



**RMI** OPTIMISE  
DIVERSIFY  
MODERNISE

SUMMARISED AUDITED RESULTS  
ANNOUNCEMENT AND  
DIVIDEND DECLARATION

FOR THE YEAR ENDED  
30 JUNE 2017

# contents

<b>Value created</b>	01
<b>About RMI</b>	02
<b>RMI's investments</b>	03
<b>Performance and outlook</b>	05
External environment	05
Overview of results	05
Events after the reporting period	08
Update on RMI's strategy	09
Outlook and future value creation	11
<b>Dividend declaration</b>	13
<b>Portfolio review</b>	16
Discovery	16
MMI Holdings	17
Outsurance	18
Hastings	19
<b>Financial review</b>	20
<b>Administration</b>	ibc

## Basis of preparation

These summarised, audited financial results for the year ended 30 June 2017 have been prepared in accordance with:

- ▶ International Financial Reporting Standards (IFRS), including *IAS 34: Interim financial reporting*;
- ▶ 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 accounting policies applied are consistent with those applied in the previous financial year, except for changes required by the mandatory adoption of new and revised IFRS. None of the new accounting standards becoming effective in the current financial year had a significant impact on the group's results.

Schalk Human MCom(Acc) CA(SA) prepared these consolidated financial results under the supervision of Herman Bosman LLM CFA. The board of directors takes full responsibility for the preparation of this announcement and for correctly extracting the financial information for inclusion in the announcement.

The summarised annual consolidated financial statements for the year ended 30 June 2017 contained in this booklet have been audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon.

The auditor also expressed an unmodified opinion on the annual consolidated financial statements from which the

summarised annual consolidated financial statements were derived. Unless the financial information is specifically stated as audited, it should be assumed that it is unaudited.

Normalised earnings presented in these summarised financial results constitute pro forma financial information. The pro forma financial information is the responsibility of RMI's board of directors and is presented for illustrative purposes. Because of its nature, the pro forma financial information may not fairly present RMI's financial position, changes in equity, results of operations or cash flows. An assurance report has been prepared and issued by RMI's auditor, PricewaterhouseCoopers Inc., on the pro forma financial information included in this report and is available at the registered office of RMI.

Copies of the auditor's reports on the annual consolidated financial statements and the summarised annual consolidated financial statements are available for inspection at RMI's registered office, 3rd floor, 2 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, together with the annual consolidated financial statements identified in the report.

The auditor's report does not necessarily report on all of the information contained in these summarised consolidated financial statements.

Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should review the auditor's report together with the accompanying financial information from the issuer's registered office.

The forward-looking information has not been commented or reported on by the group's external auditor.

# Value created

for the year ended 30 June 2017

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Compound shareholders'  
return since listing in 2011

**27.1% per annum**

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Normalised earnings  
(from continuing operations)

**R3 927 million**

(2016: R3 342 million)

(+17% to 263.6 cents per share)

**+18%**

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Headline earnings  
(from continuing operations)

**R3 480 million**

(2016: R2 927 million)

(+19% to 234.2 cents per share)

**+19%**

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Dividend

**118 cents per share**

(2016: 118 cents per share)

**unchanged**

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# About RMI



**RMI** OPTIMISE  
DIVERSIFY  
MODERNISE

**Rand Merchant Investment Holdings Limited (RMI) is a JSE-listed investment holding company with an investment team of experienced, alternative-thinking, financial services specialists who actively partner smart and industry-changing management teams by being a shareholder of influence.**

## VALUE CREATION

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

## INVESTMENT PORTFOLIO

As at 30 June 2017, RMI's investments included Discovery Limited (Discovery), MMI Holdings Limited (MMI), OUTsurance Holdings Limited (OUTsurance), Hastings Group Holdings plc (Hastings), RMI Investment Managers Group Proprietary Limited (RMI Investment Managers), AlphaCode Proprietary Limited (AlphaCode) and its first two next-generation investments, Merchant Capital Advisory Services Proprietary Limited (Merchant Capital) and Entersekt Proprietary Limited (Entersekt). Entersekt, a mobile banking security technology company, was acquired on 30 June 2017 and therefore had no impact on the group's results for the year under review.

The sale of RMI's investment in RMB-SI Investments Proprietary Limited (RMB Structured Insurance) was completed in March 2017. The results of RMB Structured Insurance, excluding Truffle Capital Proprietary Limited (Truffle), are disclosed as a discontinued operation in the RMI group results for the nine months while still under RMI's control. RMB Structured Insurance's stake in Truffle was sold to RMI Investment Managers in February 2017.

Effective 1 March 2017, RMI acquired a 29.9% stake in UK-listed short-term insurer Hastings. RMI accounts for its stake in Hastings as an investment in associate

from the effective date. RMI funded the acquisition through a combination of redeemable preference shares and a GBP-denominated loan in terms of its domestic medium-term note and preference share programme. The stake in Hastings was bought in a wholly-owned subsidiary of RMI, Main Street 1353 Proprietary Limited (Main Street 1353). In June 2017, RMI sold 49% of its shareholding in Main Street 1353 to OUTsurance in exchange for additional shares in OUTsurance, as well as cash.

The portfolio is intended to evolve over time to increase in size and diversity and ensure a balance between growth- and return-focused investments.

## INVESTMENT POLICY

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

RMI invests in businesses that can deliver superior earnings and dividend growth over the long term. This involves the acquisition of meaningful interests in companies to have significant influence. Sound management is an important investment criterion. The group forges strategic alliances on a partnership basis and endeavour to add value, where possible. The purpose is to ensure superior returns to shareholders by way of sustainable dividends and capital growth.

The financial services landscape is a dynamic environment and whilst it is important to enhance the current market positions and business models of the underlying investments and evaluate traditional acquisition opportunities, it is equally important to be vigilant around the emergence of disruptive businesses and concepts and partner with industry-changing entrepreneurs. In line with this, RMI has a start-up business, AlphaCode, which focuses on growing next-generation businesses. On 30 June 2017, the second investment by AlphaCode was made through a 25.1% investment in Entersekt.

## DIVIDEND POLICY

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

# RMI's investments

RMI is a strategic, active manager of a R59 billion financial services portfolio:



RMI's effective interest in these group entities is different from the actual interest due to consolidation adjustments in respect of treasury shares. See page 20.

## LISTED INVESTMENTS

### DISCOVERY

Discovery is a pioneering market leader with uniquely-positioned businesses in the healthcare, long- and short-term insurance, wellness and financial services industries. Founded in 1992 as a specialist health insurer, Discovery operates in South Africa, the UK, China, Singapore, Australia, Japan, Europe and the USA through various business lines. It has an innovative business model that incentivises people to live a healthier lifestyle and offers them protection products.

### MMI

MMI is an insurance-based financial services group listed on the JSE Limited. Created in December 2010 from the merger of Metropolitan and Momentum, MMI conducts business in South Africa, various other African countries and selected international countries. MMI's core businesses are short- and long-term insurance, asset management, savings, healthcare administration, health risk management, employee benefits, property management and rewards programmes.

### HASTINGS

Hastings is a UK-listed short-term insurer. It commenced operations in 1997 and listed on the London Stock Exchange in 2015. It is a fast-growing agile digital general insurance provider operating principally in the UK motor market. It provides private car and other forms of personal insurance cover (home, van and bike). Hastings has a 7% market share of the UK private car insurance market and has 2.5 million live client policies. The group's success in capturing market share has been combined with consistently strong underwriting performance and growing retail profitability. The group is headquartered in Bexhill-on-Sea with offices in Newmarket, Leicester and Gibraltar.

## UNLISTED INVESTMENTS

### OUTSURANCE

OUTsurance provides short- and long-term insurance products in South Africa and short-term insurance products in Australia, New Zealand and Namibia. It has a client-centric ethos of providing value for money insurance solutions backed by awesome client service.

### RMI INVESTMENT MANAGERS

RMI Investment Managers' affiliate model enables the company to access a differentiated part of the investment management industry by investing in and partnering with independent investment managers, as well as specialist investment teams. RMI Investment Managers has taken equity stakes of up to 30% in boutique investment managers and will continue to search for opportunities that will complement RMI's existing suite of managers, as the company builds its share of the South African investment management market.

### ALPHACODE

RMI's next-generation business platform continues to show progress on its strategy of identifying, partnering and growing extraordinary next-generation financial services entrepreneurs. AlphaCode has members operating across the financial services spectrum, with many using leading-edge technology to transform the delivery of financial services. AlphaCode's first investment, Merchant Capital, is a provider of alternative sources of working capital for small and medium enterprises in South Africa. Its second investment, Entersekt, has developed world-class mobile banking security technology. Post year-end, it made two additional investments in Prodigy, an international fintech platform that offers loans to postgraduate students, and Luno, a company that offers clients a wallet to buy, store and use Bitcoin and operates a Bitcoin exchange platform.

# Performance and outlook

## External environment

RMI's external environment during the year was characterised by the following trends:

- ▶ Low GDP growth in South Africa;
- ▶ Sharp currency fluctuations;
- ▶ Political uncertainty;
- ▶ Changing consumer behaviour and expectations; and
- ▶ Rapid technological change towards digital and smart technology.

In the year under review, the South African economy suffered its first recession since the 2008 global financial crisis. Current macroeconomic conditions suggest that there will be a continued lack of growth in the country. The ongoing political and policy uncertainty is expected to continue at least until the ANC's December electoral conference. Inflation in South Africa is likely to remain towards the top end of the target band. The Rand is also expected to remain weak against the Dollar, especially after the sovereign downgrades and fears that the independence of the central bank could potentially be undermined by the government's efforts to revive the ailing economy.

## Overview of results

In this difficult economic and business environment, the RMI group delivered a pleasing 18% increase in normalised earnings from continuing operations for the year ended 30 June 2017.

**Discovery's** 8% increase in normalised earnings was driven by the performance of its three established South African businesses; Discovery Health (up 11%), Discovery Life (up 10%) and Discovery Invest (up 12%), as well as VitalityHealth in the UK (up 52%). The emerging businesses made significant progress towards profitability. Discovery weathered headwinds in the UK as a result of low interest rates and unfavourable exchange rate movements. Earnings growth was also strained by increased finance charges which emanated from the funding of the new business acquisition costs incurred at VitalityLife and an increase in the utilisation of Discovery's bank syndicated loan programme to fund new initiatives.

**MMI** maintained its normalised earnings of R3.2 billion from the prior year. Growth in normalised earnings was strained by the impact of weak investment market returns over the past two years on asset-based fees and the negative underwriting experience on group disability business. MMI's expense optimisation project

targets annual expense savings of R750 million by the 2019 financial year, with actual savings to date amounting to R323 million. The embedded value amounted to R42.5 billion (or R26.51 per share) as at 30 June 2017, reflecting a 4.7% return for the year.

Normalised earnings from **OUTsurance** increased by 25% to R2.5 billion, mainly due to favourable claims experience across the group. The cost-to-income ratio improved from 26.2% to 25.8%, primarily attributable to the efficiency gains achieved by Youi and OUTsurance Life. There was also a significant reduction in the start-up loss at Youi New Zealand due to the improvement in the claims and cost-to-income ratios. The OUTsurance group achieved a return on equity of 33.7% and a claims ratio of 51.3%.

RMI included normalised earnings of R246 million from **Hastings** for the four months from 1 March 2017 to 30 June 2017. Hastings announced its interim results for the six months ended 30 June 2017 on 9 August 2017. Gross written premiums increased by 28% and normalised earnings by 22% for the six-month period. Hastings recorded a sustained increase in clients, with live client policies increasing by 15% to 2.5 million and market share growing to 7% of the UK private car insurance market. Hastings

declared an interim dividend of 4.1 pence per share, an increase of 24% on the interim dividend in the prior year of 3.3 pence per share.

**RMI Investment Managers** completed its first two years of operations with the financial performance slightly behind expectations. This was primarily due to the impact of weak markets on the profitability of its underlying affiliates. During the year under review, two new affiliates were added to the group, namely Truffle and Polar Star, together adding R26 billion of assets under management across listed equities, bonds and commodities. The total assets under management across the nine affiliates of the group totalled R75 billion as at 30 June 2017.

**Royal Investment Managers**, established almost a year ago as a joint venture with Royal Bafokeng Holdings, acquired its first affiliate, Sesfikile Capital, a listed property asset manager with assets under management of R18.1 billion.

**Merchant Capital** continued its strong operational performance, as well as investing in its core operations and product development.

**RMB Structured Insurance** was sold in March 2017 and recorded a loss of R38 million in the nine months to March 2017.

The funding and holding company costs amounted to R389 million, compared to R195 million in the 2016 financial year. The increase is as a result of the net liabilities at holding company level increasing from R1 487 million to R9 789 million following the acquisition of the 29.9% stake in Hastings. The funding rates on the debt are as follows:

- ▶ R1 130 million preference shares (three years and one day) – 66% of prime but fixed at 7.119% for one year
- ▶ R1 130 million preference shares (five years) – 68% of prime but fixed at 7.343% for one year
- ▶ R5 650 million preference shares (three years and one day) – 66% of prime
- ▶ R1 800 million preference shares (five years) – 68% of prime
- ▶ R2 551 million GBP-denominated loan (£150 million) in Main Street 1353, the holding company of the group's investment in Hastings – 50% is a three-year loan at LIBOR (LIBOR fixed at 0.77%) plus 1.5% and the other 50% is a five-year loan at LIBOR (LIBOR fixed at 0.98%) plus 1.95%.

## SOURCES OF NORMALISED EARNINGS

RMI regards normalised earnings as the appropriate basis to evaluate business performance as it eliminates the impact of non-recurring items and accounting anomalies.

The total normalised earnings of RMI's investee companies for the year under review are listed in the table below:

R million	For the year ended 30 June		% change
	2017	2016	
<b>Continuing operations</b>			
Discovery	4 656	4 312	8
MMI	3 208	3 206	–
OUTsurance (excluding Hastings)	2 463	1 985	24
– OUTsurance (including Hastings)	2 476	1 985	25
– Hastings included in OUTsurance	(13)	–	–
Hastings (four months ended 30 June 2017)	828	–	–
Other <sup>1</sup>	(5)	(11)	55
<b>Discontinued operation</b>			
RMB Structured Insurance (excluding Truffle)	(38)	8	>(100)

1. Other includes RMI Investment Managers, Truffle and Merchant Capital.

A detailed reconciliation between reported headline earnings and normalised earnings has been provided in the annual financial statements of the respective investee companies. The annual financial statements of these investee companies are available on their respective websites.

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

R million	For the year ended 30 June		% change
	2017	2016	
<b>Continuing operations</b>	3 927	3 342	18
Discovery	1 167	1 079	8
MMI	816	805	1
OUTsurance (excluding Hastings)	2 092	1 664	26
– OUTsurance (including Hastings)	2 103	1 664	26
– Hastings included in OUTsurance	(11)	–	–
Hastings (four months ended 30 June 2017)	246	–	–
Other <sup>1</sup>	(5)	(11)	55
Funding and holding company costs	(389)	(195)	(100)
<b>Discontinued operation</b>			
RMB Structured Insurance (excluding Truffle)	(30)	6	>(100)
<b>Normalised earnings</b>	3 897	3 348	16
Normalised earnings per share (cents) (continuing operations)	263.6	225.0	17
Normalised earnings per share (cents) (continuing and discontinued operations)	261.6	225.3	16

1. Other includes RMI Investment Managers, Truffle and Merchant Capital.

A reconciliation of the adjustments made to headline earnings to derive normalised earnings is presented on page 22.

## MARKET VALUE OF INVESTMENTS

During the 2017 financial year, RMI's share price decreased by 5% (2016: decreased by 3%), compared to a 2% decrease in the life insurance index and a 12% increase in the non-life insurance index. RMI has delivered a total annual compounded return to shareholders of 27.1% since its listing in March 2011.

The individual investment performances during the 2017 financial year are outlined below:

- ▶ **Discovery's** share price increased by 4% (2016: decreased by 3%).
- ▶ **MMI's** share price decreased by 11% (2016: decreased by 25%), with a dividend yield of 7.8% (based on the share price of R20.24 as at 30 June 2017).
- ▶ On a "look-through" basis, based on share prices as at 30 June 2017, the value attributed to RMI's unlisted investments decreased by 12% (2016: increased by 6%) to R29.8 billion (2016: R33.8 billion). These unlisted investments include **OUTsurance** (excluding OUTsurance's 49% stake in the group's holding in Hastings) (87.7% held), **RMI Investment Managers** (100% held) and the AlphaCode investments.

R million	2017	2016	% change
Market value of interest in:			
– Discovery	20 716	19 838	4
– MMI	8 117	9 080	(11)
– Hastings (RMI's effective holding)	9 857	–	–
– 29.9% holding	10 491	–	–
– Attributable to non-controlling interest of OUTsurance	(634)	–	–
Market value of listed investments	38 690	28 918	34
RMI Investment Managers and AlphaCode at cost	619	103	>100
Discontinued operation (RMB Structured Insurance)	–	364	(100)
Implied market value of RMI's stake in OUTsurance (excluding Hastings)	29 187	33 312	(12)
Gross market value of portfolio	68 496	62 697	9
Net liabilities of holding company	(9 789)	(1 487)	>(100)
<b>RMI MARKET CAPITALISATION</b>	58 707	61 210	(4)
RMI closing share price (cents)	3 899	4 120	(5)

The movement in the net liabilities of the holding company was due to the acquisition of a 29.9% stake in Hastings in March 2017.

## FINAL DIVIDEND FOR THE 2017 FINANCIAL YEAR

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

The board is of the opinion that RMI is adequately capitalised and that the company will be able to meet its obligations in the foreseeable future after payment of the final dividend declared.

The board resolved to declare a final dividend of 65.0 cents (2016: 65.0 cents) per ordinary share with an option to elect scrip in lieu of cash or to reinvest all or part of the cash dividend (net of any applicable taxes) in RMI ordinary shares. The total dividend for the year of 118.0 cents (2016: 118.0 cents) per ordinary share is covered 2.2 times (2016: 1.9 times) by the normalised earnings of 261.6 cents (2016: 225.3 cents) per share.

Since 2014, RMI has actively pursued a strategy to optimise, diversify and modernise its portfolio of financial services assets. Its 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 RMI board has decided that, in addition to the cash dividend, it would offer the scrip distribution alternative and the reinvestment option to prudently manage RMI's capital structure. The RMI board will continuously assess RMI's dividend policy through its investment phase and may, if appropriate, continue to utilise the scrip distribution alternative and the reinvestment option to support investment activity.

Shareholders are referred to the dividend declaration forming part of this announcement regarding the applicability of Dividend Withholding Tax to the ordinary dividend and more detail on the options available to shareholders.

## Events after the reporting period

### PRODIGY INVESTMENTS LIMITED

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In July 2017, RMI acquired a 3.5% in Prodigy Investments Limited, an international fintech platform that offers loans to postgraduate students.

### LUNO LIMITED

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In August 2017, RMI invested in Luno, a company that offers clients a wallet to buy, store and use Bitcoin and operates a Bitcoin exchange platform.

### ETHOS PRIVATE EQUITY PROPRIETARY LIMITED

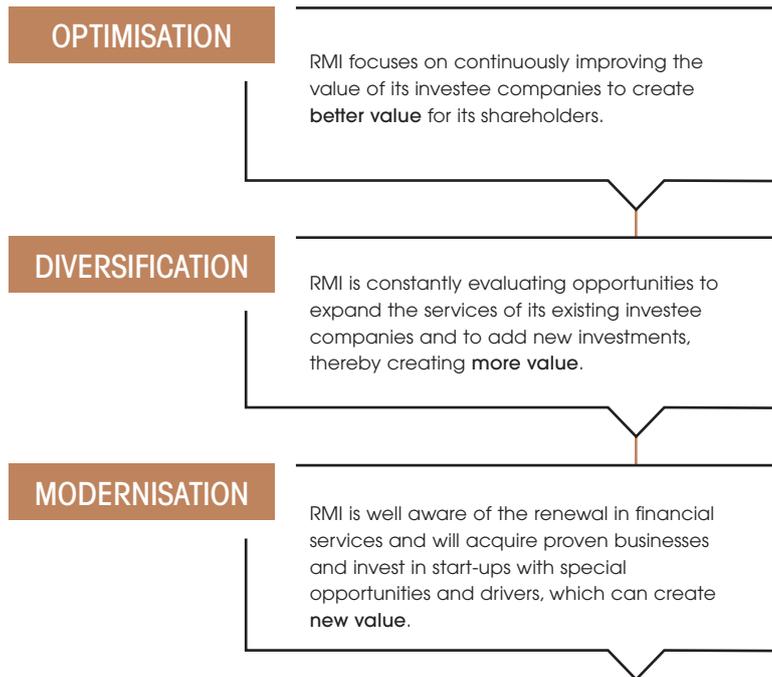
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RMI Investment Managers and Royal Investment Managers completed, subject to certain conditions, the acquisition of a combined 30% equity stake in Ethos Private Equity (Ethos), South Africa's premier private equity asset manager of R10 billion in assets, during September 2017.

## Update on RMI's strategy

RMI's aim is to be a value-adding, active enabler of leadership and innovation in financial services. Its objective is to create a portfolio of businesses which are market leaders and can deliver sustainable earnings, an attractive dividend yield and capital growth. RMI therefore pursues opportunities in the changing financial services landscape which meet its stringent criteria and strong values.

RMI's strategy is based on three initiatives designed to create sustainable value. They are:



RMI has a stated strategy to utilise its current balance sheet gearing capacity to add to its existing portfolio of significant stakes in financial services companies. In addition to exploring opportunities to invest in early-stage businesses, RMI has previously indicated that it will seek to add a further large investment (fourth pillar) to its portfolio alongside its existing three large holdings in Discovery, MMI and OUTsurance.

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

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

	STRATEGIC INITIATIVE	PROGRESS MADE
<p><b>OPTIMISE</b></p> 	<p><b>OPTIMISATION OF OUR ESTABLISHED INVESTMENTS</b></p> <p>Management will continue its strategic dialogue and activity across the portfolio. It will assist with creating leadership stability and succession planning.</p>	<ul style="list-style-type: none"> <li>▶ Extension of the MMI and OUTsurance incentive schemes</li> <li>▶ Sale of RMB Structured Insurance to Santam</li> <li>▶ Acquired 109 million additional shares in OUTsurance</li> <li>▶ Sale of 49% of Main Street 1353 to OUTsurance</li> <li>▶ Exploration of new products and strategic projects to diversify revenue streams for OUTsurance</li> <li>▶ Ongoing strategic dialogue with Discovery and MMI</li> </ul>
<p><b>DIVERSIFY</b></p> 	<p><b>DIVERSIFICATION OF INCOME STREAM AND DISTRIBUTION OF ASSETS</b></p> <p>RMI will evaluate expanding its geographic footprint further, either independently and/or through the existing portfolio.</p>	<ul style="list-style-type: none"> <li>▶ Acquired a 29.9% stake in Hastings for R8.6 billion, effective 1 March 2017</li> <li>▶ Finalisation of the acquisition of the following stakes in RMI Investment Managers: <ul style="list-style-type: none"> <li>- 26% in Polar Star</li> <li>- 25% in Truffle</li> <li>- 25% in Sesfikile Capital</li> </ul> </li> <li>▶ Continue to evaluate later-stage, capital-light business models with organic growth potential</li> </ul>
<p><b>MODERNISE</b></p> 	<p><b>MODERNISATION</b></p> <p>RMI will continue to identify new businesses, technologies and industry trends to complement RMI and its investee companies.</p>	<ul style="list-style-type: none"> <li>▶ AlphaCode has established itself as a centre of fintech excellence in South Africa and a source of innovation and next-generation thinking for the broader RMI portfolio</li> <li>▶ Acquired the following investments: <ul style="list-style-type: none"> <li>- 25.1% in Entersekt</li> <li>- 3.5% in Prodigy Finance</li> <li>- Minority stake in Luno</li> </ul> </li> <li>▶ Pipeline of potential future investment opportunities created</li> </ul>

## Outlook and future value creation

### EXISTING PORTFOLIO

The year under review saw **Discovery** continuing development of its operating model, with refinements in its three components, namely the Vitality shared-value insurance model, its growth engine and capital management philosophy. These together form the group's ambition of being the best insurance organisation globally and a powerful force for social good by 2018. Discovery has set three-dimensional criteria against which to measure the group against the aims of its ambition, namely:

- ▶ **Brilliant businesses:** Market-leading businesses with sustainable products that meet complex consumer needs, driving significant engagement and superior loss ratios and lapse rates, supported by an exceptional service ecosystem.
- ▶ **Profound impact:** Incentivises millions of people around the world to live healthier and be engaged in their wellness, with a measurable positive effect on their health. A return of risk-free plus 10% on equity and capital, as well as each business meeting an internal rate of return of risk-free plus 10%, with operating profit growth of CPI + 10% and robust cash management.
- ▶ **Powerful assets:** A unique business model underpinned by powerful science and data assets. A fully operational global Vitality network and a distinctive global brand.

The year under review saw material progression in all three these criteria, positioning Discovery strongly to meet the goals of its ambition.

The strategic focus areas of **MMI** are client-centricity, growth and excellence, with client engagement solutions through Multiply identified as an area of specific strategic importance to differentiate MMI's client value proposition. MMI continues to invest in growth initiatives with the aim of enhancing shareholder value over the longer term, with an increasing amount of the investment budget being allocated to initiatives that will broaden the South African distribution footprint. The partnership with African Bank creates the opportunity to expand MMI's distribution network and solution set. MMI has started the rationalisation of its African portfolio, with the health insurance joint venture in India likely to be its largest ongoing investment initiative outside of South Africa in the near future.

The South African economy is expected to remain challenging for the foreseeable future, which is likely to result in below inflationary premium growth for **OUTsurance's** South African operations. The Youi group is expected to achieve improved growth in the near future following the roll-out of product and service innovations coupled with entering the compulsory third party and commercial insurance markets. These strategies will take some time to contribute to premium growth. OUTsurance is excited about the strength of the client proposition of OUTvest and the positive impact this business can have on the savings and investment landscape in South Africa. The advice and administrative offering of this new venture will be expanded in the 2018 financial year. In the likely absence of strong premium growth in the next financial year, OUTsurance will retain its focus on underwriting discipline and the pursuit of operational excellence.

**Hastings** continues on its profitable growth trajectory. Its significant presence and strategic focus on price comparison websites, together with its straightforward insurance offering appeals to clients. It therefore continues to grow market share by both attracting new clients and maintaining strong retention levels. Hastings continues to invest in its digital and data-driven model to ensure agile and responsive pricing. This approach allows Hastings to maintain its robust underwriting discipline, resulting in loss ratios below the target range. Hastings is well on course to deliver on its ambitious 2019 targets set at the time of its listing in October 2015.

The assets under management across the affiliates of **RMI Investment Managers** continue to grow as clients look to independent asset managers for alternative choices to managing their assets. Industry flows, however, slowed during the year under review. This, coupled with the impact of lower asset class returns and heightened fee pressure, has resulted in a more challenging environment for the profitability of its affiliate asset managers.

Each affiliate has substantially strengthened their business during the year by diversifying their client

base, adding to their investment and operations teams as well as through the value that RMI Investment Managers has brought to each affiliate across strategy, distribution and operations. The team is pleased with the overall progress, especially with its growing reputation as a trusted, value-adding but non-interfering shareholder of choice for the independent asset management industry.

As mentioned in the RMI interim results announcement in March 2017, while the team is more focused on the execution of the growth initiatives at each affiliate than on further acquisitions, they continue to look for opportunities to add affiliates, particularly in the areas where the business is underexposed, notably in the managing of global assets and unlisted assets. In keeping with this, the team is very excited about Ethos becoming an affiliate, given the quality of the business as South Africa's oldest and one of the most highly-regarded alternative asset managers as well as the constructive outlook for the alternatives landscape, given client demand and a supportive regulatory environment. The team and its joint venture partners in MMI and RBH look forward to working with Ethos as they broaden out their business into other parts of the alternatives market to create a more diversified and transformed business.

**Merchant Capital's** short-term strategy entails solidifying the South African core business and operating platform. The business continues to launch new products and partnerships to further differentiate the product and grow the client base.

## NEW INVESTMENTS

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

### TRADITIONAL FINANCIAL SERVICES

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

### NEXT-GENERATION FINANCIAL SERVICES

**AlphaCode's** vision is to pioneer the next stage of financial services by identifying, partnering and growing extraordinary next-generation financial services entrepreneurs. Over the last year, AlphaCode has had success with partnering these next-generation businesses with its underlying portfolio companies to drive innovation and modernisation and building an investment portfolio of superior entrepreneur-led, early-stage fintech-focused businesses that have achieved some market traction and are poised for rapid growth.

Adding to its investment in Merchant Capital, the SME working capital financier, AlphaCode acquired 25.1% of Entersekt, an innovator that has developed world-class mobile banking security technology. AlphaCode also participated in a large capital raise in Prodigy Finance, an international fintech platform that offers loans to postgraduate students accepted into business, engineering and law at the world's top universities, alongside one of Europe's leading venture capital fintech investors, Balderton Capital. In August 2017, RMI invested in Luno, a company that offers clients a wallet to buy, store and use Bitcoin and operates a Bitcoin exchange platform. AlphaCode has a strong pipeline of investment opportunities and will continue to invest in this space.

AlphaCode remains committed to building the broader entrepreneurial sector in South Africa by supporting high-impact black technology entrepreneurs, providing mentorship, free office space, support facilities and access to enterprise development funding through its broad-based black economic empowerment centre of excellence.

RMI remains confident that its clear strategy, in conjunction with its solid investment portfolio and underpinned by unwavering values, will allow it to continue delivering on its primary objective of creating sustainable, long-term value for shareholders.

**GT Ferreira**  
Chairman

**Herman Bosman**  
Chief executive

Sandton  
19 September 2017

## Cash dividend or, as an alternative, an election to either (i) receive a scrip distribution; or (ii) reinvest the cash dividend.

### 1. INTRODUCTION

The board of directors (RMI board) of Rand Merchant Investment Holdings Limited (RMI) has declared a final gross cash dividend of 65 cents per RMI ordinary share for the year ended 30 June 2017 (cash dividend). Subject to the approval by RMI shareholders (RMI shareholders) of the resolution proposed to RMI shareholders in terms of a notice pursuant to section 60 (section 60 notice) of the Companies Act, 71 of 2008 (Companies Act), to be released on the Stock Exchange News Service (SENS) of JSE Limited (JSE) immediately subsequent to this announcement, the RMI board has resolved to make a maximum of 25 755 195 fully paid RMI ordinary shares of R0.0001 cents each (RMI shares) available to RMI shareholders as (a) capitalisation shares (having an aggregate notional issue price of up to R978 697 424.90) (capitalisation shares) and/or (b) reinvestment shares (having an aggregate notional issue price of the cash dividend reinvested (net of any applicable taxes)) (reinvestment shares).

The RMI board has resolved to:

- i. Make the capitalisation shares available to shareholders, in lieu of the cash dividend (scrip distribution alternative); and
- ii. Offer RMI shareholders the ability to reinvest all or part of their cash dividend (net of any applicable taxes) (subscription value) in RMI ordinary shares by RMI (a) crediting such subscription value to RMI shareholders; and (b) applying such credit on behalf of RMI shareholders to subscribe for reinvestment shares (reinvestment option),

as may be elected by RMI shareholders in respect of all or a part of their shareholding recorded in RMI's securities register at 12:00 on the record date, being Friday, 6 October 2017 (record date).

### 2. RATIONALE

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 RMI board has decided that, in addition to the cash dividend, it would offer the scrip distribution alternative and the reinvestment option to

prudently manage RMI's capital structure. The RMI board will continuously assess RMI's dividend policy through its investment phase and may, if appropriate, continue to utilise the scrip distribution alternative and the reinvestment option to support investment activity.

The scrip distribution alternative and reinvestment option are effective methods of managing the balance sheet post the March 2017 acquisition of a 29.9% interest in Hastings Group Holdings plc by RMI, which was debt-funded. Furthermore, the scrip distribution alternative and the reinvestment option each provide a cost-effective opportunity for shareholders to increase their shareholding in RMI.

The scrip distribution alternative and the reinvestment option are underpinned by the support of Remgro Limited (Remgro), Royal Bafokeng Proprietary Holdings Limited, LL Dippenaar and GT Ferreira (being shareholders representing in aggregate approximately 52.2% of the RMI shareholders' voting rights). Furthermore, Remgro has undertaken to elect to receive reinvestment shares in respect of all its shareholding, as contemplated in the reinvestment option.

### 3. TERMS OF THE SCRIP DISTRIBUTION ALTERNATIVE AND REINVESTMENT OPTION

Each of the scrip distribution alternative and reinvestment option applies to the final gross cash dividend of 65 cents per RMI share for the year ended 30 June 2017 declared on Tuesday, 19 September 2017. This will result in the payment of a net cash dividend of 52 cents per RMI share to RMI shareholders liable for the full local 20% dividends tax and 65 cents per RMI share to RMI shareholders exempt from dividends tax. Non-resident RMI shareholders may qualify for a reduced rate of dividends tax, depending on whether or not there is an applicable agreement for the avoidance of double taxation between South Africa and the country in which a non-resident RMI shareholder is resident for tax purposes.

The scrip distribution alternative and reinvestment option will proceed pursuant to the approval of RMI shareholders in terms of the section 60 notice authorising the allotment and issue of up to a maximum of 25 755 195 RMI shares as fully paid capitalisation shares (in terms of the scrip distribution alternative) or fully paid reinvestment shares (in terms of the reinvestment option) to RMI

shareholders. The issue price for the capitalisation and reinvestment shares is R38.00 per RMI share, being a 3.9% discount to the closing share price of RMI shares on the JSE as at 15 September 2017.

The number of capitalisation shares which RMI shareholders may elect to receive under the scrip distribution alternative has been determined in the ratio of 1.71053 fully paid RMI shares for every 100 RMI shares held on the record date.

The reinvestment shares will be issued in consideration for the amount of the cash dividend (net of any applicable taxes) as elected to be reinvested by RMI shareholders. The number of reinvestment shares, which RMI shareholders may elect to receive under the reinvestment option, assuming RMI shareholders are liable for the full local 20% dividends tax, has been determined in the ratio of 1.36842 reinvestment shares for every 100 RMI shares held on the record date. If no dividends tax is payable, the number of reinvestment shares, which RMI shareholders may elect to receive under the reinvestment option has been determined in the ratio of 1.71053 reinvestment shares for every 100 RMI shares held on the record date.

The ratio of the scrip distribution alternative and reinvestment option has been determined with reference to such RMI shareholder's ordinary shareholding in RMI (at 12:00 on the record date) in relation to the ratio that 65 cents or the cash dividend (net of any applicable taxes), in the scrip distribution alternative or reinvestment option, respectively, bears to the issue price being R38.00 per share, which is a 3.9% discount to the closing price on Friday, 15 September 2017 for RMI shareholders electing such option.

A circular setting out the terms of the cash dividend, scrip distribution alternative and the reinvestment option, including a form of election, will be posted to RMI shareholders on Tuesday, 19 September 2017.

The election to receive either the scrip distribution alternative or the reinvestment option is optional. RMI shareholders may elect to participate in either (i) the scrip distribution alternative; or (ii) the reinvestment option, in respect of all or part of their shareholding on the record date. RMI shareholders not electing to participate in the scrip distribution alternative or the reinvestment option in respect of all or part of their shareholding will be deemed, by default, to have elected to receive the cash dividend. RMI shareholders recorded in the securities register of RMI

at 12:00 on the record date, who have not elected to receive the capitalisation shares or the reinvestment shares, will be paid the cash dividend in respect of their entire shareholding on the record date.

To the extent that the receipt and/or exercise of the election to participate in the scrip distribution alternative or the reinvestment option and/or the receipt of capitalisation shares or the reinvestment shares pursuant to the scrip distribution alternative or the reinvestment option, respectively, in jurisdictions other than South Africa might be prohibited or otherwise restricted by legal or regulatory requirements, require RMI to take any further action, and/or the failure to comply with any of those legal or regulatory requirements might constitute a violation of the laws or regulatory requirements of such jurisdictions, RMI shareholders will not be entitled to elect to participate in and/or receive RMI shares pursuant to the scrip distribution alternative or the reinvestment option, directly or indirectly, in those jurisdictions, and shall be deemed to have elected the cash dividend, notwithstanding an election to participate in the scrip distribution alternative or the reinvestment option by such RMI shareholder.

In respect of the reinvestment option, RMI will not be seeking shareholder approval in terms of section 41 of the Companies Act. Accordingly, RMI shareholders who are (i) directors or prescribed officers of RMI; or (ii) related or inter-related (as contemplated in section 2 of the Companies Act) to RMI or to any directors or prescribed officers of RMI will not be eligible to elect the reinvestment option and shall be deemed to have elected the cash dividend, notwithstanding an election of the reinvestment option by such RMI shareholder.

Where an RMI shareholder's entitlement to new RMI shares in respect of the scrip distribution alternative or the reinvestment option results in a fraction of a new RMI share, such fraction will be rounded down to the nearest whole number resulting in allocations of whole RMI shares to RMI shareholders and a cash payment for the fraction will be made to such RMI shareholders.

The weighted average traded price for RMI shares on Wednesday, 4 October 2017 less 10% of such weighted average traded price shall be used as the cash value for fractional entitlements to be paid to RMI shareholders in accordance with the JSE Listings Requirements. RMI will release an announcement on Thursday, 5 October 2017 in respect of the cash value determined on this basis.

#### 4. CIRCULAR AND SALIENT DATES

A circular providing RMI shareholders with the full information on the cash dividend, the scrip distribution alternative and the reinvestment option, including a form of election to participate in either (i) the scrip distribution alternative or (ii) the reinvestment option, will be distributed to RMI shareholders on Tuesday, 19 September 2017.

The salient dates of events thereafter are as follows:

Event	2017
Circular and form of election posted to RMI shareholders	Tuesday, 19 September
Declaration information released on SENS	Tuesday, 19 September
Finalisation information, including the ratio applicable to the scrip distribution alternative/reinvestment option released on SENS	Tuesday, 19 September
Last day to trade in order to be eligible to participate in the cash dividend/scrip distribution alternative/reinvestment option (cum cash dividend/scrip distribution alternative/reinvestment option)	Tuesday, 3 October
RMI shares trade ex the entitlement to the cash dividend/scrip distribution alternative/reinvestment option	Wednesday, 4 October
Listing of maximum possible number of new RMI shares that could be issued in terms of the scrip distribution alternative and reinvestment option	Wednesday, 4 October
Cash value in respect of the RMI shares for determination of fractional entitlements to RMI shares, based on the volume weighted average price on Wednesday, 4 October 2017, discounted by 10%, released on SENS by 11:00 on	Thursday, 5 October
Last day to elect (i) the scrip distribution alternative in lieu of the cash dividend; or (ii) to reinvest the cash dividend in terms of the reinvestment option. Forms of election to reach the Transfer Secretaries by 12:00 on	Friday, 6 October
Record date in respect of the cash dividend/scrip distribution alternative/reinvestment option	Friday, 6 October
Share certificates in respect of the scrip distribution alternative, posted and/or electronic funds transfers and CSDP/broker accounts credited/updated	Monday, 9 October
Announcement regarding the results of the cash dividend/scrip distribution alternative/reinvestment option released on SENS	Monday, 9 October
Share certificates in respect of the reinvestment option posted and CSDP/broker accounts credited/updated	Wednesday, 11 October
Maximum number of new RMI shares listed adjusted to reflect the actual number of new RMI shares issued in respect of the scrip distribution alternative and the reinvestment option on or about	Friday, 13 October
<p>Notes:</p> <ol style="list-style-type: none"> <li>All times provided are South African standard time quoted on a 24-hour basis, unless specified otherwise. The above dates and times are subject to change. If applicable, any changes will be released on SENS.</li> <li>Share certificates may not be dematerialised or rematerialised between Wednesday, 4 October 2017 and Friday, 6 October 2017, both days inclusive.</li> </ol>	

By order of the RMI board.

**JS Human**

Company secretary

Sandton

19 September 2017

# Portfolio review



## VALUE CREATED

MARKET CAPITALISATION	+4%	NORMALISED EARNINGS	+8%	DIVIDENDS PAID	+6%
<b>2017: R82.7 billion</b> 2016: R79.3 billion		<b>2017: R4 656 million</b> 2016: R4 312 million		<b>2017: 186.0c per share</b> 2016: 175.5c per share	

## 2017 PERFORMANCE

- ▶ Core new business increased by 16% to R17.0 billion;
- ▶ Normalised profit from operations increased by 10% to R7.0 billion;
- ▶ Normalised earnings increased by 8% to R4.7 billion;
- ▶ Gross inflows under management increased by 10% to R115.1 billion;
- ▶ Embedded value increased by 8% to R57.3 billion; and
- ▶ The total dividend for the year increased by 6% to 186.0 cents per share.

Discovery's earnings and headline earnings increased by 21%. The main reason for the difference in the growth rate between normalised earnings and headline earnings is the non-recurring rebranding and business acquisition costs in the UK included in headline earnings in the prior year, which have reduced significantly in the current year.

RMI included R1 167 million of Discovery's earnings in its normalised earnings (2016: R1 079 million).

For a detailed review of Discovery's performance, RMI's shareholders are referred to [www.discovery.co.za](http://www.discovery.co.za).



## VALUE CREATED

MARKET CAPITALISATION	(11%)	NORMALISED EARNINGS	-	DIVIDENDS PAID	-
2017: R31.9 billion 2016: R35.6 billion		2017: R3 208 million 2016: R3 206 million		2017: 157c per share 2016: 157c per share	

## 2017 PERFORMANCE

- ▶ The new business present value of premiums decreased by 6% to R41.6 billion;
- ▶ The value of new business decreased by 23% to R547 million, with the new business margin reducing to 1.3%. The decrease in the value of new business is largely attributable to lower sales volumes resulting from the current economic environment;
- ▶ The embedded value amounted to R42.5 billion (2 651 cents per share), reflecting a 4.7% return on embedded value for the year;
- ▶ MMI recorded normalised earnings of R3.2 billion, in line with the normalised earnings in the prior year. Growth in normalised earnings was strained by the impact of weak investment market returns over the past two years on asset-based fees and the negative underwriting experience on group disability business;
- ▶ Earnings and headline earnings decreased by 28% and 11% respectively. Earnings include the impairment of intangible assets (software and goodwill) which is added back for headline earnings. Headline earnings include significant foreign currency and fair value losses on shareholders assets, which are added back for normalised earnings;
- ▶ MMI achieved total expense savings of R219 million in the year under review, with a reduction in annual expenses of R750 million targeted for 2019; and
- ▶ The total dividend for the year remained in line with the comparative year at 157.0 cents per share.

A capital buffer of R3.7 billion was recorded at 30 June 2017, after allowing for economic capital requirements, strategic growth initiatives and the final dividend.

RMI included R816 million of MMI's earnings in its normalised earnings (2016: R805 million).

For a detailed review of MMI's performance, RMI's shareholders are referred to [www.mmiholdings.co.za](http://www.mmiholdings.co.za).



## VALUE CREATED

MARKET CAPITALISATION	+68%	NORMALISED EARNINGS	+25%	DIVIDENDS PAID	+12%
2017: R9.7 billion 2016: R5.8 billion		2017: R2 476 million 2016: R1 985 million		2017: R40.2c per share 2016: R36.0c per share	

## 2017 PERFORMANCE

- ▶ Group normalised earnings increased by 25% to R2 476 million, mainly driven by a favourable claims ratio across the group;
- ▶ Net earned premiums grew by 5% to R14.1 billion, of which the Australasian operations contributed 46%;
- ▶ The claims ratio decreased from 54.4% to 51.3%;
- ▶ The cost-to-income ratio decreased from 26.2% to 25.8%; and
- ▶ The total dividend for the year increased by 12% to 40.2 cents per share.

New policy inceptions for the OUTsurance group, measured in terms of annualised premiums, decreased by 25% for the year under review. The reduction is primarily driven by price competition experienced in the Australasian business, coupled with the recessionary market conditions in South Africa. OUTsurance's philosophy is to maintain pricing discipline throughout the economic cycle, which is evident from the claims ratios achieved.

**OUTsurance's** South African short-term operations increased net earned premiums by 5%. Business OUTsurance delivered pleasing growth in line with an incremental expansion in product offering and agency distribution. Despite numerous natural catastrophe events during the year, OUTsurance achieved a favourable claims ratio of 49.2%. Reduced new business strain owing to slower growth, a generally favourable accident claims environment and positive prior year claims development contributed to the reduced claims ratio. As the claims ratio continues to track below the 55% target, significant premium reductions have been implemented, which will place pressure on premium inflation and profitability over the near term. The cost-to-income ratio increased from 18.9% to 19.1%. This increase is attributable to slower premium growth.

**OUTsurance Life** generated normalised earnings of R112 million, an increase of 87% compared to the prior year. Gross written premiums increased by 12% to R440 million. The strong growth in profitability was aided by enhanced economies of scale. The embedded value increased by 22% to R835 million.

**Youi Australia** generated normalised earnings of R686 million for the year under review, compared to R497 million in the comparative year. The claims ratio decreased from 58.9% to 55.5% due to a favourable claims environment and positive prior year claims development. The cost-to-income ratio reduced from 30.9% to 30.4%, emanating from slower relative cost growth.

**Youi New Zealand's** start-up loss reduced from R107 million to R62 million, driven by a significant improvement in the claims and cost-to-income ratios.

Normalised earnings at **OUTsurance Namibia** increased from R30 million to R39 million, driven by an improvement in the cost-to-income ratio.

The OUTsurance group is well prepared to comply with the new prudential standards of the Solvency Assessment and Management regulatory regime, which is expected to become effective on 1 July 2018.

RMI included R2 103 million of OUTsurance's earnings in its normalised earnings (2016: R1 664 million).

For a detailed review of OUTsurance's performance, RMI's shareholders are referred to [www.outsurance.co.za](http://www.outsurance.co.za)

# Hastings

Hastings has a 31 December year-end. The latest published results are for the six months ended 30 June 2017. All the numbers and commentary below relate to the six-month period ended 30 June 2017.

## VALUE CREATED

MARKET CAPITALISATION	+27%	NORMALISED EARNINGS	+29%	DIVIDENDS PAID	+24%
<b>30 June 2017: £2 063 million</b> 31 December 2016: £1 623 million		<b>Six months ended 30 June 2017: £66.9 million</b> Six months ended 30 June 2016: £51.9 million		<b>Six months ended 30 June 2017: 4.1 pence per share</b> Six months ended 30 June 2016: 3.3 pence per share	

## 2017 PERFORMANCE

- ▶ Continued growth, with gross written premiums up 28% to £462.0 million (30 June 2016: £360.6 million) and net revenue up 22% to £345.2 million (30 June 2016: £282.7 million);
- ▶ Sustained increases in clients with live client policies up by 15% to 2.5 million (30 June 2016: 2.2 million);
- ▶ Growing market share to 7.0% of UK private car insurance (30 June 2016: 6.2%);
- ▶ Loss ratio of 73.4% for the period ended 30 June 2017, below the target range of between 75% and 79% (30 June 2016: 74.0%);
- ▶ Consistent growth in profitability with normalised earnings increasing by 29% to £66.9 million (30 June 2016: £51.9 million);
- ▶ Ongoing cash generation and reduction in net debt leverage multiple, with free cash generated up 34% to £65.8 million (30 June 2016: £49.1 million) and net debt leverage multiple reduced to 1.7x (31 December 2016: 1.9x);
- ▶ Continued investment in the business, including Guidewire, the group's next-generation claims and broking platform, which will enable future growth opportunities and operational efficiencies;
- ▶ A significant improvement in solvency, with a Solvency II coverage ratio of 173% (31 December 2016: 140%), benefiting from the use of undertaking specific parameters in the calculation; and
- ▶ Interim dividend for 2017 of 4.1 pence per share (30 June 2016: 3.3 pence per share), reflecting increasing earnings and strong cash generation.

# Financial review

## EFFECTIVE INTEREST

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

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

As at 30 June 2017, the effective interest held by RMI can be compared to the actual interest in the statutory issued share capital of the companies as follows:

Audited	30 June 2017		30 June 2016	
	Effective	Actual	Effective	Actual
<b>Continuing operations</b>				
Discovery	25.1%	25.0%	25.1%	25.0%
MMI	25.7%	25.5%	25.7%	25.5%
OUTsurance	88.5%	87.7%	84.5%	83.6%
Hastings	29.9%	29.9%	–	–
RMI Investment Managers	100.0%	100.0%	100.0%	100.0%
Merchant Capital	25.1%	25.1%	25.1%	25.1%
Entersekt	25.1%	25.1%	–	–
<b>Discontinued operation</b>				
RMB Structured Insurance	–	–	78.1%	75.5%

## SUMMARISED CONSOLIDATED INCOME STATEMENT

for the year ended 30 June

R million	2017 Audited	2016 Audited	% change
<b>Continuing operations</b>			
Earned premiums net of reinsurance	14 064	13 428	5
Fee and other income	135	110	23
Investment income	688	579	19
Profit on sale of subsidiary	1	–	–
Net fair value losses on financial assets	(43)	(39)	10
<b>Income</b>	<b>14 845</b>	<b>14 078</b>	<b>5</b>
Net claims paid	(6 783)	(6 888)	(2)
Fair value adjustment to investment contracts and insurance contract provisions	(427)	(414)	3
Fair value adjustment to financial liabilities	(199)	(204)	(2)
Acquisition, marketing and administration expenses	(3 886)	(3 768)	3
<b>Profit before finance costs, share of after-tax results of associates and taxation</b>	<b>3 550</b>	<b>2 804</b>	<b>27</b>
Net finance costs	(414)	(136)	>100
Share of after-tax results of associates	1 702	1 524	12
<b>Profit before taxation</b>	<b>4 838</b>	<b>4 192</b>	<b>15</b>
Taxation	(1 084)	(893)	21
<b>Profit for the year from continuing operations</b>	<b>3 754</b>	<b>3 299</b>	<b>14</b>
<b>Discontinued operation</b>			
(Loss)/profit for the year from discontinued operation	(49)	8	>(100)
<b>Profit for the year</b>	<b>3 705</b>	<b>3 307</b>	<b>12</b>
Attributable to:			
Equity holders of RMI	3 327	2 977	12
Non-controlling interests	378	330	15
<b>Profit for the year</b>	<b>3 705</b>	<b>3 307</b>	<b>12</b>

## COMPUTATION OF HEADLINE EARNINGS

for the year ended 30 June

R million	2017 Audited	2016 Audited	% change
Earnings attributable to equity holders	3 327	2 977	12
Adjustment for:			
Intangible asset impairments	91	37	
Loss/(profit) on dilution of shareholding	28	(26)	
Profit on sale of subsidiary	(20)	(29)	
Impairment of available-for-sale financial assets	9	3	
Impairment of owner-occupied building to below cost	7	–	
Realised profit on sale of available-for-sale financial assets	(2)	(1)	
Loss/(profit) on disposal of property and equipment	1	(2)	
Release of foreign currency translation reserve	–	(23)	
Profit from business combination	–	(2)	
<b>Headline earnings attributable to equity holders</b>	<b>3 441</b>	<b>2 934</b>	<b>17</b>
Headline earnings from continuing operations	3 480	2 927	19
Headline earnings from discontinued operations	(39)	7	>(100)
<b>Headline earnings from continuing and discontinued operations</b>	<b>3 441</b>	<b>2 934</b>	<b>17</b>

## COMPUTATION OF NORMALISED EARNINGS

for the year ended 30 June

R million	2017	2016	% change
<b>Headline earnings attributable to equity holders</b>	3 441	2 934	17
RMI's share of normalised adjustments made by associates:	456	438	
Amortisation of intangible assets relating to business combinations	238	209	
Basis and other changes and investment variances	117	131	
Non-recurring and restructuring expenses	63	39	
Rebranding and business acquisition expenses	25	91	
Net realised and fair value losses/(gains) on shareholders' assets	13	(53)	
Additional 54.99% share of DiscoveryCard profits	–	22	
Accrual of dividends payable to preference shareholders	–	(1)	
Group treasury shares	–	(24)	
<b>Normalised earnings attributable to equity holders</b>	<b>3 897</b>	<b>3 348</b>	<b>16</b>

## COMPUTATION OF EARNINGS AND DIVIDEND PER SHARE

for the year ended 30 June

R million	2017 Audited	2016 Audited	% change
<b>Earnings attributable to equity holders</b>	3 327	2 977	12
<b>Headline earnings attributable to equity holders</b>	3 441	2 934	17
<b>Normalised earnings attributable to equity holders</b>	3 897	3 348	16
Number of shares in issue (millions)	1 506	1 486	1
Weighted average number of shares in issue (millions)	1 486	1 482	–
<b>Continuing operations</b>			
Earnings per share (cents)	226.5	200.5	13
Diluted earnings per share (cents)	223.0	197.1	13
Headline earnings per share (cents)	234.2	197.6	19
Diluted headline earnings per share (cents)	230.6	194.3	19
Normalised earnings per share (cents)	263.6	225.0	17
Diluted normalised earnings per share (cents)	259.7	221.6	17
<b>Continuing and discontinued operations</b>			
Earnings per share (cents)	223.9	200.9	11
Diluted earnings per share (cents)	220.4	197.5	12
Headline earnings per share (cents)	231.5	198.0	17
Diluted headline earnings per share (cents)	227.9	194.7	17
Normalised earnings per share (cents)	261.6	225.3	16
Diluted normalised earnings per share (cents)	257.7	222.0	16
<b>Dividend per share (cents)</b>			
Interim dividend	53.0	53.0	–
Final dividend	65.0	65.0	–
<b>Total dividend</b>	<b>118.0</b>	<b>118.0</b>	<b>–</b>

## SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June

R million	2017 Audited	2016 Audited	% change
<b>Profit for the year</b>	3 705	3 307	12
<b>Other comprehensive income for the year</b>			
Items that may subsequently be reclassified to income			
Currency translation differences	(248)	364	>(100)
Fair value movement on available-for-sale financial assets	(22)	1	>(100)
Impairment of available-for-sale financial assets	13	–	–
Deferred taxation relating to available-for-sale financial assets	2	(4)	>100
Share of other comprehensive income of associates	(417)	1	>(100)
Items that may subsequently be reclassified to income, after taxation	(448)	(26)	>(100)
Items that will not be reclassified to income, after taxation	31	27	15
<b>Other comprehensive income for the year</b>	(672)	362	>(100)
<b>Total comprehensive income for the year</b>	3 033	3 669	(17)
<b>Total comprehensive income attributable to:</b>			
Equity holders of RMI	2 707	3 264	(17)
Non-controlling interests	326	405	(20)
<b>Total comprehensive income for the year</b>	3 033	3 669	(17)

## SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June

R million	2017 Audited	2016 Audited
<b>Assets</b>		
Property and equipment	1 000	679
Goodwill and other intangible assets	90	113
Investments in associates	24 455	14 888
Financial assets	9 846	10 679
Loans and receivables including insurance receivables	2 536	2 774
Deferred acquisition cost	338	365
Reinsurance contracts	672	257
Deferred taxation	176	204
Assets of discontinued operation	–	6 100
Cash and cash equivalents	2 302	611
<b>Total assets</b>	41 415	36 670
<b>Equity</b>		
Share capital and premium	14 328	13 526
Reserves	4 947	5 030
Capital and reserves attributable to equity holders of the company	19 275	18 556
Non-controlling interests	1 215	1 170
<b>Total equity</b>	20 490	19 726
<b>Liabilities</b>		
Financial liabilities	12 479	2 514
Insurance contracts	6 841	7 068
Share-based payment liability	165	253
Payables and provisions	1 263	1 238
Deferred taxation	53	–
Taxation	124	245
Liabilities of discontinued operation	–	5 626
<b>Total liabilities</b>	20 925	16 944
<b>Total equity and liabilities</b>	41 415	36 670

## STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

Audited R million	Share capital and premium	Equity accounted reserves	Transactions with non- controlling interests	Other reserves	Retained earnings	Non- controlling interests	Total equity
<b>Balance as at 1 July 2015</b>	13 526	3 368	(2 017)	182	2 046	978	18 083
Profit per income statement	–	–	–	–	2 977	330	3 307
Other comprehensive income	–	1	–	286	–	75	362
Dividend paid	–	–	–	–	(1 738)	(189)	(1 927)
Income of associates retained	–	612	–	–	(612)	–	–
BBBEE cost	–	1	–	–	–	–	1
Change in non-distributable reserves	–	1	–	–	–	–	1
Movement in treasury shares	–	11	–	–	–	–	11
Transactions with non-controlling interests	–	(55)	(80)	20	25	(65)	(155)
Issue of share capital to non- controlling interests by subsidiaries	–	–	–	–	–	41	41
Share-based payment reserve	–	–	–	5	(3)	–	2
<b>Balance as at 30 June 2016</b>	13 526	3 939	(2 097)	493	2 695	1 170	19 726
Profit per income statement	–	–	–	–	3 327	378	3 705
Other comprehensive income	–	(417)	–	(203)	–	(52)	(672)
Dividend paid	–	–	–	–	(1 753)	(253)	(2 006)
Shares issued	760	–	–	–	–	–	760
Income of associates retained	–	770	–	–	(770)	–	–
BBBEE cost	–	1	–	–	–	–	1
Movement in treasury shares	37	6	–	–	3	–	46
Transactions with non-controlling interests	–	1	(902)	–	11	44	(846)
Issue of share capital to non- controlling interests by subsidiaries	–	–	–	–	–	71	71
Share-based payment reserve	–	3	–	5	(165)	(23)	(180)
Sale of subsidiary	5	(3)	10	–	(7)	(120)	(115)
<b>Balance as at 30 June 2017</b>	14 328	4 300	(2 989)	295	3 341	1 215	20 490

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
*for the year ended 30 June*

R million	2017 Audited	2016 Audited
<b>Cash flows from operating activities</b>		
Cash generated from operations	2 638	2 815
Interest income	503	450
Dividends received	1 085	1 089
Income tax paid	(1 130)	(684)
Cash flows from discontinued operation	190	213
<b>Net cash generated from operating activities</b>	<b>3 286</b>	<b>3 883</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(484)	(266)
Disposal of property and equipment	2	18
Additions to investments	(9 215)	(6 051)
Disposals of investments	9 572	3 516
Investments in associates	(9 040)	(289)
Proceeds on sale of subsidiary	165	–
Cash flows from discontinued operation	–	(133)
<b>Net cash outflow to investing activities</b>	<b>(9 000)</b>	<b>(3 205)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	760	–
Issue of preference share debt	9 710	400
Redemption of preference share debt	(2 298)	–
Cash raised from borrowings incurred	2 367	60
Cost of funding	(59)	–
Dividends paid on preference shares in issue	(271)	(140)
Dividends paid by subsidiaries to non-controlling interests	(253)	(189)
Additional shares acquired in subsidiary	(912)	–
Dividends paid to shareholders	(1 753)	(1 738)
Proceeds on issue of shares to non-controlling interest	71	41
Cash flows from discontinued operation	–	(72)
<b>Net cash inflow from/(outflow to) financing activities</b>	<b>7 362</b>	<b>(1 638)</b>
Net increase/(decrease) in cash and cash equivalents for the year	1 648	(960)
Unrealised foreign currency translation adjustment - continuing operations	43	675
Unrealised foreign currency translation adjustment - discontinued operation	–	1
Cash and cash equivalents at the beginning of the year	611	2 142
Cash and cash equivalents transferred to assets of discontinued operation	–	(1 247)
<b>Cash and cash equivalents at the end of the year</b>	<b>2 302</b>	<b>611</b>

## SEGMENTAL REPORT

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

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

Audited R million	Discovery	MMI	OUTsurance	Discontinued operations	Other <sup>1</sup>	RMI group
<b>Year ended 30 June 2016</b>						
Net income	–	–	14 026	–	52	14 078
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 302)	–	–	(7 302)
Depreciation	–	–	(118)	–	(4)	(122)
Amortisation	–	–	(73)	–	–	(73)
Other expenses	–	–	(3 431)	–	(142)	(3 573)
Finance costs	–	–	–	–	(136)	(136)
Fair value adjustment to financial liabilities	–	–	(204)	–	–	(204)
Share of after tax results of associates	949	555	15	–	5	1 524
<b>Profit/(loss) before taxation</b>	949	555	2 913	–	(225)	4 192
Taxation	–	–	(904)	–	11	(893)
<b>Result for the year from continuing operations</b>	949	555	2 009	–	(214)	3 299
Discontinued operation	–	–	–	8	–	8
<b>Profit/(loss) for the year</b>	949	555	2 009	8	(214)	3 307
<b>Normalised earnings</b>	1 079	805	1 985	7	(528)	3 348
Assets	–	–	14 541	6 100	1 028	21 669
Investments in associates	8 517	6 210	39	–	122	14 888
Intangible assets	–	–	110	–	3	113
<b>Total assets</b>	8 517	6 210	14 690	6 100	1 153	36 670
<b>Total liabilities</b>	–	–	8 793	5 626	2 525	16 944

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

## GEOGRAPHICAL SEGMENTS

Audited R million	South Africa	Australia	New Zealand	UK	Total
<b>Year ended 30 June 2017</b>					
Profit/(loss)	2 207	991	(62)	–	3 136
Share of after tax results of associates	1 367	–	–	335	1 702
Profit/(loss) before taxation	3 574	991	(62)	335	4 838
Taxation	(779)	(305)	–	–	(1 084)
<b>Result from continuing operations</b>	<b>2 795</b>	<b>686</b>	<b>(62)</b>	<b>335</b>	<b>3 754</b>
Discontinued operations	(49)	–	–	–	(49)
<b>Profit/(loss) for the year</b>	<b>2 746</b>	<b>686</b>	<b>(62)</b>	<b>335</b>	<b>3 705</b>
<b>Assets</b>					
Property and equipment	941	41	18	–	1 000
Investments in associates	15 554	–	–	8 901	24 455
Financial assets	5 346	6 722	314	–	12 382
Cash and cash equivalents	2 036	236	30	–	2 302
Other assets	145	921	210	–	1 276
<b>Total assets</b>	<b>24 022</b>	<b>7 920</b>	<b>572</b>	<b>8 901</b>	<b>41 415</b>
<b>Liabilities</b>					
Insurance contract liabilities	1 961	4 697	183	–	6 841
Other liabilities	10 588	828	117	2 551	14 084
<b>Total liabilities</b>	<b>12 549</b>	<b>5 525</b>	<b>300</b>	<b>2 551</b>	<b>20 925</b>
<b>Year ended 30 June 2016</b>					
Profit/(loss)	2 045	730	(107)	–	2 668
Share of after tax results of associates	1 459	–	–	65	1 524
Profit/(loss) before taxation	3 504	730	(107)	65	4 192
Taxation	(669)	(224)	–	–	(893)
<b>Result from continuing operations</b>	<b>2 835</b>	<b>506</b>	<b>(107)</b>	<b>65</b>	<b>3 299</b>
Discontinued operations	8	–	–	–	8
<b>Profit/(loss) for the year</b>	<b>2 843</b>	<b>506</b>	<b>(107)</b>	<b>65</b>	<b>3 307</b>
<b>Assets</b>					
Property and equipment	601	47	31	–	679
Investments in associates	14 888	–	–	–	14 888
Financial assets	5 594	7 274	579	–	13 447
Cash and cash equivalents	374	199	38	–	611
Other assets	5 937	995	113	–	7 045
<b>Total assets</b>	<b>27 394</b>	<b>8 515</b>	<b>761</b>	<b>–</b>	<b>36 670</b>
<b>Liabilities</b>					
Insurance contract liabilities	1 763	5 053	252	–	7 068
Other liabilities	8 400	1 334	142	–	9 876
<b>Total liabilities</b>	<b>10 163</b>	<b>6 387</b>	<b>394</b>	<b>–</b>	<b>16 944</b>

## FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The group's activities expose it to a variety of financial risks. 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 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 on the reporting date.

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

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

Audited R million	Level 1	Level 2	Level 3	Total carrying amount
<b>30 June 2017</b>				
<b>Financial assets</b>				
Equity securities				
– Exchange traded funds	619	–	–	619
– Listed preference shares	377	–	–	377
– Collective investment schemes	–	99	–	99
– Listed equity securities	129	–	–	129
– Unlisted equity securities	–	–	1	1
Debt securities				
– Unlisted preference shares	–	105	–	105
– Zero-coupon deposits	–	208	–	208
– Term deposits	–	4 429	–	4 429
– Government, municipal and public utility securities	–	457	–	457
– Money market securities	–	2 551	–	2 551
– Collective investment schemes	–	45	–	45
– Other debt securities at fair value through profit or loss	–	7	813	820
Derivative asset	–	6	–	6
<b>Total financial assets recognised at fair value</b>	<b>1 125</b>	<b>7 907</b>	<b>814</b>	<b>9 846</b>
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	150	150
Derivative liability	–	8	–	8
<b>Total financial liabilities recognised at fair value</b>	<b>–</b>	<b>8</b>	<b>150</b>	<b>158</b>

Audited R million	2017	2016
<b>Reconciliation of movement in level 3 assets</b>		
Balance at the beginning of the year	643	386
Additions in the current year	281	294
Disposals (sales and redemptions)	(106)	(4)
Investment income accrued	64	33
Dividends received	(68)	(66)
<b>Balance at the end of the year</b>	<b>814</b>	<b>643</b>
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.		
<b>Reconciliation of movement in level 3 liabilities</b>		
Balance at the beginning of the year	144	107
Preference dividends charged to the income statement in respect of profit sharing arrangements on ring-fenced insurance business	199	205
Preference dividends paid	(193)	(207)
Loan advanced	–	39
<b>Balance at the end of the year</b>	<b>150</b>	<b>144</b>

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.

Audited R million	Level 1	Level 2	Level 3	Total carrying amount
<b>30 June 2016</b>				
<b>Financial assets</b>				
Equity securities				
– Exchange traded funds	412	–	–	412
– Listed preference shares	393	–	–	393
– Listed equity securities	124	–	–	124
Debt securities				
– Unlisted preference shares	–	647	–	647
– Zero-coupon deposits	–	83	–	83
– Term deposits	–	5 219	–	5 219
– Government, municipal and public utility securities	–	431	–	431
– Money market securities	–	2 657	–	2 657
– Collective investment schemes	–	41	–	41
– Other debt securities at fair value through profit or loss	–	–	643	643
Derivative asset	–	29	–	29
<b>Total financial assets recognised at fair value</b>	<b>929</b>	<b>9 107</b>	<b>643</b>	<b>10 679</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	–	–	144	144
Derivative liability	–	12	–	12
<b>Total financial liabilities recognised at fair value</b>	<b>–</b>	<b>12</b>	<b>144</b>	<b>156</b>

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

The unlisted preference shares are redeemable with a notice period of one year. Dividend yields are 65% of the prime overdraft rate. The fair value of the preference shares with a maturity date of longer than one year is calculated on a discounted cash flow basis with the discount rate adjusted for changes in credit risk of the ultimate counterparty. Due to the redeemable nature, the preference shares are deemed to be debt securities.

The fair value of money market instruments and government, municipal and public utility securities is determined based on observable market inputs. These instruments consist of fixed and floating rate notes held in segregated portfolios. These instruments are typically listed on the Bond Exchange of South Africa (BESA). Instruments listed on BESA are not as actively traded as Level 1 instruments. Despite this, the fair values of these instruments can be readily determined as the inputs utilised in the fair value calculation are available in the open market and on the coupon face at issue date.

Zero-coupon deposits are not traded actively during a financial reporting period and are classified as Level 2 financial instruments. Fair value is determined based on a discounted cash flow valuation.

The group uses zero-coupon deposits to offset the interest rate risk inherent in some of the life insurance products underwritten by OUTsurance Life. The counterparties to these deposits are the large South African banks. The zero-coupon deposits have been structured to allow for the payment of the notional initial deposit to be spread over the specified term to enable cash flow matching. The maturity dates of the accreting zero-coupon deposits are long-term, with maturity dates at the various trading dates not exceeding 15 years. The fair values of the accreting zero-coupon deposits are determined monthly based on observable market inputs. To determine the fair values of the accreting zero-coupon deposits, a risk-free swap yield curve produced every business day by the JSE is referenced. The instruments are designated at fair value through profit or loss, with both the interest accrual and fair value accounted for in profit or loss.

#### LEVEL 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. The financial instruments at fair value through profit or loss represent profits arising out of the profit sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends bi-annually to the FirstRand Limited Group. The only significant unobservable input in the calculation of the preference dividend is the historic profit of the profit sharing arrangements and there are no other inputs that determine the value of these instruments. Should the profit of the profit sharing arrangement increase or decrease, the preference dividend will increase or decrease in direct proportion.

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

The fair value is determined based on valuation techniques where the input is determined by management, e.g. profits arising out of profit sharing arrangements, and is not readily available in the market or where market observable input is significantly adjusted.

Inputs are determined by the profits arising and calculations are made in accordance with the profit share percentages, stipulated within the profit sharing arrangement. No assumptions or adjustments or any other inputs are made to the profits before or after distribution. Distribution of the profits arising are made in the form of preference dividends.

# Independent auditor's report on the summarised consolidated financial statements

## To the shareholders of RMI

### OPINION

The summarised consolidated financial statements of RMI, set out on pages 20 to 31, indicated as such and contained in the accompanying summarised audited results announcements, which comprise the summarised consolidated statement of financial position as at 30 June 2017, the consolidated income statement and statements of other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of RMI for the year ended 30 June 2017.

In our opinion, the accompanying summarised consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements of RMI, in accordance with the requirements of the JSE Listings Requirements for the summarised financial statements, set out in the basis of presentation to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements.

### SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

The summarised consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summarised consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of RMI and the auditor's report thereon.

### THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 19 September 2017. That report also includes the communication of other key audit matters as reported in the auditor's report of the audited financial statements. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

### DIRECTORS' RESPONSIBILITY FOR THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summarised consolidated financial statements in accordance with the requirements of the JSE Listings Requirements for the summarised financial statements, set out in the basis of presentation to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summarised consolidated financial statements are consistent, in all material respects, with the consolidated audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

*PricewaterhouseCoopers*

PricewaterhouseCoopers Inc.

Director: Francois Prinsloo

Registered Auditor

Johannesburg

19 September 2017

# Administration

## RAND MERCHANT INVESTMENT HOLDINGS LIMITED (RMI)

Registration number: 2010/005770/06  
JSE ordinary share code: RMI  
ISIN code: ZAE000210688

## DIRECTORS

GT Ferreira (chairman), JJ Durand (deputy chairman), HL Bosman (CEO & FD), JP Burger, P Cooper, (Ms) SEN De Bruyn Sebotsa, LL Dippenaar, JW Dreyer, PM Goss, PK Harris, (Ms) A Kekana, P Lagerström, MM Morobe, O Phetwe and KC Shubane.

## ALTERNATES

F Knoetze and DR Wilson

Mr Durand was elected as deputy chairman of the board of directors effective from 25 November 2016.

Ms Kekana was appointed as a non-executive director (she used to be an alternate for Mr Phetwe) and Mr Wilson as an alternate non-executive director on 1 September 2017.

## 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 8166  
Telefax: +27 11 282 4210  
Web address: [www.rmih.co.za](http://www.rmih.co.za)

## SPONSOR

(in terms of JSE Limited 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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