# AUDITED SUMMARY FINAL RESULTS ANNOUNCEMENT AND CASH DIVIDEND DECLARATION

for the year ended 30 June 2019

RMI

OPTIMISE
DIVERSIFY
MODERNISE

# Contents



## Basis of preparation

This report covers the audited summary final financial results of Rand Merchant Investment Holdings Limited (RMI), based on International Financial Reporting Standards (IFRS), for the year ended 30 June 2019.

The primary results and accompanying commentary are presented on a normalised basis as we believe this most accurately reflects the group's underlying economic performance. The normalised earnings have been derived from the audited IFRS financial results. A reconciliation of the adjustments made to derive normalised earnings is presented in the accompanying schedules. Refer to page 29.

Schalk Human MCom(Acc) CA(SA) prepared these financial results under the supervision of Herman Bosman LLM CFA.

The directors take full responsibility and confirm that this information has been correctly extracted from the audited consolidated annual financial statements from which the summary consolidated financial statements were derived.

## About the artist in this report

Every year, RMI commissions a distinctive and unique work of art to display at its registered office in Sandton. It acts as a symbol of our commitment to creativity in South Africa.

This year, RMI approached Khayelitsha-born furniture designer **Bonga Jwambi** to create a timber bench in RMI's colours.

32-year-old Bonga is self-taught. He uses plastic strapping, palette wood and nylon rope as materials to form the base of his output, and he has developed an admired ability to take these overlooked waste materials and translate them into clean-lined, contemporary designs, worthy of a place in the modern home.

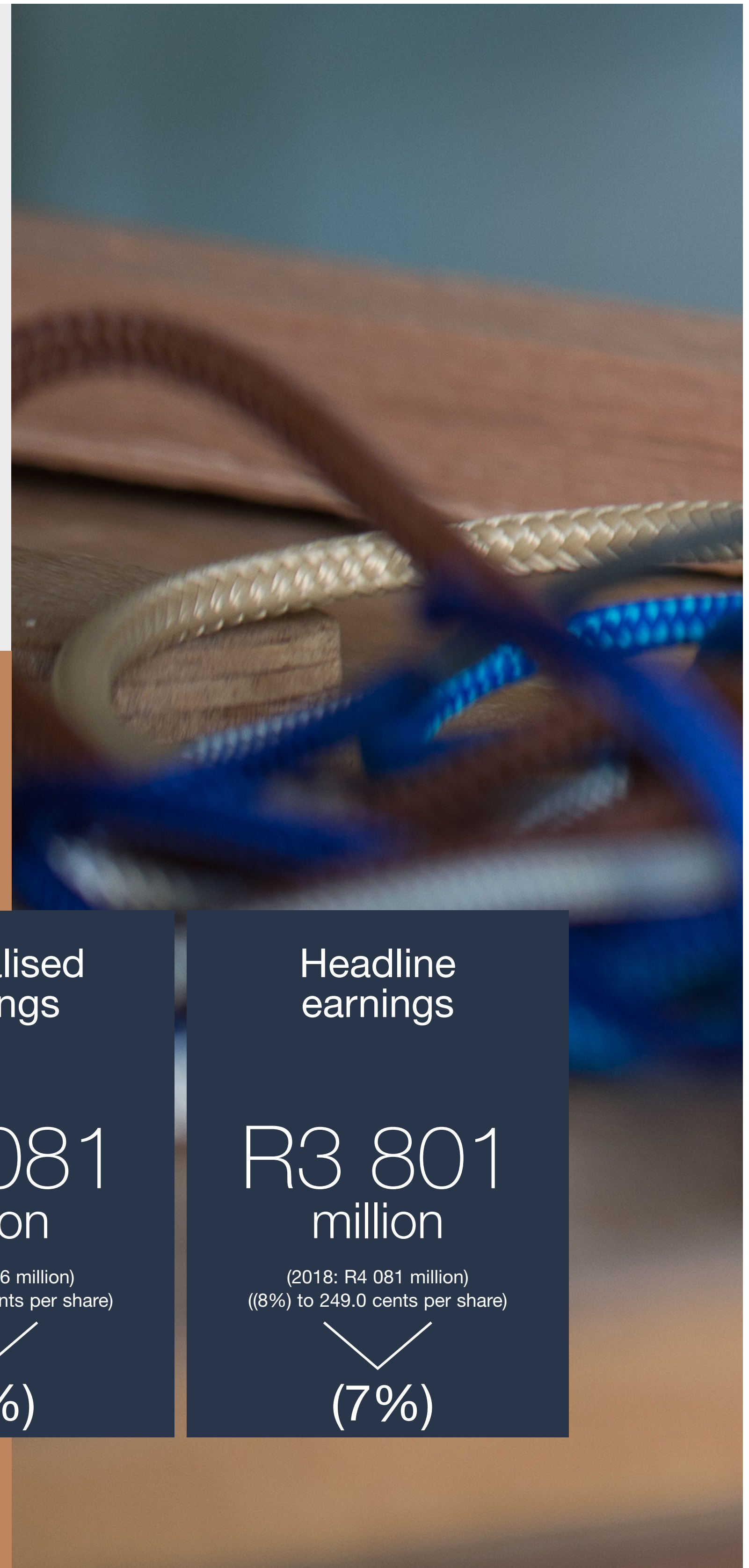
He has been nominated as one of Design Indaba's Emerging Creatives and featured in magazines such as House and Leisure and VISI. Recently, Bonga became one of only a handful of international designers to be invited to take part in this year's Milan Design Week.

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

# Enduring value created

for the year ended 30 June 2019

| Compound shareholders' return | Normalised earnings | Headline earnings |
|---|---|---|
| since listing in 2011<br>19.7%<br>per annum | R4 081<br>million<br>(2018: R4 266 million)<br>((5%) to 266.9 cents per share)<br>(4%) | R3 801<br>million<br>(2018: R4 081 million)<br>((8%) to 249.0 cents per share)<br>(7%) |





# About RMI

RMI is a JSE-listed investment holding company with a proud track record of investing in disruptive and entrepreneurial financial services businesses. The group's long-term performance has been achieved by partnering with exceptional management teams. RMI positions itself as a value-adding, stable and aspirational shareholder.

**RMI is a strategic, active manager of a R52 billion financial services portfolio**

RMI

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 26**.

| | |
|---|---|
| Discovery | 25.0% |
| Hastings | 29.9% |
| Momentum Metropolitan | 27.3% |
| OUTsurance | 89.1% |
| RMI Investment Managers (Identify. Partner. Grow) | 100% |
| Alpha Code | 100% |

## CREATING ENDURING VALUE

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

RMI invests, builds and divests depending on market opportunities to achieve its objectives of creating enduring value and maintaining a solid financial structure. RMI typically invests for the long term and is not geographically- or size-bound.

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



# RMI's strategy

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

## VISION

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

## CULTURE AND VALUES

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

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

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

Our active involvement with our investments focuses on:

**OPTIMISE**

RMI focuses on continuously improving the value of its investee companies to create **better enduring value** for its shareholders.

**DIVERSIFY**

RMI is constantly evaluating opportunities to expand the services and reach of its existing investee companies and to add new investments, thereby creating **more enduring value.**

**MODERNISE**

RMI is well aware of renewal in its industries and will acquire proven businesses or invest in start-ups with special opportunities and drivers, which can create **new enduring value.**

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

Investments with the following attributes will be of interest:

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

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

## INVESTMENT POLICY AND MANAGEMENT

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

RMI manages its investments on a decentralised basis and its involvement is concentrated mainly on being an influential shareholder and providing support rather than being involved in the day-to-day management of investees. The board considers it in the best interests of all the parties concerned to respect the decentralised business model and the fact that the business is conducted in separate legal entities.

The support provided to investees is either in the form of strategic, financial and managerial support or the unlocking of value by means of creating the environment for possible deal-making.

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

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

Management is empowered to execute this strategy.

## VALUE CREATION

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

For the detailed calculation of normalised earnings in respect of the current and prior year, refer to page 29.

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

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

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

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

## INVESTMENT PARAMETERS

RMI has set itself a target of a total maximum investment of approximately R1 billion in asset management and R1.5 billion in next-generation investments.

RMI's focus for new investments in future will be predominantly in South Africa, the United Kingdom and Australia, with a bias for unlisted, emerging markets and property and casualty (P&C) insurance investments.

The mature businesses in RMI's portfolio are all businesses that applied innovation and fresh thinking in established industries to change the way things are done. RMI partners with smart people who have all created financial services businesses that have rewritten the rule books in their sectors.

## DIVIDEND POLICY

It is RMI's objective to provide shareholders with a consistent annual dividend flow.

RMI's dividend policy is to pay out all normal dividends received from underlying investments after servicing any funding commitments at holding company level and considering its debt capacity and investment pipeline. In future, the intention will be to, where possible, target dividend growth in line with the consumer price index (CPI). The policy seeks to achieve a sound balance between providing an attractive yield to shareholders and achieving sustained growth while remaining agile.

Given RMI's active investment strategy, this policy will be assessed on a regular basis.



# RMI's investments

## RMI's significant investments as at 30 June 2019

| | Discovery | Hastings | Momentum Metropolitan | OUTsurance |
|---|---|---|---|---|
| **Listed or unlisted** | JSE-listed | LSE-listed | JSE-listed | Unlisted |
| MARKET CAPITALISATION/ IMPLIED VALUE (100%) | R98.2 billion | R23.1 billion | R28.4 billion | R24.6 billion |
| RMI'S INTEREST | 25.0% | 29.9% | 27.3% | 89.1% |
| RMI'S RANKING AS SHAREHOLDER | 1st | 1st | 1st | 1st |
| MARKET VALUE/IMPLIED VALUE OF RMI'S INTEREST | R24.6 billion | R6.5 billion | R7.6 billion | R21.9 billion |
| SHARE OF RMI PORTFOLIO BASED ON VALUE | 40% | 11% | 13% | 36% |
| NORMALISED EARNINGS (100%) | R5 035 million | R1 941 million | R3 074 million | R2 390 million |
| EMBEDDED VALUE/ VALUATION (100%) | EMBEDDED VALUE R71.2 billion | VALUATION R32.5 billion | EMBEDDED VALUE R41.2 billion | VALUATION R37.3 billion |

# Listed investments

**Discovery** is a pioneering market-leader with uniquely-positioned businesses in the healthcare, long- and short-term insurance, wellness and financial services industries. It is listed on the JSE Limited.

It operates in South Africa, the United Kingdom (UK), China, Singapore, Australia, Japan, Europe and the USA through various business lines.

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

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

Hastings provides refreshingly straightforward products and services. It has 2.8 million live client policies and is a multi-award-winning business.

**Momentum Metropolitan** is an insurance-based financial services group which is listed on the JSE Limited. It was previously listed as MMI Holdings.

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

# Unlisted investments

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

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

**RMI Investment Managers'** affiliate model enables the company to access a differentiated part of the investment management industry by investing in and partnering with independent investment managers, as well as specialist investment teams.

RMI Investment Managers has taken minority equity stakes in boutique investment managers which span the asset class spectrum across active, passive, traditional and alternative.

While the team is predominantly focused on the execution of the growth initiatives at each affiliate, they continue to look for opportunities that will complement the existing suite of managers as the group builds its share of the South African investment management market.

**AlphaCode** identifies, partners and grows extraordinary next-generation financial services entrepreneurs. Its investments to date are:

- **Entersekt**, a leader in authentication app security and payments-enablement technology, offering a highly scalable solution set, with a track record of success across multiple continents;
- **Merchant Capital**, a provider of alternative sources of working capital for small and medium enterprises in South Africa;
- **Prodigy**, an international fintech platform that offers loans to postgraduate students attending top universities; and
- **Luno**, who makes it safe and easy to buy, store and learn about digital currencies like Bitcoin and Ethereum. Luno has more than 2 million clients across 40 countries.

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

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

# Performance

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

## EXTERNAL ENVIRONMENT

RMI's external environment is characterised by the following trends:

| | |
|---|---|
| **Fragile signs of growth** | South Africa's economy grew 3.1% in the quarter ending June, driven by a buoyant mining sector from a major rally in metal prices and gold trading at its highest level in six years. The economy was, however, still only 0.9% bigger than a year before. While the country avoided a recession, the outlook for the economy remains bleak. Investment levels remain subdued. |
| **Credit negative Eskom bailout** | Eskom's bailout by the South African government will result in higher budget deficits and overall debt. The shortfall will need to be financed through increased borrowing, higher taxes and/or non-core asset sales. Moody's, the only agency with South Africa's sovereign crediting rating still at investment grade, warned that the planned bailout is credit negative. |
| **Tax revenue undershoots** | Total gross tax revenue receipts are running significantly below expectations. This is indicative of a weak performing economy. |
| **Worsening levels of unemployment** | The unemployment rate increased to a multi-year high of 29% in the second quarter of 2019. |
| **Inflation at midpoint of SARB target** | Headline consumer inflation, measured by the consumer price index (CPI), remained unchanged at 4.5% year-on-year in June 2019. Factory-gate inflation, measured by the producer price index (PPI), moderated further to 5.8% year-on-year in June, from 6.5% in April and 6.4% in May. |
| **Easing interest rates** | In July, the Monetary Policy Committee of the South African Reserve Bank (SARB) reduced the repo policy interest rate by 25 bps to 6.50%, with the prime rate declining to 10.00%. This was due to global growth concerns, the continued deterioration in local growth outlook, low inflation and a further decline in inflation expectations. It reverses the 25 bps rate hike in November 2018. |
| **Rand remains under pressure** | The Rand remains under pressure due to rising risk aversion amid lingering international factors such as the ongoing USA-China trade war. Domestically, fears regarding the impact of Eskom's debt on the fiscus weigh on the currency. |
| **UK GDP contracts in second quarter** | UK GDP contracted unexpectedly for the first time in almost seven years in the second quarter of 2019 as stockpiling activity slowed and Brexit uncertainty intensified. The contraction was driven by a sharp drop in manufacturing output. It is expected that growth will remain weak due to ongoing Brexit uncertainty. |

This external environment is volatile and poses significant downside risk. Consumers are under pressure, which makes growing the underlying investments in the group challenging.



## MAJOR MILESTONES

**OPTIMISE**

- Increased shareholding in **OUTsurance** and **Momentum Metropolitan** (via the share buy-back programme of Momentum Metropolitan);
- Exploration of new products and strategic projects to diversify revenue streams for **OUTsurance**;
- Ongoing strategic dialogue with **Discovery**, **Momentum Metropolitan** and **Hastings**; and
- **RMI Investment Managers** is largely in the consolidation phase of its business model evolution and has, therefore, focused its efforts on optimising the existing portfolio by truly partnering its boutique investment managers in a supportive but non-interfering manner.

**DIVERSIFY**

- Supported **Discovery** in diversifying into banking and participated in Discovery's vendor placement;
- RMI Investment Managers acquired the following interests during the year:
  - 15% in **Perpetua Investment Management**; and
  - 31% in **Visio Fund Managers** through Royal Investment Managers.
- RMI Investment Managers restructured the existing **Granate Asset Management** business by facilitating the addition of a multi-asset capability; and
- RMI continues to evaluate later-stage, capital-lite business models with organic growth potential.

**MODERNISE**

- Ongoing substantial investment by **Discovery**, **Hastings**, **Momentum Metropolitan** and **OUTsurance** in latest technology;
- **AlphaCode** has established itself as a centre of fintech excellence in South Africa and a source of innovation and next-generation thinking for the broader RMI portfolio; and
- Pipeline of potential future investment opportunities created.

## OVERVIEW OF RESULTS

RMI's group consolidated normalised earnings decreased by 4% to R4.1 billion for the year ended 30 June 2019. This result is mainly attributable to the significant increase in spend on new strategic initiatives, an increase in the claims ratio of the short-term insurance operations and the substantial investment in new business growth activities at OUTsurance.

**Discovery's** normalised headline earnings decreased by 7% for the year ended 30 June 2019 to R5 billion, a consequence of a significant planned increased investment in new strategic initiatives and an unexpected spike in large Discovery Life claims in the first half of the year. For the first half of the year, this increased investment and spike in large mortality claims resulted in a reduction in normalised headline earnings of 16%. Underlying business performance continued to be strong with businesses in each phase of the growth engine tracking well:

i. Established businesses are robust and increased operating profit by 3%, impacted by volatility in Discovery Life claims, while continuing to demonstrate strong business fundamentals;
ii. Emerging businesses are scaling satisfactorily and performed extremely well over the year, continuing their growth trajectory and achieving an operating profit growth of 94% to R422 million; and
iii. New businesses were largely within budget and are gaining traction. The significant investment in new initiatives of 21% of group earnings to R1.3 billion was above target, but in line with budget. The most notable of these investments was Discovery Bank, which launched in November 2018 for beta testing with a public roll-out in June 2019.

New business annualised premium income increased by 13% to R18.3 billion. Embedded value grew by 9% on an annualised basis to R71.2 billion. Performance of cash and capital metrics was pleasing, with the cash buffer increasing to R4.4 billion and the financial leverage ratio improving to 23.3%.

RMI included normalised earnings of R552 million from **Hastings** for the year ended 30 June 2019. Hastings announced its interim results for the six months ended 30 June 2019 on 7 August 2019. Gross written premiums increased by 3% to £499.2 million compared to the six months ended 30 June 2018 of £485.6 million. The adjusted operating profit after tax decreased by 43% to £59.7 million (2018: £105.1 million) as a result of market rate reductions, claims inflation continuing ahead of earned premium inflation, combined with legislative changes which increased underwriting levies. If the impact of the Ogden rate change in the current period and the VAT recovery in the prior period is excluded, adjusted operating profit decreased by 25% from £90.5 million to £68.1 million. The claims ratio of 81.1% (79.1% before the Ogden rate change) was above the target range of 75% to 79%. Hastings recorded a sustained increase in clients, with live client policies increasing by 4% to 2.81 million and market share growing to 7.8% of the UK private car insurance market. The retention rate improved by five percentage points from 30 June 2018 following the roll-out of new renewal pricing models and operational initiatives. The Solvency II coverage ratio eased to 160% (2018: 171%) and the net debt leverage multiple to 1.5 times adjusted operating profit (2018: 1.1 times). As in the prior year, Hastings declared an interim dividend of 4.5 pence per share.

**Momentum Metropolitan** reported steady progress with the three-year reset and grow strategy announced a year ago. It delivered diluted normalised headline earnings of R3.1 billion for the year. This represents an increase of 53% on the prior year. The financial results for the comparative year were impacted by large negative operating basis changes and investment variances across the South African retail businesses and the rest of Africa. Excluding the impact of operating basis changes and investment variances in both years, normalised headline earnings improved by 21% year-on-year. The solid results were underpinned by resilient operational performance in most businesses, supported by efficiency improvements and good underwriting results across the group. The results were somewhat muted by investments in strategies for future growth as well as an increase in losses on new initiatives, albeit in line with business plans. Momentum Metropolitan reinstated dividends with an ordinary dividend of 70 cents per ordinary share for the 2019 financial year, following the successful completion of a R2 billion share buy-back programme in November 2018. Momentum Metropolitan's capital position remains strong, with a solvency capital requirement (SCR) cover of 1.7 times, towards the higher end of the group's target cover range of 1.45 to 1.75 times.

Normalised earnings from **OUTsurance**, including its shareholding in Hastings, decreased by 13% to R2.6 billion, mainly due to higher claims and cost ratios across the group, coupled with a lower earnings contribution from its investment in Hastings. Excluding Hastings, normalised earnings decreased by 9% to R2.4 billion. The cost-to-income ratio increased from 25.6% to 28.3%. During 2019, the management team made significant investments in marketing and acquisition capability to drive profitable top line growth and build the necessary capacity to support the face-to-face distribution strategy of OUTsurance Business. As a result, annualised new business premium written increased by 27%. In addition, over the past two years, significant investments have been made to bolster data analytics, information technology and risk and compliance capacity necessitated by the changing regulatory, technology and competitive landscape. As expected and communicated during the interim results, the claims ratio increased (from 49.8% to 51.1%), driven by specific pricing actions and higher natural perils claims. In 2018, Youi experienced unusually low natural perils claims. This trend reversed in 2019 with notably higher weather-related claims.

**RMI Investment Managers** is now in its fourth year of operations, with its financial performance tracking in line with management's expectations of investments in affiliates at such an early stage of development.

The past 12 months have been a very challenging time for the South African investment market and asset management industry broadly. Despite the JSE All Share Index ending the period up 4.42%, its performance lagged cash (7.27%), bonds (11.50%) and inflation (4.5%). Global equities and emerging market equities also disappointed, delivering 4.97% and 3.27% respectively over the past year.

Notwithstanding the challenging political and macro-economic conditions, the affiliate managers remained focused on delivering good investment performance for their clients while continuing to strengthen their businesses through a more diversified client base and bolstering their investment and operational capabilities. During the past year, 69% of the affiliate retail portfolios were in the first or second quartiles of their respective ASISA (Association for Savings and Investment South Africa) categories. It was also pleasing to see boutique investment management firms in general outperform their more established competitors.

The financial year coincided with a difficult asset raising environment. South African institutional assets remained stagnant with negative net flows, whereas retail portfolios were net flow positive, with risk-averse money market and fixed income portfolios being the biggest beneficiaries. The affiliates gained R5.4 billion of assets under management (AUM). RMI Investment Managers' combined portfolio AUM at year-end was R157 billion.

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

The four **AlphaCode** investments, being Entersekt, Merchant Capital, Prodigy and Luno, all performed in line with expectations.

**Funding and holding company costs** amounted to R680 million, compared to R684 million in the prior year. RMI repaid R1.1 billion in debt from its surplus cash resources during the 2019 financial year.

## 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:

| | For the year ended 30 June | | |
|---|---|---|---|
| R MILLION | 2019 | 2018 | % change |
| Discovery | **5 035** | 5 401 | (7) |
| Hastings | **1 941** | 2 758 | (30) |
| Momentum Metropolitan | **3 074** | 2 003 | 53 |
| OUTsurance (excluding Hastings) | **2 390** | 2 639 | (9) |
| – OUTsurance (including Hastings) | **2 634** | 3 012 | (13) |
| – Hastings included in OUTsurance | **(244)** | (373) | 35 |
| Other[1] | **(22)** | (25) | 12 |

1. Other includes RMI Investment Managers and AlphaCode investments.

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:

| | For the year ended 30 June | | |
|---|---|---|---|
| R MILLION | 2019 | 2018 | % change |
| Discovery | **1 261** | 1 356 | (7) |
| Hastings | **552** | 778 | (29) |
| Momentum Metropolitan | **825** | 508 | 62 |
| OUTsurance (excluding Hastings) | **2 145** | 2 333 | (8) |
| – OUTsurance (including Hastings) | **2 364** | 2 661 | (11) |
| – Hastings included in OUTsurance | **(219)** | (328) | 33 |
| Other[1] | **(22)** | (25) | 12 |
| Funding and holding company costs | **(680)** | (684) | 1 |
| Normalised earnings | **4 081** | 4 266 | (4) |
| Normalised earnings per share (cents) | **266.9** | 281.5 | (5) |

1. Other includes RMI Investment Managers and AlphaCode investments.

A reconciliation of the adjustments made to headline earnings to derive normalised earnings is presented on page 29.

## MARKET VALUE OF INVESTMENTS

RMI's share price decreased by 9% (2018: decreased by 4%), compared to a 12% increase in the life insurance index (2018: increased by 14%) and a 9% increase in the non-life insurance index (2018: increased by 23%). RMI has delivered a total annual compound return to shareholders of 19.7% since its listing in March 2011.

The individual investment performances during the 2019 financial year are outlined below:

- **Discovery's** share price increased by 1% (2018: increased by 15%);
- **Hastings'** share price decreased by 23% in Pound Sterling terms (2018: decreased by 19%) and by 24% in Rand terms (2018: decreased by 14%); and
- **Momentum Metropolitan's** share price increased by 7% (2018: decreased by 13%).

On a "look-through" basis, based on share prices as at 30 June 2019, the value attributed to RMI's unlisted investments decreased by 16% (2018: decreased by 9%) to R22.9 billion (2018: R27.2 billion). These unlisted investments include OUTsurance (excluding OUTsurance's 49% stake in the group's holding in Hastings) (89.1% held), RMI Investment Managers (100% held) and the AlphaCode investments.

| R MILLION | 2019 Audited | 2018 Audited | % change |
|---|---|---|---|
| **Market value of listed investments** | **38 726** | 39 540 | (2) |
| Discovery | **24 575** | 23 887 | 3 |
| Hastings (RMI's effective holding) | **6 543** | 8 566 | (24) |
| – 29.9% holding | **6 912** | 9 072 | (24) |
| – Attributable to non-controlling interests of OUTsurance | **(369)** | (506) | 27 |
| Momentum Metropolitan | **7 608** | 7 087 | 7 |
| **Market value of unlisted investments** | **22 948** | 27 195 | (16) |
| RMI Investment Managers and AlphaCode | **1 035** | 834 | 24 |
| Implied market value of RMI's stake in OUTsurance (excluding Hastings) | **21 913** | 26 361 | (17) |
| **Gross market value of portfolio** | **61 674** | 66 735 | (8) |
| Net liabilities of holding company | **(9 638)** | (9 709) | (1) |
| **RMI market capitalisation** | **52 036** | 57 026 | (9) |
| **RMI closing price per share (cents)** | **3 397** | 3 745 | (9) |

## EVENTS AFTER THE REPORTING PERIOD

RMI increased its investment in Prodigy Finance to 13.1% and acquired a 25.1% equity stake in GuidePost, a high-touch health and insuretech innovator that is poised for international growth. RMI Investment Managers restructured the existing Granate Asset Management (Granate) business by facilitating the addition of a multi-asset capability. Through this transaction RMI Investment Managers decreased its interest in Granate to a 30% stake with staff holding the balance.

## CHANGES TO THE BOARD OF DIRECTORS

Udo Lucht was appointed as an alternate, non-executive director to Albertinah Kekana on 3 September 2019. He is replacing David Wilson who resigned as an alternate non-executive director of the RMI board, effective 1 July 2019. Udo is the current Head of Resources and Industrials Investments at Royal Bafokeng. He is a chartered accountant and chartered financial analyst and spent 13 years at RMB before joining Royal Bafokeng in 2016.

## FINAL DIVIDEND FOR THE 2019 FINANCIAL YEAR

Momentum Metropolitan successfully completed its R2 billion share buy-back programme during the year under review, which contributed to the increase in its embedded value per share to R27.48. Shares were bought back at an average price of R18.94 per share. Momentum Metropolitan has resumed dividend payments at the interim reporting stage and has declared a 35 cents per ordinary share final dividend, resulting in a total dividend for the year of 70 cents per ordinary share. The dividend cover of 2.9 times normalised headline earnings is at the upper limit of the target dividend cover range of 2.0 to 3.0 times normalised headline earnings.

The board believes 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 below.

The board resolved to declare a final dividend of 65.0 cents (2018: 65.0 cents) per ordinary share. The total dividend for the year of 110.0 cents per ordinary share (2018: 104.0 cents per ordinary share) is covered 2.4 times (2018: 2.7 times) by normalised earnings of 266.9 cents (2018: 281.5 cents) per ordinary share.

To support investment activity, the board will continuously assess RMI's dividend policy through its investment phase and may, if appropriate, reinstate the scrip distribution alternative and the reinvestment option offered to shareholders during previous dividend cycles. Given RMI's current investment pipeline and share price, the board decided to declare a cash dividend to shareholders.

Shareholders are referred to the dividend declaration forming part of this announcement regarding the applicability of Dividend Withholding Tax to the ordinary dividend.



# Outlook and future value creation

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

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

**OPTIMISE**

### OPTIMISATION OF OUR ESTABLISHED INVESTMENTS

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

**DIVERSIFY**

### DIVERSIFICATION OF INCOME STREAM AND DISTRIBUTION OF ASSETS

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

**MODERNISE**

### MODERNISATION

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

# EXISTING PORTFOLIO

**Discovery** is well positioned for growth, through a combination of robust established businesses, emerging businesses which are scaling well and new initiatives which have significant potential. The group is supportive of the aims of the recently published National Health Insurance (NHI) Bill in SA. The publication of the NHI Bill creates an important opportunity for active collaboration between the Department of Health and the private healthcare sector and the group is seeking clarity on the potential impact of the Bill on the future role of private healthcare and medical schemes once it is fully implemented. The Bill is not expected to have a material impact on the Discovery Health business for the near future. However, the lower interest rate environment in the UK is expected to remain dynamic for some time longer and thus negatively impacts the UK-based Vitality Life business, albeit that a significant component of this impact is unrealised and likely to reverse once interest rates normalise. Discovery's new businesses will require investment through their start-up phase, however the spend on new businesses is expected to decrease over the next few years toward previous levels. The group will continue its strategic focus on growth and prudence with profit growth expected to return to its stated goal of CPI plus 10%, and cash quality and capital metrics expected to improve. The business is well capitalised for its five-year planning horizon.

**Hastings** continues to focus on digital and technology investments, with progress made on enhancing digital capabilities and delivering operational benefits. More clients are contacting Hastings via digital channels, with the group's mobile app amongst the highest rated insurance apps in the UK. Clients can manage their policies, view policy documents and make changes via the app, with 38% of policy adjustments completed digitally by clients. More updates to the app will follow before the end of the calendar year. Since the group rolled out its digital total loss tool which provides clients with quick and easy online claims settlement, 57% of total loss claims are settled through digital channels.

Multiple new renewal pricing models were tested over the last 12 months and with Guidewire being used to custom build a loyalty tool specifically for price comparison websites. Overall, the retention rate has improved five percentage points, which supports policy growth and will benefit profit margin over time.

Hastings has gone live with its next-generation anti-fraud system, which connects detailed quote and device data together with additional predictive analytics. The system detects unusual fraud profiles and falsified policyholder details.

Hastings remains confident in its profitable growth opportunities on the basis of its competitive advantages in the large motor and home markets and the continuing progress on key initiatives, including renewals, anti-fraud capabilities and digital proposition, along with successfully embedding its new claims service partners.

**Momentum Metropolitan's** improvement in normalised headline earnings is testament to the positive impact of its reset and grow strategy. It is imperative for the group, and for the retail businesses in particular, to increase new business market share in order to compensate for the natural decline in client numbers resulting from retirements, claims and withdrawals. Investment return and asset-based fee income are furthermore dependent on investment market growth, for which the outlook is currently muted.

The focus on expense management has delivered good results and the group will continue to drive sound financial discipline. While the current environment inhibits fast growth, management is pleased with the underlying improvements visible in the group, such as improved efficiency ratios, increased commerciality in decision-making, improvements in service metrics, modest growth in distribution footprint and strengthening of the balance sheet. Most importantly, they are seeing improved levels of engagement and energy across employees of the group. This positions the group well to capitalise when the external environment improves in due course.

During 2019, **OUTsurance** more than doubled its tied-agency force for OUTsurance Business. The expansion of this distribution channel is a large investment and a major growth and diversification strategy in South Africa. Although early results are encouraging, the creation of a tied-agency force is capital intensive and a multi-year investment. This investment is likely to peak in 2020 and 2021.

OUTsurance continues to experience declining motor claims frequencies in both South Africa and Australia due to continuous enhancement in vehicle safety technology and especially in South Africa due to the economic conditions where less kilometres are driven. These factors have contributed to the low premium inflation experienced in recent years. Changes in vehicle technology and driving behaviour illustrate the importance of diversifying the insurance portfolio to achieve larger shares of the commercial and life insurance markets, as well as enter other non-motor classes of insurance.

When it comes to service quality, OUTsurance continues to drive improvement in all its processes and products. A focus point in the near term is to evaluate all claims processes to remove friction and minimise client complaint levels.

Subject to regulatory conditions and approval, Youi Australia is in the process of preparing for an entry, as an underwriter, to the Compulsory Third Party (CTP) insurance market in New South Wales. This project is strategically important to strengthen its brand proposition in Australia's largest motor insurance market. Youi is also in the process of developing a business insurance product offering that will be distributed through its customary direct channel and in partnership with independent intermediaries. This commercial offering will be available over the next two years.

During the year under review, OUTsurance has entered the funeral insurance market, which is the largest life insurance market segment in South Africa.

When it comes to distribution of short-term and long-term insurance products across the group, OUTsurance believes that, in future, clients will be best served by an omni-channel service model where clients have the freedom to choose between call centre, face-to-face or digital interaction. Medium term strategic efforts are aimed at enabling leading omni-channel distribution and service capabilities across the group.

Economic conditions in the South African market are expected to remain challenging in the medium term as a result of the recessionary climate and the constrained fiscal position. A focus on maintaining pricing discipline and incrementally improving operations remain the best defence during market cyclicality. OUTsurance believes that delivering a wider insurance product range coupled with an omni-channel distribution capability will result in continuous profitable growth.

**RMI Investment Managers** is largely in the consolidation phase of its business model evolution and has, therefore, focused its efforts on optimising the existing portfolio by truly partnering its boutique investment managers in a supportive but non-interfering manner. The team continues to actively engage in strategic dialogue with its affiliates with a focus on implementing its shareholder value map, which offers affiliates access to comprehensive strategic support including operational and financial support, succession planning, talent management and board representation. In addition, the team continues to play a strategic advisory role in helping its affiliates raise retail assets and foster meaningful and trusted client relationships. Many of the affiliates have also benefited from marketing support provided by the RMI Investment Managers team. This has enabled the affiliates to expand their branding, marketing and public relations efforts in order to enhance their brand presence and credibility in the market.

RMI Investment Managers restructured the existing Granate Asset Management business by facilitating the addition of a multi-asset capability. Through this transaction, RMI Investment Managers decreased its interest in Granate to a 30% stake, with staff holding the balance.

Management's view is that the portfolio is largely complete; however, RMI Investment Managers will remain opportunistic and continue to explore the addition of affiliates to either solve for additional exposure or under-exposure in certain asset classes or to further add value to the portfolio.

RMI Investment Managers will ensure that its reputation as a trusted, value-adding but non-interfering shareholder of choice for the independent asset management industry remains a core philosophy.

The team and its partners in Momentum Metropolitan and RBH remain excited and committed to working with its affiliates to support their growth to scale while playing a meaningful part in transforming the investment management industry.

**AlphaCode** is building on the entrepreneurial legacy record of financial innovation in RMI. AlphaCode identifies, partners and grows the next-generation of financial services entrepreneurs through incubation, acceleration, collaboration and investment. The flagship initiative, AlphaCode Incubate, has identified and supported 23 black-owned next-generation financial services businesses in the past four years and provided more than R21 million in grant capital to these businesses. In the last six months, AlphaCode expanded its level of support to these entrepreneurs by making available R23 million of loan funding to three qualifying businesses:

- Zande Africa, a provider of last mile distribution and inventory finance to informal micro-traders in remote locations;
- Bright On Capital, a platform that provides SMEs access to finance from traditional DFIs and corporate enterprise (ESD) funds; and
- Livestock Wealth, a crowd-farming platform that offers individuals full or fractional ownership of cows with six to twelve month returns.

As part of the mandate of investing in disruptive, innovative financial services businesses, AlphaCode grew its investment portfolio by deploying additional equity funding into two leading businesses: Prodigy Finance (an existing investee company) and GuidePost. AlphaCode led Prodigy Finance's series D funding round and is now one of the largest investors in the business. AlphaCode took a 25.1% stake in GuidePost, a high-touch health and insuretech innovator that is poised for international growth.

## CONCLUSION

Barring a major macro-economic shift, RMI has a high degree of confidence in its portfolio companies and expects their unique attributes to continue to deliver long-term growth.

| **Jannie Durand** | **Herman Bosman** |
|---|---|
| *Chairman* | *Chief executive officer* |

Sandton
10 September 2019



# Cash dividend declaration

Notice is hereby given that a gross final cash dividend of 65.0 cents per ordinary share, payable out of income reserves, was declared on 10 September 2019 in respect of the year ended 30 June 2019.

The dividend will be subject to Dividend Withholding Tax at a rate of 20%, which will result in a net dividend of 52.0 cents per ordinary share for those shareholders who are not exempt.

The company's tax reference number is 9469/826/16/9. Its issued share capital at the declaration date comprises 1 531 807 770 ordinary shares.

Shareholders' attention is drawn to the following important dates:

| | |
|---|---|
| • Last day to trade in order to participate in this dividend | Tuesday, 29 October 2019 |
| • Shares commence trading ex-dividend on | Wednesday, 30 October 2019 |
| • The record date for the dividend payment will be | Friday, 1 November 2019 |
| • Dividend payment date | Monday, 4 November 2019 |

No dematerialisation or rematerialisation of share certificates may be done between Wednesday, 30 October 2019 and Friday, 1 November 2019 (both days inclusive).

By order of the RMI board.

**Schalk Human**
*Company secretary*

Sandton

10 September 2019

MARKET CAPITALISATION

R98.2 billion

2018: R95.4 billion

+3%

NORMALISED EARNINGS

R5 035 million

2018: R5 401 million

(7%)

DIVIDENDS PAID

215 cents per share

2018: 215 cents per share

Unchanged

# Portfolio review

## Discovery

### WHY RMI INVESTS IN DISCOVERY

- Visionary, ambitious leadership
- Diversified earnings base and continuous investment in new initiatives
- Globally recognised business model
- Excellent growth
- Ease of international expansion
- Innovative new product pipeline

### 2019 PERFORMANCE

- Gross inflows under management increased by 11% to R139.1 billion;
- Insurance premium revenue of R43.0 billion represents an increase of 17%;
- Total new business annualised premium income (excluding new closed schemes and gross revenue from the Vitality Group) increased by 13% to R18.3 billion;
- Normalised profit from operations is down 3% to R7.7 billion;
- Normalised headline earnings are down 7% to R5.0 billion;
- Embedded value increased by 9% to R71.2 billion; and
- The total dividend for the year remained unchanged at 215 cents per share.

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

In respect of its banking operations, Discovery concluded the transaction with the FirstRand Group for R1.8 billion, which included:

- the acquisition of the effective 25.01% interest of FirstRand Investment Holdings Limited (FRIHL) in Discovery Bank (actual 48.87% at the time of execution);
- acquiring the remaining 25.01% economic interest that FirstRand owned in the DiscoveryCard business; and
- Discovery Bank acquiring all rights to the DiscoveryCard book and related assets, which Discovery Bank has started to migrate.

The transaction received approval by the respective regulatory authorities, including the Prudential Authority and the Competition Authorities. Discovery raised capital to fund the transaction by way of memorandum of incorporation a vendor consideration placement as contemplated in the JSE Listings Requirements and allowed for in its memorandum of incorporation. RMI participated in the vendor consideration placement and maintained its 25.04% shareholding in Discovery. Discovery recognised the arising goodwill asset of R2.4 billion.

During the year, Cambridge Mobile Telematics (CMT), an associate investment of Discovery and strategic partner to Discovery Insure since 2014, announced a US Dollar 500 million (R7.2 billion) investment from the SoftBank Vision Fund. Upon the completion of the transaction, Discovery's effective shareholding in CMT reduced from 16.5% to 10% on a fully diluted basis. Discovery's profit from the transaction was US Dollar 55.7 million (R790 million), R402 million of which was realised in cash.

RMI included **R1 261 million** of Discovery's earnings in its normalised earnings

(2018: R1 356 million).

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

## Hastings

### WHY RMI INVESTS IN HASTINGS

- Entrepreneurial leadership
- Geographic diversification
- Strong foothold in the price comparison website market in the UK
- Constant innovation
- Growth trajectory
- Good fit with OUTsurance

### 2019 PERFORMANCE

As Hastings has a 31 December year-end, these results relate to the six months ended 30 June 2019, with comparatives for the six months ended 30 June 2018.

Hastings posted results reflecting ongoing growth amidst difficult market conditions in the UK:

- Continued growth, with gross written premiums up 3% to £499.2 million (2017: £485.6 million);
- Net revenue is down 2% to £370.3 million (2018: £376.3 million) as a result of market rate reductions and a reduction in the risk profile of business written;
- Sustained increase in clients, with live client policies up by 4% to 2.81 million (2018: 2.71 million), driven by improved retention of clients;
- Growth in market share to 7.8% of UK private car insurance (2018: 7.5%);
- Operating profit of £59.7 million is down 43% (2018: £105.1 million) due to claims inflation continuing ahead of earned premium inflation, combined with legislative changes which increased underwriting levies;
- Profit after tax decreased by 48% to £38.2 million (2018: £72.9 million) as a result;
- Normalised earnings decreased by 52% to £39.3 million (2018: £81.9 million);
- Loss ratio of 81.1% is above the target range of between 75% and 79%, whereas it was below the target in the prior year (2018: 73.8%);
- Ongoing free cash generated of £99.0 million (2018: £107.8 million);
- Net debt leverage multiple increased to 1.5 times adjusted operating profit (2018: 1.1 times);
- Strong solvency position, with a Solvency II coverage ratio of 160% (2018: 171%);
- Interim dividend for 2019 of 4.5 pence per share (2018: 4.5 pence per share);
- Continued pricing discipline;
- Record levels of digital adoption with the mobile app downloaded 317 000 times; and
- Ongoing commitment and focus on diversity and the environment.

RMI included **R552 million** of Hastings' earnings in its normalised earnings

(2018: R778 million).

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



MARKET CAPITALISATION

£1 286 million

2018: £1 674 million

(23%)

NORMALISED EARNINGS

£39.3 million

Six months ended 30 June 2018: £81.9 million

(52%)

DIVIDENDS PAID

4.5 pence per share

Six months ended 30 June 2018: 4.5 pence per share

Unchanged

## VALUE CREATED

MARKET CAPITALISATION

**R28.4 billion**

2018: R27.0 billion

**+5%**

NORMALISED EARNINGS

**R3 074 million**

2018: R2 003 million

**+53%**

DIVIDENDS PAID

**70 cents per share**

2018: 0 cents per share

**>100%**

# Momentum Metropolitan

### WHY RMI INVESTS IN MOMENTUM METROPOLITAN

- Well-known and trusted brands
- High level of cash generation
- Traditionally produced a high dividend yield
- New management with a revitalised strategy
- Established business which provides stability to the RMI portfolio

## 2019 PERFORMANCE

- Name changed from MMI Holdings to Momentum Metropolitan Holdings, aimed at promoting the well-known brand names of two of the strongest companies in the group;
- New business volumes are up 12% to R55.8 billion on a present value of new business premiums basis;
- The value of new business is up 57% to R541 million after improvements in all businesses and higher sales of selected product sets in each business, most notably Momentum Corporate;
- Diluted normalised headline earnings of R3 074 million are up 53% on the R2 003 million in the prior year. On a per share basis, diluted normalised headline earnings increased by 61%, reflecting the impact of the R2 billion share buy-back programme that was completed in November 2018;
- Normalised headline earnings, excluding operating basis changes and investment variances, are up 21% at R3 236 million (2018: R2 671 million);
- The embedded value increased 4% to R41.2 billion, while the return on embedded value strengthened from negative 1.1% to 8%;
- Momentum Metropolitan's capital position remains strong, with the solvency capital requirement (SCR) cover of 1.7 times SCR. The group targets a cover range of 1.45 to 1.75 times, which has been set to reflect the target solvency levels and operational requirements of the underlying entities, while ensuring appropriate resilience of the group solvency position;
- In January 2019, Momentum Metropolitan became the first major insurance group to attain a Level 1 B-BBEE contributor status under the revised Financial Services Charter (FSC); and
- Significant progress on the Africa exit strategy, with concluded transactions to exit Swaziland and Mauritius. The group is in an advanced stage of discussions in three more countries.

RMI included **R825 million** of Momentum Metropolitan's earnings in its normalised earnings

(2018: R508 million).

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

# OUTSURANCE

### WHY RMI INVESTS IN OUTSURANCE

- Dynamic management team
- Market leader in direct insurance
- Well-loved and easily recognised brand
- World-class technology and claims handling processes
- High level of cash generation and dividend-paying capabilities
- Preferred employer, thereby attracting talented people

## 2019 PERFORMANCE

OUTsurance delivered normalised earnings of R2 634 million for the year, which is 13% lower than the prior year due to higher claims and cost ratios, coupled with lower earnings from its investment in Hastings:

- Gross written premium grew 7% to R16.1 billion and net earned premiums by 6% to R15.1 billion;
- The claims ratio increased from 49.8% to 51.1%;
- The cost-to-income ratio increased from 25.6% to 28.3%; and
- The total dividend for the year increased by 4% to 55.5 cents per share.

**OUTsurance's** South African short-term operations delivered a pleasing operational and financial performance considering the investments made in new business growth and the strategic expansion of OUTsurance Business. Total operating profit was down 10% to R2 127 million and normalised earnings decreased by 5% to R1 812 million. Gross written premium grew 8% to R8 380 million, mostly due to volume expansion. Premium inflation, especially on the motor book, remained well below general inflation as a result of lower accident claims frequency, which can be attributed to the economic conditions, improvements in motor safety and the impact of ride sharing. The cost-to-income ratio increased from 21.1% to 23.8% on the back of a material increase in marketing and sales-related costs. The claims ratio increased from an unsustainably low 46.9% in the prior year to 49.8%, in line with management's pricing strategies.

**Youi's** normalised earnings was down 16% at R673 million. Youi Australia's gross written premiums grew by 7% in Rand terms and by 5% in Australian Dollars. The accident year claims ratio of 56.1% was unchanged from the prior year. The cost-to-income ratio increased from 30.2% to 31.8% driven by higher marketing and sales expenditure coupled with increased spend on information technology and compliance capacity. Despite the impact of multiple natural catastrophe events and increased investment to drive new business, Youi delivered satisfactory profitability. Operating profit and normalised earnings were lower by 10% and 1% respectively. Youi New Zealand's operational and financial performance was in line with expectations. Gross written premium grew by 2% in Rand terms. Operating profit decreased by 78% to R12 million.

**OUTsurance Life** delivered an improved financial performance. New business costs increased as a result of the establishment of a funeral insurance product. Gross written premiums grew by 7% to R503 million. Operating profit more than doubled, benefiting from the positive impact of interest rate movements, and normalised earnings increased by 51% to R80 million.

**OUTsurance Namibia's** normalised earnings decreased by 27% to R30 million, largely driven by lower premium income and a significantly higher cost-to-income ratio. Trading conditions in Namibia remained difficult as recessionary economic conditions negatively impact the insurance market.

Normalised earnings from **associates** reduced from R384 million to R236 million. As a result of difficult trading conditions in the UK motor insurance market, coupled with the impact of the Ogden rate review, the earnings contribution from Hastings has declined by 35% to R244 million.

The new solvency assessment management (SAM) prudential regulations became effective on 1 July 2018. Overall, OUTsurance achieved a solvency coverage ratio (SCR) of 2.4 (2018: 2.4) against a target of 1.4, with all operations exceeding their targets. OUTsurance will be paying a special dividend of 12 cents per share.

RMI included **R2 364 million** of OUTsurance's earnings in its normalised earnings

(2018: R2 661 million).

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

## VALUE CREATED

NET ASSET VALUE

**R10.5 billion**

2018: R10.9 billion

**(4%)**

NORMALISED EARNINGS

**R2 634 million**

2018: R3 012 million

**(13%)**

NORMALISED DIVIDENDS PAID

**55.5 cents per share**

2018: 53.5 cents per share

**+4%**

# Financial review

## BASIS OF PRESENTATION OF RESULTS

The summary consolidated financial statements contained in this booklet are prepared in accordance with the JSE Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

This report is prepared in accordance with:

- The framework concepts and the recognition and measurement requirements of International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee;
- Financial Reporting Pronouncements as issued by Financial Reporting Standards Council;
- SAICA Financial Reporting Guide as issued by the Accounting Practices Committee; and
- As a minimum, the information required by *IAS 34: Interim Financial Reporting*.

The directors take full responsibility and confirm that this information has been correctly extracted from the audited consolidated annual financial statements from which the summary consolidated financial statements were derived.

## ACCOUNTING POLICIES

These summary results incorporate accounting policies that are consistent with those used in preparing the financial results for the year ended 30 June 2019.

The audited consolidated annual financial statements, from which these summary consolidated financial statements are extracted, are prepared in accordance with the going concern principle under the historical cost basis, as modified by the fair value accounting of certain assets and liabilities, where required or permitted by IFRS.

*IFRS 9: Financial Instruments (IFRS 9) and IFRS 15: Revenue from Contracts with Clients (IFRS 15)* became effective in the current year. *IFRS 9*, which replaces *IAS 39: Financial Instruments: Recognition and Measurement (IAS 39),* had the most significant impact on the group. *IFRS 9* introduced a principle-based approach for classifying financial assets based on the group's business model and changed the way impairments are calculated on financial assets at amortised cost from the incurred loss model to the expected loss model.

*IFRS 15,* which contains a single model that is applied when accounting for contracts with clients, replaced revenue recognition guidance previously included in *IAS 18: Revenue (IAS 18) and IFRIC 13: Customer Loyalty Programmes (IFRIC 13)*.

No other new or amended IFRS became effective for the year ended 30 June 2019 that impacted the group's reported earnings, financial position, reserves or accounting policies.

## AUDITOR'S REPORT

The summary consolidated financial statements for the year ended 30 June 2019 contained in this booklet have been audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon in terms of *ISA 810* (revised), refer to page 25.

The auditor also expressed an unmodified opinion on the consolidated annual financial statements from which the summary consolidated financial statements were derived. Unless the financial information in this booklet is specifically stated as audited, it should be assumed to be unaudited.

A copy of the auditor's report on the consolidated annual financial statements is available for inspection at RMI's registered office, 2 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, together with the financial statements identified in the respective auditor's reports.

The auditor's report does not necessarily report on all of the information contained in these summary 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. RMI's board of directors takes full responsibility for the preparation of this booklet.

## NORMALISED RESULTS

RMI believes that normalised earnings more accurately reflect operational performance.

Headline earnings in terms of *Circular 4/2018: Headline Earnings* are adjusted to exclude non-operational items and accounting anomalies.

A reconciliation between headline earnings and normalised earnings is provided on page 29.

Normalised earnings 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.



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

## TO THE SHAREHOLDERS OF RAND MERCHANT INVESTMENT HOLDINGS LIMITED

### Opinion

The summary consolidated financial statements of Rand Merchant Investment Holdings Limited, set out on page 24 and pages 26 to 41, which comprise the summary consolidated statement of financial position as at 30 June 2019, the summary consolidated income statement, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated annual financial statements of Rand Merchant Investment Holdings Limited for the year ended 30 June 2019.

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

### Summary consolidated financial statements

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

### The audited consolidated annual financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated annual financial statements in our report dated 10 September 2019. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated annual financial statements of the current period.

### Directors' responsibility for the summary consolidated financial statements

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

### Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated annual 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 Inc.

**PricewaterhouseCoopers Inc.**
Director: Corlia Volschenk
Registered Auditor

Johannesburg
10 September 2019

## 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 (B-BBEE) transactions entered into; and
- "Deemed" treasury shares held by policyholders and mutual funds managed by them.

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

| | As at 30 June 2019 | | As at 30 June 2018 | |
|---|---|---|---|---|
| AUDITED | **Effective** | **Actual** | Effective | Actual |
| Discovery | **25.1%** | **25.0%** | 25.1% | 25.0% |
| Hastings | **29.9%** | **29.9%** | 29.9% | 29.9% |
| Momentum Metropolitan | **27.5%** | **27.3%** | 26.5% | 26.2% |
| OUTsurance | **90.4%** | **89.1%** | 89.7% | 88.6% |
| RMI Investment Managers | **100.0%** | **100.0%** | 100.0% | 100.0% |
| Merchant Capital | **25.8%** | **25.8%** | 25.1% | 25.1% |
| Entersekt | **25.1%** | **25.1%** | 25.1% | 25.1% |



# Summary consolidated income statement

for the year ended 30 June

| AUDITED<br>R MILLION | 2019 | 2018 | %<br>change |
|---|---|---|---|
| Earned premiums net of reinsurance | **15 063** | 14 173 | 6 |
| Commission and other income | **107** | 124 | (14) |
| Investment income | **632** | 760 | (17) |
| Interest income on amortised cost financial assets | **167** | – | >100 |
| Profit on sale of subsidiary and other realised gains | **–** | 3 | >(100) |
| Net fair value gains/(losses) on financial assets | **33** | (66) | >100 |
| **Income** | **16 002** | 14 994 | 7 |
| Net claims paid | **(7 171)** | (6 535) | 10 |
| Fair value adjustment to investment contracts and insurance contract provisions | **(573)** | (521) | 10 |
| Fair value adjustment to financial liabilities | **(169)** | (193) | (12) |
| Acquisition, marketing and administration expenses | **(4 502)** | (3 905) | 15 |
| **Profit before finance costs, share of after-tax results of associates and taxation** | **3 587** | 3 840 | (7) |
| Net finance costs | **(729)** | (765) | (5) |
| Share of after-tax results of associates | **2 612** | 2 328 | 12 |
| **Profit before taxation** | **5 470** | 5 403 | 1 |
| Taxation | **(1 096)** | (1 136) | (4) |
| **Profit for the year** | **4 374** | 4 267 | 3 |
| **Attributable to:** | | | |
| Equity holders of RMI | **4 047** | 3 897 | 4 |
| Non-controlling interests | **327** | 370 | (12) |
| **Profit for the year** | **4 374** | 4 267 | 3 |

# Summary consolidated statement of comprehensive income

for the year ended 30 June

| AUDITED<br>R MILLION | 2019 | 2018 | %<br>change |
|---|---|---|---|
| **Profit for the year** | **4 374** | 4 267 | 3 |
| **Other comprehensive income for the year** | | | |
| Items that may subsequently be reclassified to income | | | |
| – Exchange difference on translation of foreign operations | **(78)** | 44 | >(100) |
| – Fair value gains on available-for-sale financial assets | **–** | 93 | (100) |
| – Deferred taxation relating to available-for-sale financial assets | **–** | (21) | 100 |
| – Fair value gains on other comprehensive income financial instruments | **53** | – | >100 |
| – Deferred tax on fair value gains on other comprehensive income financial instruments | **(12)** | – | >(100) |
| Share of other comprehensive (loss)/income of associates | **(82)** | 314 | >(100) |
| – Items that may subsequently be reclassified to income, after taxation | **(59)** | 277 | >(100) |
| – Items that will not be reclassified to income, after taxation | **(23)** | 37 | >(100) |
| **Other comprehensive (loss)/income for the year** | **(119)** | 430 | >(100) |
| **Total comprehensive income for the year** | **4 255** | 4 697 | (9) |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of RMI | **3 949** | 4 310 | (8) |
| Non-controlling interests | **306** | 387 | (21) |
| **Total comprehensive income for the year** | **4 255** | 4 697 | (9) |



# Computation of headline earnings

for the year ended 30 June

| AUDITED<br>R MILLION | 2019 | 2018 | %<br>change |
|---|---|---|---|
| **Earnings attributable to equity holders** | **4 047** | 3 897 | 4 |
| Adjustment for: | | | |
| – Gain on previously-held interests in DiscoveryCard business | **(191)** | – | |
| – (Gain)/loss on dilution and disposal of equity accounted investments | **(129)** | 80 | |
| – Impairment relating to held for sale entities | **24** | – | |
| – Impairment of Intangible assets | **23** | 86 | |
| – Impairment of owner-occupied building to below cost | **14** | – | |
| – Impairment of fixed assets | **6** | – | |
| – Loss on disposal of property and equipment | **5** | 5 | |
| – Impairment of goodwill | **4** | – | |
| – (Profit)/loss on sale of subsidiary | **(2)** | 5 | |
| – Impairment of available-for-sale financial assets | **–** | 17 | |
| – Realised profit on sale of available-for-sale financial assets | **–** | (5) | |
| – Release of foreign currency translation reserve | **–** | (4) | |
| **Headline earnings attributable to equity holders** | **3 801** | 4 081 | (7) |

# Computation of normalised earnings

for the year ended 30 June

| R MILLION | 2019 | 2018 | %<br>change |
|---|---|---|---|
| **Headline earnings attributable to equity holders** | **3 801** | 4 081 | (7) |
| RMI's share of normalised adjustments made by associates | **286** | 209 | |
| – Amortisation of intangible assets relating to business combinations | **329** | 332 | |
| – Deferred tax raised on assessed losses | **(82)** | (88) | |
| – Unrealised losses/(gains) on foreign exchange contracts not designated as a hedge | **24** | (19) | |
| – Policyholder funds assessed loss | **(9)** | (30) | |
| – Debt restructuring costs resulting from DiscoveryCard joint venture | **8** | – | |
| – B-BBEE cost | **6** | 6 | |
| – Initial expenses related to Prudential Book transfer | **6** | – | |
| – Costs relating to disposal of equity accounted investments | **4** | – | |
| – Non-recurring and restructuring expenses | **–** | 8 | |
| Group treasury shares | **(6)** | (24) | |
| **Normalised earnings attributable to equity holders** | **4 081** | 4 266 | (4) |

# Computation of earnings and dividend per share

for the year ended 30 June

| AUDITED<br>R MILLION | 2019 | 2018 | %<br>change |
|---|---|---|---|
| **Earnings attributable to equity holders** | **4 047** | 3 897 | 4 |
| **Headline earnings attributable to equity holders** | **3 801** | 4 081 | (7) |
| Number of shares in issue (millions) | **1 532** | 1 523 | 1 |
| Weighted average number of shares in issue (millions) | **1 526** | 1 513 | 1 |
| **Earnings per share** | | | |
| Earnings per share (cents) | **265.1** | 257.6 | 3 |
| Diluted earnings per share (cents) | **264.0** | 252.9 | 4 |
| Headline earnings per share (cents) | **249.0** | 269.7 | (8) |
| Diluted headline earnings per share (cents) | **247.8** | 265.0 | (6) |
| **Dividend per share** | | | |
| Interim dividend (cents) | **45.0** | 39.0 | 15 |
| Final dividend (cents) | **65.0** | 65.0 | – |
| **Total dividend** | **110.0** | 104.0 | 6 |

# Computation of normalised earnings per share

for the year ended 30 June

| R MILLION | 2019 | 2018 | %<br>change |
|---|---|---|---|
| **Normalised earnings attributable to equity holders** | **4 081** | 4 266 | (4) |
| Number of shares in issue (millions) | **1 532** | 1 523 | 1 |
| Weighted average number of shares in issue (millions) | **1 529** | 1 516 | 1 |
| Normalised earnings per share (cents) | **266.9** | 281.5 | (5) |
| Diluted normalised earnings per share (cents) | **265.5** | 276.6 | (4) |



# Summary consolidated statement of financial position

as at 30 June

| AUDITED<br>R MILLION | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Property and equipment | **1 041** | 1 109 |
| Intangible assets | **101** | 124 |
| Investments in associates | **28 337** | 26 413 |
| Financial assets | **11 459** | 11 262 |
| Insurance and other receivables | **2 771** | 2 634 |
| Deferred acquisition cost | **360** | 307 |
| Reinsurance contracts | **691** | 286 |
| Deferred taxation | **220** | 220 |
| Taxation | **120** | 3 |
| Cash and cash equivalents | **1 602** | 2 417 |
| **Total assets** | **46 702** | 44 775 |
| **Equity** | | |
| Share capital and premium | **15 359** | 14 986 |
| Reserves | **9 180** | 7 386 |
| Capital and reserves attributable to equity holders of the company | **24 539** | 22 372 |
| Non-controlling interests | **1 602** | 1 332 |
| **Total equity** | **26 141** | 23 704 |
| **Liabilities** | | |
| Financial liabilities | **11 480** | 12 608 |
| Insurance contracts | **7 457** | 6 725 |
| Share-based payment liability | **103** | 134 |
| Payables and provisions | **1 428** | 1 347 |
| Deferred taxation | **69** | 54 |
| Taxation | **24** | 203 |
| **Total liabilities** | **20 561** | 21 071 |
| **Total equity and liabilities** | **46 702** | 44 775 |

# Summary consolidated statement of changes in equity

for the year ended 30 June

| AUDITED<br>R MILLION | Share capital and premium | Equity accounted reserves | Transactions with non-controlling interests | Other reserves | Retained earnings | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 July 2017** | 14 328 | 4 300 | (2 989) | 295 | 3 341 | 1 215 | 20 490 |
| Profit per income statement | – | – | – | – | 3 897 | 370 | 4 267 |
| Other comprehensive income | – | 311 | – | 102 | – | 17 | 430 |
| Dividend paid | – | – | – | – | (1 571) | (189) | (1 760) |
| Shares issued | 669 | – | – | – | – | – | 669 |
| Income of associates retained | – | 1 181 | – | – | (1 181) | – | – |
| B-BBEE cost | – | 3 | – | – | – | – | 3 |
| Movement in treasury shares | (11) | 5 | – | – | – | – | (6) |
| Transactions with non-controlling interests | – | 58 | (356) | – | 2 | (132) | (428) |
| Issue of share capital to non-controlling interests by subsidiaries | – | – | – | – | – | 54 | 54 |
| Share-based payment reserve | – | 31 | – | – | (35) | (4) | (8) |
| Reserve adjustment of associates | – | (8) | – | – | – | 1 | (7) |
| **Balance as at 30 June 2018** | **14 986** | **5 881** | **(3 345)** | **397** | **4 453** | **1 332** | **23 704** |
| Change in accounting policy *(IFRS 9)* | **–** | **(31)** | **–** | **(101)** | **79** | **(3)** | **(56)** |
| Change in accounting policy *(IFRS 15)* | **–** | **2** | **–** | **–** | **–** | **–** | **2** |
| Profit per income statement | **–** | **–** | **–** | **–** | **4 047** | **327** | **4 374** |
| Other comprehensive income | **–** | **(82)** | **–** | **(16)** | **–** | **(21)** | **(119)** |
| Dividend paid | **–** | **–** | **–** | **–** | **(1 679)** | **(362)** | **(2 041)** |
| Shares issued | **345** | **–** | **–** | **–** | **–** | **–** | **345** |
| Income of associates retained | **–** | **1 602** | **–** | **–** | **(1 602)** | **–** | **–** |
| Movement in treasury shares | **28** | **–** | **–** | **–** | **–** | **–** | **28** |
| Transactions with non-controlling interests | **–** | **(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** |



# Summary consolidated statement of cash flows

for the year ended 30 June

| AUDITED<br>R MILLION | 2019 | Restated 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash generated from operations | **3 174** | 3 287 |
| Interest income | **603** | 590 |
| Dividends received | **1 149** | 1 285 |
| Cashflows on assets backing policyholder liabilities | **(233)** | (153) |
| Purchase of financial assets | **(7 867)** | (9 346) |
| Proceeds on disposal of financial assets | **8 078** | 8 163 |
| Income tax paid | **(1 380)** | (1 101) |
| **Net cash generated from operating activities** | **3 524** | 2 725 |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | **(100)** | (255) |
| Disposal of property and equipment | **1** | 5 |
| Purchase of financial assets | **(290)** | (190) |
| Proceeds on disposal of financial assets | **187** | 273 |
| Investments in associates | **(693)** | (216) |
| **Net cash outflow from investing activities** | **(895)** | (383) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of shares | **304** | 493 |
| Redemption of preference share debt | **(1 130)** | - |
| Borrowings repaid | **(11)** | (50) |
| Cost of funding | **(89)** | (91) |
| Dividends paid on preference shares in issue | **(650)** | (677) |
| Dividends paid by subsidiaries to non-controlling interests | **(362)** | (189) |
| Additional shares acquired in subsidiary | **(201)** | (360) |
| Cash dividends paid to shareholders | **(1 638)** | (1 394) |
| Proceeds on issue of shares to non-controlling interest | **278** | 54 |
| **Net cash outflow from financing activities** | **(3 499)** | (2 214) |
| Net (decrease)/increase in cash and cash equivalents for the year | **(870)** | 128 |
| Unrealised foreign currency translation adjustment on cash and cash equivalents | **55** | (13) |
| Cash and cash equivalents at the beginning of the year | **2 417** | 2 302 |
| **Cash and cash equivalents at the end of the year** | **1 602** | 2 417 |

# Reclassification of comparatives

During the year under review, the group's cash flow statement classification of certain financial assets was reviewed as part of the implementation of *IFRS 9*. This resulted in cash flows relating to financial assets held to back primarily insurance liabilities being reclassified from cash flows from investing activities to cash flows from operating activities.

The reclassification for the year ended 30 June 2018 is set out in the table below:

| AUDITED R MILLION | Amount as previously reported | Amount as restated | Difference |
|---|---|---|---|
| **30 June 2018** | | | |
| **Cash flows from operating activities** | | | |
| Cashflows on assets backing policyholder liabilities | – | (153) | (153) |
| Purchase of financial assets | – | (9 346) | (9 346) |
| Proceeds on disposal of financial assets | – | 8 163 | 8 163 |
| **Cash flows from investing activities** | | | |
| Purchase of financial assets | (9 689) | (190) | 9 499 |
| Proceeds on disposal of financial assets | 8 436 | 273 | (8 163) |



# Segmental report

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

| AUDITED R MILLION | Discovery | Momentum Metropolitan | OUTsurance | Hastings | Other[1] | RMI |
|---|---|---|---|---|---|---|
| **Year ended 30 June 2019** | | | | | | |
| **Net income** | – | – | 15 797 | – | 205 | 16 002 |
| Policyholder benefits and transfer to policyholder liabilities | – | – | (7 744) | – | – | (7 744) |
| Depreciation | – | – | (139) | – | (2) | (141) |
| Amortisation | – | – | (84) | – | – | (84) |
| Other expenses | – | – | (4 123) | – | (154) | (4 277) |
| 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 | 3 696 | 262 | (707) | 5 470 |
| Taxation | – | – | (1 064) | – | (32) | (1 096) |
| Result 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 |
| Investments in associates | 11 649 | 6 409 | 3 623 | 5 774 | 882 | 28 337 |
| Intangible assets | – | – | 101 | – | – | 101 |
| | 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, AlphaCode investments and consolidation entries.

# Segmental report continued

| AUDITED R MILLION | Discovery | Momentum Metropolitan | OUTsurance | Hastings | Other[1] | RMI |
|---|---|---|---|---|---|---|
| **Year ended 30 June 2018** | | | | | | |
| **Net income** | – | – | 14 757 | – | 237 | 14 994 |
| Policyholder benefits and transfer to policyholder liabilities | – | – | (7 056) | – | – | (7 056) |
| Depreciation | – | – | (136) | – | (4) | (140) |
| Amortisation | – | – | (99) | – | (2) | (101) |
| Other expenses | – | – | (3 506) | – | (158) | (3 664) |
| Finance costs | – | – | – | – | (765) | (765) |
| Fair value adjustment to financial liabilities | – | – | (193) | – | – | (193) |
| Share of after-tax results of associates | 1 418 | 280 | 305 | 370 | (45) | 2 328 |
| **Profit/(loss) before taxation** | 1 418 | 280 | 4 072 | 370 | (737) | 5 403 |
| Taxation | – | – | (1 108) | – | (28) | (1 136) |
| Result for the year | 1 418 | 280 | 2 964 | 370 | (765) | 4 267 |
| Hastings included in OUTsurance | – | – | (294) | 294 | – | – |
| **Profit/(loss) for the year** | 1 418 | 280 | 2 670 | 664 | (765) | 4 267 |
| Normalised earnings | 1 356 | 508 | 3 012 | 405 | (1 015) | 4 266 |
| Hastings included in OUTsurance | – | – | (373) | 373 | – | – |
| **Normalised earnings** | 1 356 | 508 | 2 639 | 778 | (1 015) | 4 266 |
| **As at 30 June 2018** | | | | | | |
| **Assets** | – | – | 15 254 | – | 2 984 | 18 238 |
| Investments in associates | 10 268 | 5 964 | 4 125 | 5 367 | 689 | 26 413 |
| Intangible assets | – | – | 124 | – | – | 124 |
| | 10 268 | 5 964 | 19 503 | 5 367 | 3 673 | 44 775 |
| Hastings included in OUTsurance | – | – | (3 996) | 3 996 | – | – |
| **Total assets** | 10 268 | 5 964 | 15 507 | 9 363 | 3 673 | 44 775 |
| **Total liabilities** | – | – | 8 359 | – | 12 712 | 21 071 |

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



# Geographical segments

| AUDITED R MILLION | South Africa | Australia | New Zealand | United Kingdom | RMI |
|---|---|---|---|---|---|
| **Year ended 30 June 2019** | | | | | |
| **Net income** | **9 462** | **6 414** | **126** | **–** | **16 002** |
| Policyholder benefits and transfer to policyholder liabilities | **(4 309)** | **(3 406)** | **(29)** | **–** | **(7 744)** |
| Other expenses | **(3 299)** | **(2 016)** | **(85)** | **–** | **(5 400)** |
| Share of after-tax results of associates | **1 899** | **–** | **–** | **713** | **2 612** |
| **Profit before taxation** | **3 753** | **992** | **12** | **713** | **5 470** |
| Taxation | **(790)** | **(306)** | **–** | **–** | **(1 096)** |
| **Profit for the year** | **2 963** | **686** | **12** | **713** | **4 374** |
| **As at 30 June 2019** | | | | | |
| **Assets** | | | | | |
| Property and equipment | **343** | **696** | **2** | **–** | **1 041** |
| Investments in associates | **19 039** | **–** | **–** | **9 298** | **28 337** |
| Financial assets | **6 674** | **7 100** | **456** | **–** | **14 230** |
| Other assets | **1 798** | **1 071** | **225** | **–** | **3 094** |
| **Total assets** | **27 854** | **8 867** | **683** | **9 298** | **46 702** |
| **Liabilities** | | | | | |
| Insurance contract liabilities | **2 375** | **4 923** | **159** | **–** | **7 457** |
| Other liabilities | **9 242** | **1 074** | **91** | **2 697** | **13 104** |
| **Total liabilities** | **11 617** | **5 997** | **250** | **2 697** | **20 561** |
| **Year ended 30 June 2018** | | | | | |
| **Net income** | 8 694 | 6 152 | 148 | – | 14 994 |
| Policyholder benefits and transfer to policyholder liabilities | (3 795) | (3 226) | (35) | – | (7 056) |
| Other expenses | (2 927) | (1 830) | (106) | – | (4 863) |
| Share of after-tax results of associates | 1 413 | – | – | 915 | 2 328 |
| **Profit before taxation** | 3 385 | 1 096 | 7 | 915 | 5 403 |
| Taxation | (822) | (314) | – | – | (1 136) |
| **Profit for the year** | 2 563 | 782 | 7 | 915 | 4 267 |
| **As at 30 June 2018** | | | | | |
| **Assets** | | | | | |
| Property and equipment | 392 | 714 | 3 | – | 1 109 |
| Investments in associates | 17 050 | – | – | 9 363 | 26 413 |
| Financial assets | 6 680 | 6 925 | 291 | – | 13 896 |
| Other assets | 2 170 | 816 | 371 | – | 3 357 |
| **Total assets** | 26 292 | 8 455 | 665 | 9 363 | 44 775 |
| **Liabilities** | | | | | |
| Insurance contract liabilities | 2 069 | 4 494 | 162 | – | 6 725 |
| Other liabilities | 10 603 | 924 | 99 | 2 720 | 14 346 |
| **Total liabilities** | 12 672 | 5 418 | 261 | 2 720 | 21 071 |

# 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 to which 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<br>R MILLION | Level 1 | Level 2 | Level 3 | Total carrying amount |
|---|---|---|---|---|
| **As at 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** |
| – 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 measured at fair value** | **1 478** | **3 805** | **696** | **5 979** |
| **As at 30 June 2018** | | | | |
| **Financial assets** | | | | |
| Equity securities | | | | |
| – Exchange traded funds | 713 | – | – | 713 |
| – Listed preference shares | 354 | – | – | 354 |
| – Collective investment schemes | – | 110 | – | 110 |
| – Listed equity securities | 166 | – | – | 166 |
| – Unlisted equity securities | – | – | 130 | 130 |
| Debt securities | | | | |
| – Unsecured loans | – | – | 34 | 34 |
| – Unlisted preference shares | – | 102 | – | 102 |
| – Zero-coupon deposits | – | 346 | – | 346 |
| – Term deposits | – | 5 261 | – | 5 261 |
| – Government, municipal and public utility securities | – | 560 | – | 560 |
| – Money market securities | – | 2 793 | – | 2 793 |
| – Collective investment schemes | – | 31 | – | 31 |
| – Other debt securities at fair value through profit or loss | – | 28 | 634 | 662 |
| **Total financial assets measured at fair value** | 1 233 | 9 231 | 798 | 11 262 |

| AUDITED<br>R MILLION | 2019 | 2018 |
|---|---|---|
| **Reconciliation of movement in Level 3 assets** | | |
| Balance at the beginning of the year | **798** | 814 |
| Reclassification to amortised cost | **(270)** | – |
| Additions in the current year | **154** | 192 |
| Disposals (sales and redemptions) | **(15)** | (187) |
| Fair value movement | **60** | (15) |
| Investment income accrued | **31** | 66 |
| Dividends received | **(62)** | (72) |
| **Balance at the end of the year** | **696** | 798 |

The Level 3 financial assets at fair value through profit or loss include 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.

| AUDITED<br>R MILLION | Level 1 | Level 2 | Level 3 | Total carrying amount |
|---|---|---|---|---|
| **As at 30 June 2019** | | | | |
| **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** |
| **As at 30 June 2018** | | | | |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | – | – | 132 | 132 |
| Derivative liability | – | 36 | – | 36 |
| **Total financial liabilities recognised at fair value** | – | 36 | 132 | 168 |

| AUDITED<br>R MILLION | 2019 | 2018 |
|---|---|---|
| **Reconciliation of movement in Level 3 liabilities** | | |
| Balance at the beginning of the year | **132** | 150 |
| Preference dividends charged to the income statement in respect of profit-sharing arrangements on ring-fenced insurance business | **169** | 193 |
| Preference dividends paid | **(197)** | (211) |
| **Balance at the end of the year** | **104** | 132 |

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.

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 50 companies listed on the JSE.

## LEVEL 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates.

If all significant inputs required to fair value an instrument are market observable, the instrument is included in Level 2.

Level 2 instruments comprise derivative, debt and short-term money market instruments where the value is determined by using market observable input, e.g. JIBAR, prime rate, foreign currency rates, listed bond rates of similar instruments, without significant adjustments.

The unlisted preference shares are redeemable with a notice period of one year. Dividend yields are 65% of the prime overdraft rate.

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

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.

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.

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 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 three-month JIBAR. The fair value of the collateralised swap arrangement, whereby the R2 048 government bond serves as collateral and is the underlying liability, is determined in the same manner as other money market instruments held by the group.

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.

The instruments are designated at fair value through profit or loss, with both the interest accrual and fair value accounted for in profit or loss.

## LEVEL 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. The financial instruments at fair value through profit or loss represent profits arising out of the profit-sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends bi-annually to FirstRand Limited 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, 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 is made in the form of preference dividends.

Other debt securities at fair value through profit or loss are valued with reference to the funding rate of the holding company, which is entity-specific and not observable in the market.

The unsecured loan has a five-year term with no contractual interest rate. In calculating the fair value, the interest rate attached to a risk-free government bond with a term to maturity of five years was utilised.



# Contingencies and commitments

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 comprises the following:

- RMI acquired a 25.1% equity stake in Merchant Capital during September 2015;
- A junior loan facility to Merchant Capital of not more than R9 228 000; and
- 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 2019, R50 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.

# Operating lease commitments

| AUDITED<br>R MILLION | 2019 | 2018 |
|---|---|---|
| The group's operating lease commitments under non-cancellable operating lease agreements are as follows: | | |
| Up to 1 year | **(29)** | (24) |
| Between 1 to 5 years | **(56)** | (32) |
| Between 5 to 10 years | **(1)** | – |
| **Total operating lease commitments** | **(86)** | (56) |

# Subsequent events

## Final dividend declaration

RMI declared a final dividend of 65.0 cents per ordinary share amounting to R996 million on 10 September 2019 (2018: 65.0 cents per ordinary share amounting to R990 million, declared on 11 September 2018 and paid on 22 October 2018 with a scrip or reinvestment alternative), payable on 4 November 2019. This is a non-adjusting event.

## Corporate actions after 30 June 2019

The following transactions were completed after 30 June 2019, which are all non-adjusting events:

- RMI increased its investment in Prodigy Finance to 13.1%;
- RMI acquired a 25.1% equity stake in GuidePost, a high-touch health and insuretech innovator; and
- RMI Investment Managers restructured the existing Granate Asset Management (Granate) business by facilitating the addition of a multi-asset capability. Through this transaction, RMI Investment Managers decreased its interest in Granate to a 30% equity stake.

# 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 Teeger

## 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 8166 |
| Telefax: | +27 11 282 4210 |
| Web address: | **www.rmih.co.za** |

## SPONSOR

(in terms of JSE Listings Requirements)

Rand Merchant Bank (a division of FirstRand Bank Limited)

| | |
|---|---|
| Physical address: | 1 Merchant Place, Corner of Fredman Drive and Rivonia Road, Sandton, 2196 |

## TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited

| | |
|---|---|
| Physical address: | Rosebank Towers, 15 Biermann Avenue, Rosebank |
| Postal address: | PO Box 61051, Marshalltown, 2107 |
| Telephone: | +27 11 370 5000 |
| Telefax: | +27 11 688 5221 |

RMI
OPTIMISE
DIVERSIFY
MODERNISE

www.rmih.co.za