commitments to associate	154	-	-	154
Guarantee to associate	28	-	-	28
Intergroup guarantees	11 277	-	-	11 277
Total liabilities	11 533	-	84	11 617



20. 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
30 June 2020				
Financial assets				
Equity securities				
– fair value through profit or loss	112	–	–	112
– unlisted equities	–	–	10	10
Debt securities				
– fair value through profit or loss	–	–	382	382
Total financial assets valued at fair value	112	–	392	504
Financial liabilities				
Financial guarantee contract liability	–	18	–	18

R MILLION	2020	2019
Reconciliation of movement in level 3 assets		
Balance at the beginning of the year	473	365
Additions in the current year	8	175
Disposals (sales and redemptions)	(45)	(42)
Fair value movement	17	37
Dividends received from the OUTsurance Investment Trust	(33)	(38)
Dividends received from the OUTsurance Equity Trust	(18)	(19)
Dividends received from the OUTsurance Equity Trust 2	–	(1)
Dividends received from the OUTsurance Equity Trust 3	(10)	(4)
Balance at the end of the year	392	473

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.

20. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

R MILLION	Level 1	Level 2	Level 3	Total carrying amount
30 June 2019				
Financial assets				
Equity securities				
– fair value through profit or loss	184	–	–	184
– unlisted equities	–	–	4	4
Debt securities				
– fair value through profit or loss	–	–	469	469
Total financial assets valued at fair value	184	–	473	657
Financial liabilities				
Derivative liability	–	70	–	70
Financial guarantee contract liability	–	18	–	18
Total financial liabilities valued at fair value	–	88	–	88

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 is calculated with reference to the quoted prices for shares listed on the JSE. The financial guarantee contract liability is calculated with reference to the external credit rating, exposure at risk and likelihood of default by the respective counterparties.

Level 3

The debt securities at fair value through profit or loss are repaid in the form of dividends received from the OUTsurance Investment and Equity Trusts (which are funded by the dividends received on the OUTsurance shares held by the trusts). The fair value movement on these loans are calculated with reference to the funding rate incurred by RMI to fund these loans to the OUTsurance Investment and Equity Trusts.

21. POST REPORTING DATE EVENT

There was no post reporting date event.



Shareholding

	As at 30 June 2020			As at 30 June 2019		
	Number of shareholders	Shares held (000's)	%	Number of shareholders	Shares held (000's)	%
Analysis of shareholding						
Financial Securities Limited (Remgro)	1	469 449	30.6	1	469 449	30.6
Royal Bafokeng Holdings Proprietary Limited	2	222 853	14.5	2	222 853	14.5
Public Investment Corporation	8	114 701	7.5	7	105 401	6.9
Allan Gray (on behalf of clients)	1	118 839	7.8	1	102 640	6.7
Total of shareholders holding more than 5%	12	925 842	60.4	11	900 343	58.7
Other	27 888	605 966	39.6	33 179	631 465	41.3
Total	27 900	1 531 808	100.0	33 190	1 531 808	100.0
Shareholder type						
Corporates		692 302	45.2		692 302	45.2
Unit trusts		250 330	16.4		237 348	15.5
Pension funds		173 178	11.3		168 109	11.0
Private investors		44 636	2.9		60 356	3.9
Insurance companies and banks		45 033	2.9		30 055	2.0
Other		326 329	21.3		343 638	22.4
Total		1 531 808	100.0		1 531 808	100.0
Public and non-public shareholders						
Public	27 890	747 851	48.8	33 181	747 950	48.8
Non-public	10	783 957	51.2	9	783 858	51.2
– Corporates	3	692 302	45.2	3	692 302	45.2
– Directors and associates	7	91 655	6.0	6	91 556	6.0
Total	27 900	1 531 808	100.0	33 190	1 531 808	100.0
Geographic ownership						
South Africa		1 347 571	88.0		1 343 303	87.7
International		184 237	12.0		188 505	12.3
Total		1 531 808	100.0		1 531 808	100.0

The information above is extracted from the shareholder analysis provided by Orient Capital Limited.

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 officer 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 Teegeer

ALTERNATES

DA Frankel, F Knoetze and UH Lucht

DR Wilson resigned as non-executive alternate director on 1 July 2019 and UH Lucht was appointed as non-executive alternate director on 3 September 2019.

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



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DIVERSIFY
MODERNISE

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