RMI HOLDINGS

2014

ANNUAL INTEGRATED REPORT

APPROACH TO

INTEGRATED **REPORTING**

An integrated report explains how an organisation's strategy, governance, performance and prospects lead to the sustainable creation of value. Although a wide range of stakeholders will benefit from the information contained in an integrated report, it is mainly aimed at the providers of financial capital.

The International Integrated Reporting Council released the International Integrated Reporting Framework in December 2013 in order to establish guiding principles that govern the overall content of an integrated report and to explain the fundamental concepts that underpin them. The framework is principles-based and does not prescribe specific key performance indicators, measurement methods or the disclosure of individual matters. Therefore, judgment needs to be exercised in the determination of material matters to be disclosed and the manner in which they are disclosed.

RMI Holdings' approach to integrated reporting will evolve over time in line with the framework. Integrated reporting had led to a more cohesive approach to reporting by connecting the information provided in the financial statements, corporate governance report, sustainability report and other management commentary.

We are mindful of the fact that every page we add to this annual report results in five thousand additional pages being printed. Significant elements of the disclosure have already been made by our subsidiaries and associates and rather than replicating the information, we have chosen to refer stakeholders to the annual integrated reports of our investee companies.

Certain statements in this integrated report may be regarded as forward-looking statements or forecasts. These statements have not been reviewed and reported on by the group's external auditors.

RMI HOLDINGS' APPROACH TO INTEGRATED REPORTING WILL EVOLVE OVER TIME IN LINE WITH THE FRAMEWORK.

CONTENTS

WHO **WE ARE**

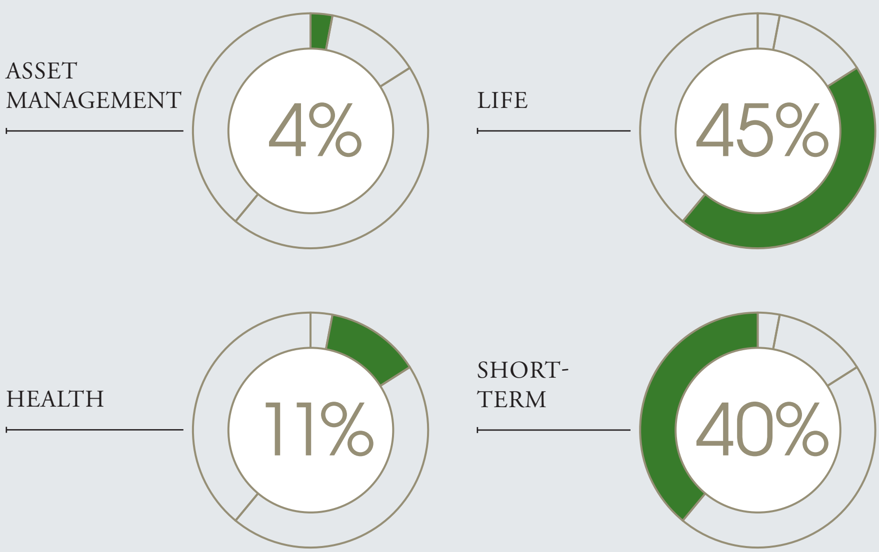
RAND MERCHANT INSURANCE HOLDINGS LIMITED ("RMI HOLDINGS") IS A SEPARATELY LISTED INVESTMENT HOLDING COMPANY THAT HOLDS A DIVERSIFIED PORTFOLIO OF SOME OF SOUTH AFRICA'S PREMIER INSURANCE BRANDS.

The objective of creating **RMI HOLDINGS** is to give shareholders greater flexibility and transparency in managing their insurance investments originally held by RMB Holdings Limited ("RMBH").

RMI Holdings' investments include:

- Discovery Limited ("Discovery"),
- MMI Holdings Limited ("MMI"),
- OUTsurance Holdings Limited ("OUTsurance") and
- RMB-SI Investments Proprietary Limited ("RMBSI").

THESE INVESTMENTS PROVIDE A DIVERSIFIED EARNINGS BASE FOR AN INVESTOR IN THE SOUTH AFRICAN INSURANCE SECTOR



FINANCIAL **HIGHLIGHTS**

NORMALISED EARNINGS

+18%

to 203.4 cents

ORDINARY DIVIDEND

+14%

to 108.0 cents

MARKET VALUE

+30%

3 278 cents

OUR **STRUCTURE**

RMI Holdings is a significant investor in some of South Africa's most prominent insurance groups.

Our interests include:

Discovery – 25% ACTUAL INTEREST

Discovery services the healthcare funding and insurance markets in South Africa, the United Kingdom, United States, China and Singapore. It is a pre-eminent developer of integrated financial services products and operates under the Discovery Health, Discovery Life, Discovery Insure, Discovery Invest, DiscoveryCard, Vitality, PruHealth, PruProtect, Ping An and AIA Vitality brand names.

MMI HOLDINGS – 25% ACTUAL INTEREST

MMI was formed from the merger of Momentum and Metropolitan, both sizeable insurance-based financial services players in South Africa. The core businesses of MMI are long-term insurance, asset management, investment, healthcare administration and employee benefits. Product solutions are provided to all market segments. MMI operates in 12 countries outside of South Africa. It provides for the insurance needs of individuals in the lower-, middle- and upper-income markets, principally under the Momentum and Metropolitan brand names.

RMI HOLDINGS

OUTSURANCE – 83% ACTUAL INTEREST

OUTsurance is a direct personal lines and small business short-term insurer. As pioneers of the OUTbonus concept, it has grown rapidly by applying a scientific approach to risk selection, product design and claims management. Its South African direct life insurance business has gained significant traction during the year. Youi, the group's direct personal lines initiative in Australia, achieved the necessary scale to run profitably.

RMB STRUCTURED INSURANCE – 76% ACTUAL INTEREST

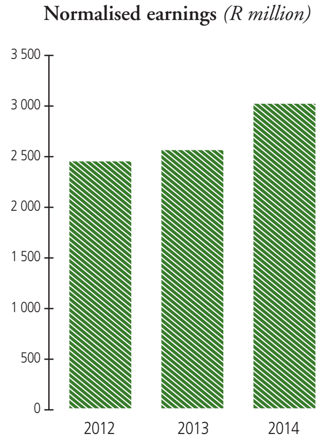
RMBSI holds both short-term and life insurance licences. It creates bespoke insurance and financial risk solutions for South Africa's large corporations by using sophisticated risk techniques and innovative financial structures. In addition, it partly owns a portfolio of underwriting management agencies.

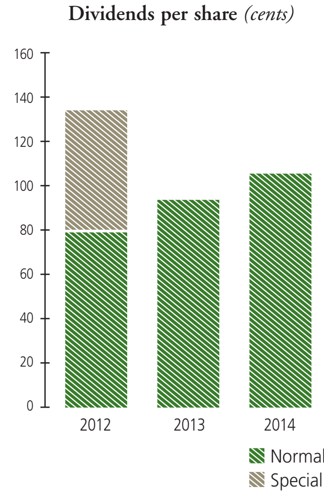
RMI Holdings' actual interest in these group entities is different from the effective interest as a result of the following consolidation adjustments (refer to note 42 on page 163):

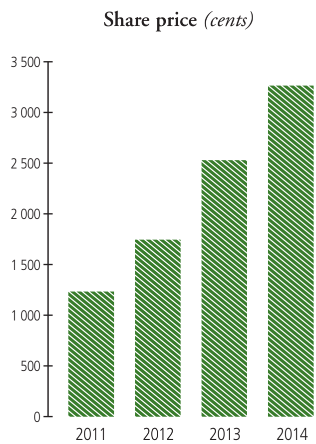
- *treasury shares held by these entities;*
- *shares held in them by their staff share incentive trusts;*
- *"deemed" treasury shares arising from BEE transactions entered into; and*
- *"deemed" treasury shares held in them by policyholders and mutual funds managed by them.*

OUR
TRACK RECORD

EARNINGS, DIVIDENDS AND SHARE PRICE







TOTAL SHAREHOLDERS' RETURN

	3 Years	2 Years	1 Year
Annual compound growth rate	46%	42%	34%

NORMALISED **EARNINGS**

COMPUTATION OF NORMALISED EARNINGS

R million	FOR THE YEAR ENDED 30 JUNE 2014 Audited	Restated 2013 Audited	% change
Headline earnings attributable to equity holders	**2 879**	2 242	28
RMI Holdings' share of normalised adjustments made by associates:	**189**	341	
Amortisation of intangible assets relating to business combinations	**173**	171	
Net realised and fair value gains on shareholders' assets	**(136)**	(85)	
Fair value adjustment to puttable non-controlling interest financial liability	**50**	33	
Corporate restructuring expenses	**43**	15	
Basis and other changes and investment variances	**40**	92	
Finance costs raised on puttable non-controlling interest financial liability	**39**	41	
Non-controlling interest adjustment if no put options	**(20)**	(10)	
Recapture of reinsurance	**–**	84	
Group treasury shares	**(46)**	(17)	
NORMALISED EARNINGS ATTRIBUTABLE TO EQUITY HOLDERS	**3 022**	2 566	18

SOURCES OF NORMALISED EARNINGS

R million	FOR THE YEAR ENDED 30 JUNE 2014 Audited	Restated 2013 Audited	% change
Normalised earnings from:			
• Discovery	**866**	699	24
• MMI	**899**	803	12
• OUTsurance	**1 219**	1 031	18
• RMBSI	**78**	70	11
	3 062	2 603	18
Funding and holding company costs	**(40)**	(37)	(8)
NORMALISED EARNINGS	**3 022**	2 566	18

COMPUTATION OF NORMALISED EARNINGS PER SHARE

	FOR THE YEAR ENDED 30 JUNE 2014 Audited	Restated 2013 Audited	% change
Weighted average number of shares in issue (millions)	**1 486**	1 486	
Normalised earnings per share (cents)	**203.4**	172.6	18
Diluted normalised earnings per share (cents)	**201.3**	171.3	18
Dividend cover (relative to normalised earnings)	**1.9**	1.8	

"NOTWITHSTANDING A CHALLENGING ECONOMIC ENVIRONMENT, ALL OF THE BUSINESSES IN WHICH RMI HOLDINGS ARE INVESTED PRODUCED SATISFYING RESULTS."

GT FERREIRA Chairman

EXECUTIVE **REVIEW**

ECONOMIC ENVIRONMENT

The operating environment remained difficult throughout the financial year. This was largely as a consequence of uncertainty in the global macro-economic arena combined with subdued domestic demand growth and protracted industrial action in the mining sector.

Economic activity in the United States experienced a gradual recovery. This allowed the US Federal Reserve to taper its asset purchases. The expected increase in US interest rates impacted on foreign capital flows to emerging markets. South Africa, with its large current account deficit, was negatively impacted by the slow-down in capital flows. This led to the further weakening of the Rand, which translated into higher domestic inflation and triggered the start of a higher interest rate cycle.

Local operating conditions were economically challenging and highly competitive. Equity markets increased strongly throughout the year, while interest rate volatility continued. Consumer confidence remained fragile with ongoing labour challenges, unemployment, indebtedness and inflation reducing disposable and investable income.

While some of these headwinds also affected the rest of the sub-Saharan region, GDP growth in many African countries, however, is proving to be resilient, with some economies continuing to expand at a brisk pace. In those countries, domestic demand – fuelled by credit growth and investment in infrastructure development – remained the major catalyst.

HERMAN BOSMAN Chief executive officer

“RMI HOLDINGS’ AIM IS TO BE A VALUE-ADDING, ACTIVE ENABLER OF LEADERSHIP AND INNOVATION IN FINANCIAL SERVICES.”

OVERVIEW OF RESULTS

Notwithstanding such a challenging background, all of the businesses in which RMI Holdings are invested produced satisfying results, with strong growth in normalised earnings being recorded by Discovery and OUTsurance, driven largely by the performance of their offshore operations.

Normalised earnings

FOR THE YEAR ENDED 30 JUNE			
R million	**2014 Audited**	Restated 2013 Audited	% change
Discovery	**3 457**	2 787	24
MMI	**3 621**	3 241	12
OUTsurance	**1 448**	1 209	20
RMBSI	**101**	89	13

As a result, the earnings derived by RMI Holdings from its investments in these companies were as follows:

R million	2014 Audited	Restated 2013 Audited	% change
	FOR THE YEAR ENDED 30 JUNE		
Normalised earnings from:			
– Discovery	**866**	699	24
– MMI	**899**	803	12
– OUTsurance	**1 219**	1 031	18
– RMBSI	**78**	70	11
	3 062	2 603	18
Funding and holding company costs	**(40)**	(37)	(8)
Normalised earnings	**3 022**	2 566	18
Normalised earnings per share (cents)	**203.4**	172.6	18

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

A reconciliation of the adjustments made to derive normalised earnings is presented on page 6.

MARKET VALUE OF INVESTMENTS

Both Discovery and MMI benefited from a significant market re-rating during the year to 30 June 2014, with their JSE market capitalisation increasing by 16% and 18% respectively.

Over the year RMI Holdings' market capitalisation increased by 30% to R48.7 billion.

On a "look-through" basis, the market value attributed to RMI Holdings' interest in OUTsurance (84.7% held) and RMBSI (78.6% held) increased by 47% to R24.1 billion, reflecting market recognition of the continued progress made in building out OUTsurance's Australian initiative and the strength of its South African franchise.

R million	2014	2013	% change
	AS AT 30 JUNE		
Market value of interest in:			
– Discovery	**14 383**	12 445	16
– MMI	**10 302**	8 701	18
Market value of listed investments	**24 685**	21 146	17
Implied market value of unlisted investments	**24 075**	16 337	47
Gross market value of portfolio	**48 760**	37 483	30
Net liabilities of the holding company	**(59)**	(44)	(34)
RMI Holdings market capitalisation	**48 701**	37 439	30
RMI Holdings closing share price (cents)	**3 278**	2 520	30

NEW INVESTMENT STRATEGY

RMI Holdings' aim is to be a value-adding, active enabler of leadership and innovation in financial services. As signalled to the market in 2013, the board is now positioning RMI Holdings as a more active portfolio following the appointment of Mr Bosman.

A new investment team has been appointed to consider opportunities across the broader South African and African financial services landscape. The scope of opportunities will initially be South African-focused and will include buy and build possibilities across a wide spectrum of scale and life cycles of financial services businesses.

The financial services landscape is an extremely dynamic environment and while it is important to enhance the current market positions and business models of the underlying investments and evaluate traditional acquisition opportunities, it is equally important to be vigilant around the emergence of disruptive businesses and concepts and partner with industry-changing entrepreneurs.

DIVIDEND PAYMENT

The board is of the opinion that RMI Holdings is adequately capitalised at this stage and that the company will be able to meet its obligations in the foreseeable future after payment of the dividend declared below. The board is also of the view that, at present, the level of borrowings that the group carries at the center is appropriate.

The board has considered the impact of the new investment strategy on dividend policy. The stated practice of paying out all dividends received from our underlying investments after servicing any funding commitments largely remains in place. Going forward, in determining dividends, RMI Holdings' debt funding capacity and investment pipeline will be considered. For 2014, the board has decided to retain the special dividend of R196 million to be received from MMI in October 2014.

Final dividend for the 2014 financial year

The board resolved to declare a final dividend of 62.0 cents per ordinary share.

Such final dividend, together with the interim dividend of 46.0 cents per ordinary share, brings the total dividend for the year ended 30 June 2014 to 108.0 cents per ordinary share (2013: 95.0 cents), a year-on-year increase of 14%.

The total dividend is covered 1.9 times (2013: 1.8 times) by the normalised earnings of 203.4 cents per share.

The apparent divergence in the growth in dividends relative to the growth in underlying earnings can be ascribed to OUTsurance re-investing a larger portion of its earnings in its Australian and New Zealand growth initiatives.

OUTLOOK

The South African consumer will be placed under further pressure due to the current interest rate hiking cycle. Growth in insurance new business volumes will remain largely dependent upon the economic environment, including a recovery in employment and stronger disposable income levels.

All of the groups in which RMI Holdings are invested face both opportunities and threats posed by the highly regulated environment in which they operate, including evolving capital regimes as well as social security reform proposals.

Notwithstanding these challenges, RMI Holdings expects to benefit from continued organic growth during the coming year.

BOARD CHANGES

During the current year the following board appointments were made:

- Mr HL Bosman as executive director/chief executive officer designate (2 April 2014).
- Mr JP Burger as independent non-executive director (30 June 2014).
- Mr P Lagerström as independent non-executive director (30 June 2014).

Mr MM Morobe was appointed as independent non-executive director on 1 August 2014.

We extend a warm welcome to all the new appointees.

Mr TV Mokgatlha resigned as an independent non-executive director on 30 June 2014.

As part of a process to achieve compliance with the various prescriptions regarding board structures and corporate governance, Mr L Crouse resigned as non-executive director effective 30 June 2014 and was appointed as an alternate to Mr JJ Durand on the same date.

Mr Cooper retires, effective 11 September 2014, as chief executive officer and financial director. He will continue to serve on the board in a non-executive capacity. We would like to express a word of gratitude to Mr Cooper for the value he has created for the equity holders during his career. We wish him well as he scales back his corporate involvement.

The board has confirmed Mr Bosman as chief executive officer and financial director of RMI Holdings effective 11 September 2014. We wish him well in his career with RMI Holdings and look forward to support him in his strategic initiatives.

For and on behalf of the board

GT Ferreira	**HL Bosman**
Chairman	Chief executive officer

Sandton

11 September 2014

GROUP **OVERVIEW**

ADRIAN GORE Group **chief executive**

"DISCOVERY'S AMBITION IS TO BE THE BEST INSURANCE ORGANISATION IN THE WORLD AND A FORCE FOR SOCIAL GOOD."

Discovery is a South African-founded financial services organisation with operations in the healthcare, life insurance, short-term insurance, savings and investment and wellness markets. Founded in 1992 as a specialist health insurer, Discovery today operates in South Africa, the UK, China, Singapore, Australia, and the USA through various business lines and covers over eight million lives. It operates under the ***Discovery Health, Discovery Life, Discovery Insure, Discovery Invest, DiscoveryCard, Discovery Vitality, PruHealth, PruProtect, Ping An Health and AIA Vitality*** brand names.

Its core purpose is to make people healthier and to enhance and protect people's lives. The business model centres on making people healthier, having a positive long-term impact on costs and value for both the insurer and the client. The result is a more effective insurance system that is increasingly more relevant globally, given the global trends of chronic diseases, the challenge of rising healthcare costs and consumers turning to protection products to mitigate financial uncertainty.

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

Discovery's ambition is to be the best insurance organisation in the world and a force for social good. By using powerful financial and behavioural structures that meet people's needs in sustainable ways, Discovery is able to provide superior returns for shareholders. However, Discovery's core purpose and ambition extend further than its immediate clients and financial performance. Businesses must not only navigate social change successfully, but must also contribute to building the stability necessary for a thriving society.

Discovery's framework for sustainable development supports this ambition. This framework focuses on five areas:

- create a values-based culture of opportunity and innovation by attracting, developing and retaining talent that creates economic and social value and actively work toward achieving diversity and transformation;
- change behaviour to make people healthier and better protected by encouraging physical activity and improving nutrition and rewarding safe driving;
- strengthen and expand access to quality healthcare through innovative and affordable products, building capacity, decreasing costs and improving quality of care for members;
- enhance economic and financial security and prosperity by developing innovative products that decrease clients' insurance gaps and foster a culture of saving and by supporting small and medium enterprises, entrepreneurs and youth; and
- understand and improve our environmental performance by reducing the direct environmental footprint, driving positive behaviour change and understanding climate change implications.

The Discovery Fund gives ongoing financial support to 43 community healthcare organisations and projects across South Africa, many of which are situated in remote and rural areas. The Discovery Foundation is investing R150 million over a period of 10 years to train 300 healthcare specialists in South Africa. To date, it has funded the training of over 240 doctors in renowned local and international medical research institutions. During the 2014 reporting period, the Foundation has invested R22 million in 30 recipients.

The year to 30 June 2014 was a satisfying period for Discovery:

- New business grew 15% to R12.2 billion;
- Normalised headline earnings increased by 24% to R3.5 billion;
- Embedded value grew 21% to R43.1 billion; while
- Return on capital amounted to 22.9%.

All businesses are competitively positioned in their respective markets.

The healthcare environment remains complex, characterised by an increasing disease burden, a deepening shortage of physicians, continued upward cost pressure and legislative reform. Against this backdrop, **Discovery Health's** performance exceeded expectation: operating profit before tax increased 10% to R1.9 billion, after continued efficiencies were passed on to the medical scheme through a planned scale-related discount; new business increased 4% to R5 billion; and lives under management grew to 2.9 million.

Discovery Life demonstrated exceptional earnings before tax growth of 23% to R2.6 billion over the year, driven by new business growth of 6% to R2 billion, better than expected claims and lapse results, improved renewal efficiencies and disciplined expense control.

The performance of **Discovery Invest** over the year exceeded expectation. Earnings before tax increased by 50% to R331 million, driven by high growth of products sold and strong performance of the market. Assets under management increased to R42 billion.

The scale and relevance of Discovery's UK businesses reflect the benefits of a decade of investment. The combined **PruHealth** and **PruProtect** businesses grew earnings before tax by 33% to R628 million; new business grew 35% to R2.1 billion and the combined customer base measured almost 800 000 at the end of the year.

In the year under review, **Ping An Health** entrenched its position as the top health insurance player in China and more than doubled new business volumes to R339 million.

Discovery Insure's new business was exceptional, with 73% growth to R632 million. It is now the fastest growing short-term insurer in South Africa.

RMI Holdings included R866 million of Discovery's earnings in its normalised earnings (2013: R699 million).

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

"THE MERGER INTEGRATION HAS BEEN SUCCESSFULLY COMPLETED, THEREBY CREATING A STRONG FOUNDATION FOR GROWTH."

NICOLAAS KRUGER Chief executive officer

MMI HOLDINGS

MMI was formed from the merger of Momentum and Metropolitan. The core businesses of MMI are long-term insurance, asset management, investment, healthcare administration and employee benefits. Product solutions are provided to all market segments. MMI operates in 12 countries outside of South Africa. It provides for the insurance needs of individuals in the lower, middle and upper income markets, principally under the ***Momentum*** and ***Metropolitan*** brand names.

The merger integration has been successfully completed. A merger with the complexity and size of MMI inevitably has an opportunity cost in respect of management time and focus. MMI's efforts have been rewarded by a strong foundation for growth. During the past year, MMI has already been able to spend more time considering the strategic response to the future environment, which resulted in the formulation of a new client-centric strategy, supporting operating model and new operating structure.

MMI's client-centric strategy comprises the following principles to achieve growth:

- putting the client at the centre of everything;
- providing holistic and lifetime financial wellness solutions;
- creating capability to truly understand the circumstances, needs, preferences and behaviour of clients;
- helping solve society's problem of financial insecurity, under-saving, under-insurance and poor financial literacy; and
- maintaining a lean cost base.

MMI's vision is to be the preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness. Its strategic focus areas are growth, client-centricity and excellence. All its strategic objectives and the initiatives required to realise these objectives are linked to one of the three strategic focus areas.

MMI's strategic diversification initiatives to drive growth include:

- geographical diversification, mainly through looking at acquisitive and organic growth opportunities in Africa and in the longer term in India and the broader Southeast Asian region;
- product diversification by increasing MMI's market share in the South African short-term insurance market following the acquisition of the remaining 50% stake in Momentum Short-term Insurance, the acquisition of Guardrisk and providing short-term insurance solutions to MMI's African businesses;
- segment diversification by expanding MMI's representation in the middle-income market;
- channel diversification in respect of electronic distribution channels; and
- a focus on the financial wellness initiative.

Transformation is both a business imperative and an important part of MMI's duty to be a responsible corporate citizen. MMI is pleased with its current level 2 contributor level. The revised future Department of Trade and Industry targets will reduce the contributor levels across the financial services industry and MMI is embracing this challenge with a number of projects already underway to improve MMI's contributor level in the future.

MMI has established the MMI Foundation to provide strategic oversight and governance as well as play an advisory role regarding all CSI initiatives. Metropolitan and Momentum ensure the implementation of their respective CSI strategies and distribute funds allocated to each towards addressing the various social challenges of our country. The Foundation's mission is to create a society where strong leadership and collaboration help bring about sustained behavioural changes and development in the fields of health, disability, education and sport development.

MMI's target for socio-economic development through the Foundation is 0.7% of net profit after tax. A total of R27 million was spent on qualifying initiatives, which equates to 1.03% of the net profit after tax in the previous financial year.

Momentum and Metropolitan each has various sponsorships to enhance the brand and support each brand's focus on creating prosperity and ensuring financial wellness. Momentum's sponsorships include one-day international cricket, the 94.7 cycle challenge, the financial wellness index with Unisa, the Momentum household net wealth report and in partnership with Pick n Pay the Cape Argus and various other events. Metropolitan has various soccer sponsorships in place.

MMI delivered strong financial results for the year under review:

- Embedded value increased to R40 billion, driven by an excellent 19% return on embedded value;
- Diluted core headline earnings of R3.6 billion reflected a 12% increase on the prior year;
- The contribution from operating divisions rose 22% to R3.0 billion; and
- Targeted merger expense savings of R500 million were achieved ahead of time.

MMI invested or committed in excess of R2.5 billion in growth initiatives during the year. Each of its business segments is implementing plans to grow the group through client-centricity. MMI believes that the group has identified and is implementing innovative strategies to unlock value and generate the required return on capital for shareholders over time.

RMI Holdings included R899 million of MMI's earnings in its normalised earnings (2013: R803 million).

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

WILLEM ROOS Joint chief executive officer

"OUTSURANCE'S BUSINESS MODEL IS BUILT ON A PHILOSOPHY OF SCIENTIFIC UNDERWRITING AND PRICING, INNOVATIVE PRODUCT DESIGN, A ROBUST AND EFFICIENT INFORMATION TECHNOLOGY PLATFORM AND A HIGH PERFORMANCE CULTURE DRIVEN BY GREAT PEOPLE."

OUTsurance is a direct personal lines and small business short-term insurer. In addition, its South African direct life insurance business continues to gain traction.

Youi, the group's direct personal lines initiative in Australia, has achieved scale and is trading profitably. Youi New Zealand was launched in July 2014 and provides personal lines insurance cover directly to the New Zealand public.

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

The client-centric business strategy to provide value for money insurance and exceptional client

"THE CLIENT-CENTRIC BUSINESS STRATEGY TO PROVIDE VALUE FOR MONEY INSURANCE AND EXCEPTIONAL CLIENT SERVICE CONTINUES TO DRIVE CONSISTENT SHAREHOLDER RETURNS."

HOWARD ARON Joint chief executive officer

OUTSURANCE

service continues to drive consistent shareholder returns. OUTsurance evaluates its performance against the following strategic imperatives:

- Pricing discipline. OUTsurance abides by a sound insurance principle of only underwriting insurance risk that it can accurately price for. This approach has resulted in achieving claims ratios which are more stable and profitable compared to its peers and is supported by a sophisticated systems infrastructure and a culture of data analytics. OUTsurance's reinsurance strategy is calibrated to manage its low appetite for earnings volatility and to protect it against infrequent large scale natural events. The success of this approach is evidenced by the relatively small net impact of record hail storm exposures over the last two years on the OUTsurance bottom line. Although Youi benefitted from relatively benign weather conditions in the second half of the year, the claims ratio continues to show a positive trend in line with the maturing in-force book. Youi's claims ratio continues to track well below the market average, testament to the sophistication of the pricing and underwriting model.
- Client service. OUTsurance operates in a highly competitive and commoditised market place with limited opportunity for distinction. The value of "awesome service" is deeply embedded in OUTsurance's service culture and a key differentiator. Client service performance is tracked by measuring the success of client interactions through various innovative feedback mechanisms such as client and service provider surveys and the "wall" on its websites which provide clients with a public forum to compliment or criticise OUTsurance's

performance. This year, OUTsurance and Youi achieved a 95% and 85% client satisfaction ratio respectively as measured on the "wall".

- Brand strength and reputation. OUTsurance views its responsibility to pay legitimate claims promptly and fairly as its most important function. Its management team is highly incentivised to ensure that OUTsurance abides by its equitable claims settlement philosophy. A valuable independent source for validating its claims philosophy is the annual industry statistics published by the Ombudsman for short-term insurance (South Africa). OUTsurance has again achieved comparatively better complaints experience than the industry. OUTsurance clients submitted two out of every 1 000 claims processed to the Ombudsman compared to the industry's three out of every 1 000. Of these claims, the Ombudsman only overturned 14% of the OUTsurance claims whereas the experience for the industry was 33%.
- Excellent operational execution is key to achieving OUTsurance's underwriting and client service goals. Operating efficiently is also critical in meeting its objective of providing value for money insurance products. Innovation is often centred on smarter execution. OUTsurance continuously invests in its dedicated and passionate people, systems and processes to ensure world-class and economical business processes. This strategy has allowed OUTsurance to consistently provide clients with below industry premium increases. This year, Youi realised further scale benefits on the back of the fast growing in-force book. In an effort to extend the operating hours of Youi and gain client service efficiencies, Youi opened a call centre in New Zealand. The Australian client base is now serviced from Australia, South Africa and New Zealand, a strategy which has been highly successful in enhancing customer experience and positively impacting on the bottom line.

OUTsurance is committed to sustainable relationships with all its stakeholders.

Examples of OUTsurance's involvement in the community include the pointsmen project where 156 pointsmen help to alleviate traffic congestion at high-traffic intersections, and the staff helping South Africa OUT project where hundreds of OUTsurance employees volunteer their time and efforts in order to make a difference in the lives of less fortunate South Africans through various projects.

OUTsurance delivered another strong financial and operational performance for the year under review. The group achieved 20% growth in headline earnings to R1 448 million and a return on equity of 38.4%. The significant driver behind the growth in OUTsurance's earnings is attributed to the profitability of Youi, which generated R231 million in headline earnings.

OUTsurance achieved 35% growth in the annualised new business written.

- Youi delivered excellent new business growth as the business continues to gain traction and solidify its presence in the Australian market.
- The South African business delivered an encouraging increase in new business written in an environment where premium inflation continues to track below consumer inflation.

The strong new business volume growth translated into 25% growth in the group's gross written premium income to R10.4 billion.

Since its launch in 2008, Youi has through good operational execution, the creation of a powerful brand and management focus, grown to be a notable and profitable player in the Australian market. Youi now contributes 39% of the group's turnover and 15% of the group's profits.

RMI Holdings included R1 219 million of OUTsurance's earnings in its normalised earnings (2013: R1 031 million).

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

GUSTAVO ARROYO Chief executive officer

RMB STRUCTURED INSURANCE

"RMBSI CONTINUES TO FOCUS ON A DIVERSIFIED BUSINESS STRATEGY TO BOLSTER ITS RETAINER BASE INCOME ON THE BACK OF THE MORE TRADITIONAL INSURANCE BUSINESS."

RMBSI holds both short-term and life insurance licenses. It creates bespoke insurance and financial risk solutions for South Africa's large corporations by using sophisticated risk techniques and innovative financial structures. In addition, it partly owns a portfolio of underwriting management agencies.

RMBSI continues to focus on a diversified business strategy to bolster its retainer base income on the back of the more traditional insurance business. This continues to bear fruit and the business mix is trending in the right direction.

Shareholder profit after tax for the year to June 2014 amounted to R101 million (2013: R89 million).

RMI Holdings included R78 million of RMBSI's earnings in its normalised earnings (2013: R70 million).

CORPORATE **GOVERNANCE REPORT**

RMI Holdings has an "owner-manager" culture which has been inculcated at every business in which it invested. Thus, while the RMI Holdings board is responsible for the maintenance of sound corporate governance, it believes that its implementation is best managed at an investee company level. Consequently, Discovery, MMI, OUTsurance and RMBSI have their own governance structures, including boards of directors, executive teams, audit, risk, capital, compliance and remuneration committees that monitor operations and deal with governance and transformation related issues.

EFFECTIVE CORPORATE GOVERNANCE FORMS PART OF RMI HOLDINGS' INVESTMENT ASSESSMENT CRITERIA WHICH IS FURTHER MONITORED BY NON-EXECUTIVE BOARD REPRESENTATION ON INVESTEE COMPANY BOARDS.

RMI Holdings subscribes to a set of values which seek to foster integrity, innovation, individual empowerment and personal accountability. It reinforces these values through various board committees with clearly defined responsibilities:

BOARD OF DIRECTORS

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

In South Africa, principles and guidelines for corporate governance are set by:
- the King III Report Code of Corporate Practices and Conduct ("King III"); and
- the Companies Act, 71 of 2008, as amended ("Companies Act").

RMI Holdings and all of its subsidiaries and associates endorse King III. RMI Holdings is listed on the JSE and also complies with the JSE Listings Requirements.

APPROACH TO INTEGRATED REPORTING

An integrated report explains how an organisation's strategy, governance, performance and prospects lead to the sustainable creation of value. Although a wide range of stakeholders will benefit from the information contained in an integrated report, it is mainly aimed at the providers of financial capital.

The International Integrated Reporting Council released the International Integrated Reporting Framework in December 2013 in order to establish guiding principles that govern the overall content of an integrated report and to explain the fundamental concepts that underpin them. The framework is principles-based and does not prescribe specific key performance indicators, measurement methods or the disclosure of individual matters. Therefore, judgment needs to be exercised in the determination of material matters to be disclosed and the manner in which they are disclosed.

RMI Holdings' approach to integrated reporting will evolve over time in line with the framework. Integrated reporting had led to a more cohesive approach to reporting by connecting the information provided in the financial statements, corporate governance report, sustainability report and other management commentary.

We are mindful of the fact that significant elements of the disclosure have already been made by our subsidiaries and associates and rather than replicating the information, we have chosen to refer stakeholders to the annual integrated reports of our investee companies.

KING III

The JSE Listings Requirements require all JSE-listed companies to provide a narrative on how it has applied the recommendations contained in King III. Below is the King III gap analysis. RMI Holdings has complied with the King III principles for the full financial year ended 30 June 2014, unless otherwise indicated.

Principle	Description	Status	Explanation
1	**Ethical leadership and corporate citizenship**		
1.1	The board should provide effective leadership on an ethical foundation.	✓	
1.2	The board should ensure that the company is and is seen to be a responsible corporate citizen.	✓	
1.3	The board should ensure that the company's ethics are managed effectively.	✓	
2	**Board and directors**		
2.1	The board should act as a focal point for and custodian of corporate governance.	✓	
2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable.	✓	
2.3	The board should provide effective leadership based on an ethical foundation.	✓	
2.4	The board should ensure that the company is and is seen to be a responsible corporate citizen.	✓	
2.5	The board should ensure that the company's ethics are managed effectively.	✓	
2.6	The board should ensure that the company has an effective and independent audit committee.	✓	
2.7	The board should be responsible for the governance of risk.	✓	
2.8	The board should be responsible for technology governance.	✓	
2.9	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	✓	

Principle	Description	Status	Explanation
2.10	The board should ensure that there is an effective risk-based internal audit.	✓	
2.11	The board should appreciate that stakeholders' perceptions affect the company's reputation.	✓	
2.12	The board should ensure the integrity of the company's integrated report.	✓	
2.13	The board should report on the effectiveness of the company's internal controls.	✓	
2.14	The board and its directors should act in the best interests of the company.	✓	
2.15	The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Companies Act.	✓	
2.16	The board should elect a chairman of the board who is an independent, non-executive director. The CEO of the company should not also fulfil the role of chairman of the board.	X	The chairman is a non-executive director but is not independent. A lead independent, non-executive director was appointed.
2.17	The board should appoint the chief executive officer and establish a framework for the delegation of authority.	✓	
2.18	The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	X	From 1 July 2013 to 29 June 2014, five of the 11 non-executive directors were independent. From 30 June 2014 to 31 July 2014, six of the 11 non-executive directors were independent. From 1 August 2014 to 11 September 2014, seven of the 12 non-executive directors were independent. RMI Holdings believes that all board members are suitably qualified and that the composition of the board is in the best interest of all stakeholders without prejudice to them.
2.19	Directors should be appointed through a formal process.	✓	

Principle	Description	Status	Explanation
2.20	The induction of and ongoing training and development of directors should be conducted through formal processes.	✓	
2.21	The board should be assisted by a competent, suitably qualified and experienced company secretary.	✓	
2.22	The evaluation of the board, its committees and the individual directors should be performed every year.	✓	
2.23	The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities.	✓	
2.24	A governance framework should be agreed between the group and its subsidiary boards.	✓	
2.25	Companies should remunerate directors and executives fairly and responsibly.	✓	
2.26	Companies should disclose the remuneration of each individual director and certain senior executives.	X	The individual director's remuneration is disclosed, but not the salaries of the three highest earners who are not directors. The remuneration packages of the joint CEO's of OUTsurance have been disclosed as they are viewed as prescribed officers of the RMI group. RMI Holdings decided that this disclosure is sufficient and appropriately demonstrates alignment between remuneration and shareholders' return.
2.27	Shareholders should approve the company's remuneration policy.	✓	
3	Audit committee		
3.1	The board should ensure that the company has an effective and independent non-executive audit committee.	✓	

Principle	Description	Status	Explanation
3.2	Audit committee members should be suitably skilled, experienced and independent, non-executive directors.	✓	
3.3	The audit committee should be chaired by an independent, non-executive director.	✓	
3.4	The audit committee should oversee integrated reporting.	✓	
3.5	The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities.	✓	
3.6	The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function.	✓	
3.7	The audit committee should oversee the internal audit function.	✓	
3.8	The audit committee should be an integral component of the risk management process.	✓	
3.9	The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	✓	
3.10	The audit committee should report to the board and shareholders on how it has discharged its duties.	✓	
4	**The governance of risk**		
4.1	The board should be responsible for the governance of risk.	✓	
4.2	The board should determine the levels of risk tolerance.	✓	
4.3	The risk or audit committee should assist the board in carrying out its risk responsibilities.	✓	
4.4	The board should delegate to management the responsibility to design, implement and monitor the risk management plan.	✓	

Principle	Description	Status	Explanation
4.5	The board should ensure that risk assessments are performed on a continual basis.	✓	
4.6	The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	✓	
4.7	The board should ensure that management considers and implements appropriate risk responses.	✓	
4.8	The board should ensure continual risk monitoring by management.	✓	
4.9	The board should receive assurance regarding the effectiveness of the risk management process.	✓	
4.10	The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	✓	
5	**The governance of information technology**		
5.1	The board should be responsible for information technology governance.	✓	
5.2	IT should be aligned with the performance and sustainability objectives of the company.	✓	
5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework.	✓	
5.4	The board should monitor and evaluate significant IT investments and expenditure.	✓	
5.5	IT should form an integral part of the company's risk management.	✓	
5.6	The board should ensure that information assets are managed effectively.	✓	

Principle	Description	Status	Explanation
5.7	An audit and risk committee should assist the board in carrying out its IT responsibilities.	✓	
6	**Compliance with laws, rules, codes and standards**		
6.1	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	✓	
6.2	The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.	✓	
6.3	Compliance risk should form an integral part of the company's risk management process.	✓	
6.4	The board should delegate to management the implementation of an effective compliance framework and process.	✓	
7	**Internal audit**		
7.1	The board should ensure that there is an effective risk-based internal audit function.	✓	
7.2	Internal audit should follow a risk-based approach in its plan.	✓	
7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management.	✓	
7.4	The audit committee should be responsible for overseeing internal audit.	✓	
7.5	Internal audit should be strategically positioned to achieve its objectives.	✓	

Principle	Description	Status	Explanation
8	Governing stakeholder relationships		
8.1	The board should appreciate that stakeholders' perceptions affect a company's reputation.	✓	
8.2	The board should delegate to management to proactively deal with stakeholder relationships.	✓	
8.3	The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.	✓	
8.4	Companies should ensure the equitable treatment of shareholders.	✓	
8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	✓	
8.6	The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	✓	
9	Integrated reporting and disclosure		
9.1	The board should ensure the integrity of the company's integrated report.	✓	
9.2	Sustainability reporting and disclosures should be integrated with the company's financial reporting.	✓	
9.3	Sustainability reporting and disclosure should be independently assured.	✓	

YEAR UNDER REVIEW

Disclosure on corporate governance in this annual integrated report is limited to RMI Holdings. Discovery, MMI, OUTsurance and RMBSI disclose relevant information on corporate governance in their own annual integrated reports.

The Companies Act places certain duties on directors and determines that they should apply the necessary care and skill in fulfilling their duties. To ensure that this is achieved, the board applies best practice principles, as contained in King III, where appropriate.

The following are the notable aspects of RMI Holdings' corporate governance:

THE BOARD OF DIRECTORS

Roles and responsibilities

The board's paramount responsibility is the positive performance of RMI Holdings in creating value for its shareholders. In so doing, it takes into account the legitimate interests and expectations of stakeholders, which include the present and potential future investors in RMI Holdings.

In terms of its formal charter, the board's responsibilities include the appointment of the chief executive officer and the approval of corporate strategy, risk management and corporate governance. The board reviews and approves the business plans and monitors the financial performance of the group and implementation of the strategies. The board is the guardian of the values and ethics of the company and its investee companies and seeks to ensure that the company is, and is seen to be, a responsible corporate citizen. The board is also responsible for formulating the company's communication policy and ensuring that spokespersons of the company adhere to it. This responsibility includes clear, transparent, balanced and truthful communication to shareholders and relevant stakeholders.

The board has a fiduciary duty to act in good faith, with due care and diligence and in the best interests of the group and its stakeholders. It is the primary body responsible for the corporate governance values of the group. While control is delegated to management in the day-to-day management of the group, the board retains full and effective control over the group. A formal board charter, as recommended by King III, has been adopted. All directors subscribe to a code of ethics. The code deals with duties of care and skill, as well as those of good faith, including honesty, integrity and the need to always act in the best interest of the company. Procedures exist in terms of which unethical business practices can be brought to the attention of the board by directors or employees.

Board members have full and unrestricted access to management and all group information and property. They are entitled, at the cost of the group, to seek independent professional advice in the fulfilment of their duties. Directors may meet separately with management without the attendance of executive directors.

After evaluating their performance in terms of their respective charters, the directors are of the opinion that the board and the subcommittees have discharged all their responsibilities.

Composition of the board

RMI Holdings has a unitary board with a non-executive director as chairperson. The chairperson is not independent in terms of the definition stated below. The board believes that the chairperson's specialist knowledge of the financial services industry makes it appropriate for him to hold this position.

The roles of chairperson and chief executive officer are separate and the composition of the board ensures a balance of authority precluding any one director from exercising unfettered powers of decision making. The directors are individuals of a high calibre with diverse backgrounds and expertise, facilitating independent judgment and broad deliberations in the decision making process. The board each year evaluates its composition to ensure an appropriate mix of skills and experience.

As at 11 September 2014, the board comprised 14 members, 12 of whom are non-executive directors. Seven of the non-executive directors are also independent directors in terms of the definition stated below. Mr Goss was appointed as lead independent non-executive director. The independence of the directors classified as "independent" was evaluated by weighing all relevant factors, including length of service which may impair independence.

New directors are subject to a "fit and proper" test. An informal orientation programme is available to incoming directors. No director has an automatic right to a position on the board. All directors are required to be elected by shareholders at an annual general meeting. In a general meeting, the company may appoint any person to be a director, subject to the provisions of the memorandum of incorporation.

The names of the directors, their ages, qualifications, date of appointment, other listed directorships and other details appear on pages 40 to 43.

The boards of the group's major investments and its operating divisions are similarly constituted with the necessary mix of skills, experience and diversity. There is also an appropriate mix between executive and non-executive appointments.

Term of office

Non-executive directors retire by rotation every three years and are eligible for re-election. Re-appointment of non-executive directors is not automatic. The retirement age of the non-executive directors is set at 70.

The chief executive officer has an employment contract that can, subject to fair labour practices, be terminated upon one month's notice. In terms of the company's memorandum of incorporation, the retirement age of an executive director is 60, but the board has the discretion to extend it to 65.

Definition of independence

An independent, non-executive director is a non-executive director who:

- is not a representative of a shareholder who has the ability to control or significantly influence management of the board;
- does not have a direct or indirect interest in the company which exceeds 5% of the shares in issue;
- does not have a direct or indirect interest which is material to his/her personal wealth;
- has not been employed or is not immediate family of an individual who was employed by the company or the group of which it currently forms part in any executive capacity for the preceding three financial years;
- is not a professional advisor to the company or the group;
- does not receive remuneration contingent upon the performance of the company;
- does not participate in a share incentive scheme/option scheme of the company; and
- is free from any business or other relationship which could be seen by an objective outsider to interfere materially with the individual's capacity to act in an independent manner.

Directors' interests

It is not a requirement of the company's memorandum of incorporation or the board charter that directors own shares in the company. Directors' interests in the ordinary shares of the company are disclosed on page 44.

Board proceedings

The board meets once every quarter. Should an important matter arise between scheduled meetings, additional meetings may be convened.

Before each board meeting, an information pack, which provides background information on the performance of the group for the year to date and any other matters for discussion at the meeting, is distributed to each board member. At its meetings, the board considers both financial and non-financial qualitative information that might have an impact on the stakeholders of the group.

Details of the board meetings held during the year ended 30 June 2014, as well as the attendance at the board meetings and annual general meeting by individual directors, are disclosed in the section "Directorate" on pages 49 and 50.

BOARD COMMITTEES

The board has established five subcommittees to assist the directors in their duties and responsibilities:

- a directors' affairs and governance committee;
- a nominations committee;
- a remuneration committee;
- an audit and risk committee; and
- a social, ethics and transformation committee.

Each committee has a formal charter and report to the board at regular intervals. The charters, which set out the objectives, authority, composition and responsibilities of each committee, have been approved by the board. All the committees are free to take independent outside professional advice, as and when required, at the expense of the group.

Company secretary

The company secretary of RMI Holdings as appointed by the board is Schalk Human, a chartered accountant (South Africa). All directors have unlimited access to the services of the company secretary, who is responsible to the board for ensuring that proper corporate governance principles are adhered to.

In terms of the JSE Limited Listings Requirements, the board of directors must consider, on an annual basis, the competence, qualifications and experience of the company secretary. The board used the questionnaire developed by the Institute of Directors of South Africa and the performance of the company secretary during the past year as guidance for this evaluation. The company secretary's working experience and qualifications (MCom (Accounting), CA(SA)) were also taken into consideration in the evaluation process.

The recommended practice of King III highlights that the company secretary should maintain an arm's-length relationship with the board of directors and that the company secretary should ideally not be a director. The board concluded that there were no direct or indirect relationships between the company secretary and any of the board members which could indicate that there was not an arm's-length relationship with the board of directors. The company secretary is not a director of RMI Holdings.

Based on the evaluations as outlined above, the board confirmed that the company secretary had adequately and effectively performed and carried out his roles and duties as the gatekeeper of good governance in RMI Holdings.

DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE

Roles and responsibilities

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

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

Governance effectiveness

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

The performance of the chief executive officer is also formally evaluated at least once per year.

Ethics

Upon joining the group, all directors are obliged to sign a code of ethics. RMI Holdings' code of ethics addresses duties of care and skill, good faith, honesty and integrity, whistle blowing, processes for dealing with conflicts of interest and the need to always act in the best interests of the group.

The soliciting or acceptance of payments other than declared remuneration, gifts and entertainment as consideration to act or fail to act in a certain way is disallowed. The group does not make political donations.

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

Conflicts

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

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

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

Dealings in securities

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

Committee proceedings

The committee meets at least twice annually with additional meetings when required at the request of the board or any committee member or as often as it deems necessary to achieve its objectives as set out in the terms of reference. Comprehensive minutes of meetings are kept.

The committee may invite any of the directors, professional advisors or officers whose input may be required to the meetings.

The chairperson may excuse from the meeting or from any item on the agenda any of the attendees at a meeting who may be considered to have a conflict of interest, or for confidentiality reasons.

Composition of the committee

The committee comprises all the non-executive directors. The committee is chaired by the lead independent, non-executive director.

NOMINATIONS COMMITTEE

Nomination, selection and appointment of directors

The company has a formal and transparent policy regarding the appointment of directors to the board. The nominations committee makes recommendations to the board on the appointment of new executive and non-executive directors. The board in turn proposes approved candidates to the shareholders for appointment at a general meeting.

The committee will first consider a proposed director's CV and do the necessary interviews and reference checks to establish the integrity and skills of the person and to ensure that the person has not been disqualified from being a director.

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

Composition of the committee

The committee comprises all the non-executive directors. The committee is chaired by the chairperson of the board.

REMUNERATION COMMITTEE

Roles and responsibilities

The roles and responsibilities of the remuneration committee include:

- assist the board in exercising its responsibility of ensuring that fair reward practices are implemented in RMI Holdings;
- make recommendations to the board in respect of the remuneration (total guaranteed salary and share incentives) of the chief executive officer and chief executive officer designate who are the only executive directors employed by the company;
- approve the remuneration (total guaranteed salary and share incentives) of the executive management of RMI Holdings;
- consider non-executive directors' fees and make recommendations to the board for approval by the shareholders; and
- provide a channel of communication between the board and management on remuneration matters.

The committee is mandated to:

- debate and approve the principles applied in determining the guaranteed remuneration and participation to share incentive schemes;
- debate and approve the annual salary adjustments;
- debate and approve the benchmarking process followed in determining the remuneration packages of the chief executive officer, chief executive officer designate and executive management, including the performance criteria used;
- review standard conditions of service, including leave entitlement, pension and provident fund benefits and membership to medical aid schemes;
- review and approve the terms and conditions of the executive directors' service agreements;
- ensure that appropriate disclosure is provided in the annual integrated report in line with King III, with explanations where the principles have not been applied; and
- delegate in writing any of its functions and the power to implement its decisions.

Executive remuneration

The committee seeks to align executive remuneration with stakeholder interests through appropriate refinements to fixed and long-term remuneration arrangements relative to company performance and industry specific remuneration practices. The strategy is accordingly tailored towards:

- creating recognisable alignment between rewards and the risk exposure of shareholders and other stakeholders;
- incentivising the delivery of consistent performance in line with strategic goals and risk tolerances and rewarding success appropriately;
- delivering compensation that is affordable and reasonable in terms of the value created for shareholders; and
- encouraging behaviour consistent with the group's business philosophy and corporate culture.

To align remuneration with shareholder returns, the group's remuneration policy specifically addresses the following factors:

- individual performance measured against both financial and non-financial performance criteria, individual behaviour and competitive performance;
- incentives which diminish or disappear in the event of poor group performance;

- no multi-year guaranteed incentives, substantial severance arrangements or remuneration linked to revenue generation by formula; and
- transparency to enable stakeholders to make reasonable assessments of reward practices and underlying governance processes.

In conducting the annual remuneration review, the committee also gave consideration to the outcomes of remuneration reviews in other group companies and had reference to independent advice on both general and specific remuneration practices.

The committee holds the view that none of RMI Holdings' employees other than the executive directors are "prescribed officers" in the context of the Companies Act and that no meaningful benefit would be derived by other stakeholders in specific disclosure of their remuneration. However, the remuneration packages of the joint CEO's of OUTsurance, Howard Aron and Willem Roos, have been disclosed as they are viewed as prescribed officers in the RMI Holdings group.

Remuneration and fees paid to non-executive directors are approved at the annual general meeting of shareholders.

Details of directors' remuneration for the year under review can be found on pages 45 to 48 of this annual integrated report.

Committee proceedings

The committee meets at least once annually or at the request of the chairperson.

Composition of the committee

The committee comprises three members, all of whom are non-executive. The names of the members and chairperson of the committee are disclosed in the section "Directorate" on page 50.

AUDIT AND RISK COMMITTEE

Roles and responsibilities

The committee's objectives are to assist the board of directors in fulfilling its fiduciary duties with regard to:

- the safeguarding of the group's assets;
- the financial reporting process;
- the system of internal control;
- the management of financial and non-financial risks;
- the audit process and approval of non-audit services;
- the group's process for monitoring compliance with the laws and regulations applicable to it;
- the group's compliance with the corporate governance practices;
- review of the annual integrated report;
- the business conduct of the group and its officials; and
- the appointment of the external auditors and the evaluation of their services and independence.

Finance function

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

Effectiveness of company's internal financial controls

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

Auditor independence

PricewaterhouseCoopers Inc. was appointed as auditor of the company until the next annual general meeting, with Mr Tom Winterboer as the individual registered auditor undertaking the company's audit for the year under review.

The audit and risk committee believes that the auditors have observed the highest level of business and professional ethics. The committee is satisfied that the auditors have at all times acted with unimpaired independence. Details of fees paid to the external auditors are disclosed in note 32 of the group annual financial statements. No non-audit services were provided during the current financial year.

The independent auditor attends all audit and risk committee meetings and the annual general meeting of shareholders. The partner responsible for the audit is required to rotate every five years. The committee meets with the auditors independently of senior management.

Companies Act

As required in terms of the Companies Act, the committee is satisfied that it complied with and performed its functions and that the company's external auditors are independent of the company.

Committee proceedings

The committee meets at least twice a year or at the request of the chairperson, any member of the committee, the board or the auditors. Comprehensive minutes of meetings are kept.

Details of committee meetings held during the year ended 30 June 2014, as well as the attendance by individual members are disclosed in the section "Directorate" on page 49.

The chief executive officer/financial director attends the meetings. The committee invites, at its discretion, the appropriate representatives of the external auditors, other professional advisors, officers or members of staff whose input may be required.

Board members have the right of attendance.

The chairperson may excuse from the meeting or from any item on the agenda any of the attendees at a meeting who may be considered to have a conflict of interest.

Composition of the committee

The committee comprises a minimum of three members and consists only of independent, non-executive directors. The chairperson is an independent, non-executive director and attends the annual general meeting. The names of the members and chairperson of the committee are disclosed in the section "Directorate" on page 49.

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE

Roles and responsibilities

This committee is a statutory requirement as per the Companies Act. The committee's objectives are to monitor:

- the social and economic development, including the 10 principles as set out in the United Nations Global Compact principles, the Organisation for Economic Co-operation and Development recommendations regarding corruption, the Employment Equity Act and the Broad-Based Black Economic Empowerment Act;
- good corporate citizenship, including promotion of equality, prevention of unfair discrimination, reduction of corruption, contribution to the development of communities and record of sponsorship, donations and charitable giving;
- the environment, health and public safety, including the impact of the company's activities;
- consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws; and
- labour and employment, including the standing in terms of the International Labour Organisation Protocol on decent work and working conditions, the company's employment relationships and its contribution toward the educational development of its employees.

Committee proceedings

The committee meets at least twice a year or at the request of the chairperson, any member of the committee or the board. Comprehensive minutes of meetings are kept. Details of committee meetings held during the year ended 30 June 2014, as well as the attendance by individual members are disclosed in the section "Directorate" on page 49.

Report from the chairperson of the social, ethics and transformation committee

The social, ethics and transformation committee confirms that all investee companies of RMI Holdings have established their own social and ethics committees. These investee company committees report on all significant matters that need to be brought to the attention of RMI Holdings' social, ethics and transformation committee as and when they arise. The chairperson of the social, ethics and transformation committee attends the annual general meeting to answer any questions that shareholders might have.

Composition of the committee

The committee comprises a minimum of three members and consists only of independent, non-executive directors. The chairperson is an independent, non-executive director. The names of the members and chairperson of the committee are disclosed in the section "Directorate" on page 49.

RISK MANAGEMENT AND INTERNAL CONTROL

RMI Holdings recognises that managing risk and compliance is an integral part of generating sustainable shareholder value and enhancing stakeholder interests.

The board and the boards of investee companies are accountable for establishing, maintaining and monitoring the effectiveness of the processes of risk management and systems of internal control applied throughout the group and in any joint ventures and associations to which the group or any subsidiary is a party.

The group's risk management and control framework covers the following key aspects:

- identifying key performance indicators;
- identifying significant business risks, both financial and other;
- maintaining proper accounting records;
- ensuring the reliability of financial information used within the business for decision making or for publication;
- ensuring compliance with applicable laws, regulations and codes of conduct;
- ensuring that the group is not unnecessarily exposed to avoidable financial risks such as the risks associated with fraud, potential liability and loss, including the safeguarding of assets;
- managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions;
- ensuring the effectiveness and efficiency of operations;
- monitoring the progress of group companies in complying with the Financial Sector Charter;
- ensuring that the group and any projects in which it is involved are subject to sound environmental practices; and
- ensuring that the appropriate balance is struck between entrepreneurial endeavour and sound business practice.

OVERALL EFFECTIVENESS OF THE CONTROL ENVIRONMENT

As with most systems of internal control, the effectiveness of internal control systems in the group is subject to inherent limitations, including:

- the possibility of human error and/or poor decision making;
- the deliberate circumventing of controls by employees or others;
- management overriding controls; and
- the occurrence of unforeseeable circumstances.

Control systems are therefore designed to manage, rather than eliminate, the risk of failure. Accordingly, it is recognised that a sound system of internal control can provide only reasonable and not absolute assurance against risks impacting the achievement of business objectives or any misstatement or loss.

Management reports regularly to the respective group boards on the effectiveness of the group's risk and compliance management and control framework. The effectiveness of this framework is subject to continuous review.

INTEGRATED ASSURANCE

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

The various assurance providers to the board comprise the following:

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

Internal audit

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

External audit

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

The directors are of the opinion that, based on enquiries made and the reports from the internal and external auditors, the risk management processes and systems of internal control of the company and its subsidiaries were effective for the year under review. The audit and risk committee has also satisfied itself that there are effective audit committees functioning at the company's associates.

SUSTAINABILITY **REPORT**

RMI Holdings is committed to good corporate citizenship practices and organisational integrity in the direction, control and stewardship of the group's affairs. To the extent that it is possible, the directors of RMI Holdings seek to ensure that this commitment is practised and reported on by all the company's subsidiaries and associates. This commitment provides stakeholders with comfort that the group's affairs are being managed in an ethical and disciplined manner.

This discussion is a limited overview from a group perspective. Each of the listed entities in the group publishes detailed sustainability reviews.

RMI Holdings subscribes to a philosophy of providing meaningful, timely and accurate communication to its key stakeholders, based on transparency, accountability and integrity.

The direct stakeholders of RMI Holdings are shareholders, customers, employees, suppliers, regulators, government and the communities in which group companies operate.

SHAREHOLDERS

Communication

RMI Holdings' communication practices are designed to allow investors to make decisions about the acquisition and ownership of shares. The company communicates formally with shareholders twice a year when it announces interim and year-end results. Comprehensive reports are sent to all shareholders and are accessible on the company's internet site (www.rminsurance.co.za). The chairperson of the board and chief executive officer meet with investors and investment analysts from time to time.

Ownership

Significant shareholdings and an analysis of the RMI Holdings share price and trading data appear on pages 204 and 205.

CUSTOMERS

The group companies provide a comprehensive range of financial products and services to South African corporates and individuals. In this regard, the integrity of its various brands, their image and reputation are paramount. To ensure the sustainability of their businesses, all companies in the group regularly engage with their customers to measure satisfaction levels and gain insight into their needs. All the group companies encourage innovation in order to ensure that customers' needs are addressed.

In terms of the Financial Sector Charter, group companies are committed to providing financial products and services to previously disadvantaged communities.

EMPLOYEES

RMI Holdings, together with all its subsidiaries and associates, believe that employees have an important role to play in sustaining the positive performance of the group. The human resource strategy is to attract, develop and retain the best industry talent from South Africa's diverse population base. In particular, it seeks people with entrepreneurial attitude and encourages an owner-manager culture. People are empowered, held accountable for their actions and rewarded accordingly.

The group operates in a number of sectors within the broader financial services industry, each with its own distinct employment practices and unique human resource pressures. To recognise and address such divergent needs, the group follows a practice of evolving the design and implementation of appropriate remuneration structures through industry specific structures. Within this divisional framework, remuneration structures comprise:

- basic salary plus benefits (all employees are required to belong to a medical aid) and, where appropriate;
- annual performance related rewards; as well as
- share incentive schemes.

Remuneration is based on individual and business unit performance. Annual remuneration reviews encompass all three elements.

Employment equity

In line with the business philosophy of empowerment, each business unit in the group is charged with meeting its targets in terms of plans submitted to the Department of Labour as required by the Employment Equity Act. In addition to setting affirmative action targets aimed at raising the number of designated groups as a percentage of the total staff complement, such plans commit group companies to the following in pursuit of the appropriate employment equity in the organisation:

- increasing the overall racial diversity of the workforce;
- increasing the number of black and female managers;
- creating awareness of the need for employment equity and diversity amongst employees;
- the establishment of representative diversity forums; and
- awareness of employment opportunities for people with disabilities.

Employee wellness

The group is committed to the health and safety of employees and has implemented measures to ensure optimal health and safety conditions for employees.

Of growing importance is the impact of HIV/AIDS on the workforce and the South African economy in general. The group has adopted an HIV/AIDS policy that is based on education, communication, counselling and confidentiality.

SUPPLIERS

The group has established a set of procurement guidelines to assist group companies in meeting their commitment to place business with BEE suppliers. One of the main focus areas of the procurement function within the various group companies is ensuring that all suppliers are appropriately accredited.

REGULATORS

The group is subject to the independent oversight of South African regulatory authorities. Group company representatives interact with a wide spectrum of regulatory bodies, including the Financial Services Board and the JSE. The relationship sought is one of compliance and constructive participation in committees with a view to ensuring that South African industry practice remains amongst the best in the world.

COMMUNITIES

All group companies are committed to uplifting the societies in which they operate by following sound employment practices and meeting the real needs of the communities.

The Discovery Fund provides ongoing financial support to 43 community healthcare organisations and projects across South Africa, with many of these organisations and projects situated in remote and rural areas. The Discovery Foundation is investing R150 million over a period of 10 years to train 300 healthcare specialists in South Africa.

At MMI, a decision was made to combine the work of the respective corporate social investment initiatives of Momentum and Metropolitan in the MMI Foundation. The focus areas are health, education, disability and sport development.

The most notable community projects at OUTsurance are the "pointsmen project" and "staff helping South Africa OUT".

NATURAL ENVIRONMENT

The group is committed to reduce both the direct and indirect impacts its business activities have on the natural environment. Both direct and indirect impacts are regulated through application of relevant legislation, subscription to voluntary external regulations and ongoing internal self-regulation.

DIRECTORATE

Gerrit Thomas Ferreira (66)

Non-executive chairman

BCom, Hons B (B&A), MBA

APPOINTED: December 2010/ GT Ferreira has been involved in the financial services sector since graduating from the University of Stellenbosch. He started his career at the Bank of Johannesburg in 1972 and was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he was managing director of RMB from 1985 to 1988, after which he was elected as executive chairman. When RMBH was founded in 1987 he was appointed chairman, a position which he still holds. Following the formation of FirstRand, he was appointed non-executive chairman from 1998 to 2008. He is a trustee of the University of Stellenbosch 200 Trust and a member of the University's investment committee.

Committee memberships: Directors' affairs and governance committee/ Investment committee/ Nominations committee – Chairman

Other listed directorships: Remgro Limited – Lead independent director/RMB Holdings Limited – Chairman

Hermanus Lambertus Bosman (45)

Chief executive officer/ Financial director

BCom (Law), LLB, LLM, CFA

APPOINTED: April 2014/ Herman Bosman holds an LLM degree from the University of Johannesburg and is a Chartered Financial Analyst. He served as chief executive of Deutsche Bank South Africa from 2006 to 2013. Prior to that he was in the employ of Rand Merchant Bank for 12 years and ultimately headed up its corporate finance practice between 2000 and 2006.

Committee memberships: Investment committee

Other listed directorships: Discovery Limited/RMB Holdings Limited

Johan Petrus Burger (55)

Independent non-executive

BCom (Hons), CA(SA)

APPOINTED: June 2014/ Johan Burger graduated from Rand Afrikaans University in 1983 and qualified as a chartered accountant after serving articles at PricewaterhouseCoopers Inc. He joined Rand Merchant Bank in 1986 and was appointed as executive director in 1995. In January 2009 he was appointed to the FirstRand Limited board as financial director, a position he relinquished in January 2014 after being appointed deputy chief executive officer in October 2013.

Committee memberships: Audit and risk committee/ Directors' affairs and governance committee/ Investment committee – Chairman/Nominations committee/Remuneration committee/Social, ethics and transformation committee.

Other listed directorships: FirstRand Limited/ MMI Holdings Limited/ RMB Holdings Limited

Peter Cooper (58)

Non-executive

BCom (Hons), CA(SA), HDipTax

APPOINTED: December 2010 Peter Cooper graduated from the University of Cape Town. After qualifying as a chartered accountant, he worked in the financial services sector, first as a tax consultant and later specialising in structured finance with UAL Merchant Bank. He joined RMB's Special Projects division in 1992 and transferred to RMB Holdings in 1997. He represents RMI Holdings on the boards of its unlisted investments.

Committee memberships: Directors' affairs and governance committee/ Investment committee/ Nominations committee

Other listed directorships: FirstRand Limited (alternate)/ RMB Holdings Limited

Lauritz Lanser Dippenaar (65)

Non-executive

MCom, CA(SA)

APPOINTED: December 2010/ Laurie Dippenaar graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent three years with the Industrial Development Corporation before becoming a co-founder of RCI in 1977. He became an executive director of RMB in 1985. He was appointed managing director of RMB in 1988, a position he held until 1992 when RMBH acquired a controlling interest in Momentum. He served as executive chairman of that company from 1992 until the formation of FirstRand in 1998. He was appointed as the first chief executive of FirstRand and held this position until the end of 2005 when he assumed a non-executive role. He was elected to the position of chairman of FirstRand in November 2008 and chairman of MMI Holdings from December 2010 to November 2011.

Committee memberships:
Directors' affairs and governance committee/ Investment committee/ Nominations committee

Other listed directorships:
FirstRand Limited – Chairman/ RMB Holdings Limited

Jan Willem Dreyer (63)

Independent non-executive

BCom, LLB, HDip Co Law, HDipTax

APPOINTED: December 2010/ Jan Dreyer is a graduate of Stellenbosch University and the University of the Witwatersrand. He joined Edward Nathan Friedland Mansell & Lewis where he was admitted as an attorney in 1975. Thereafter he joined Hofmeyr, Van der Merwe and Botha as a commercial lawyer. He was admitted as a partner in 1978 and was chairman of the firm from 1993 until 1999. In 2000 Jan left the legal profession to join the Rembrandt Group as an executive director. Upon the split of that company into Remgro and Venfin, he became a non-executive director of each of the two companies. He was re-appointed as an executive director of Remgro during November 2008. He joined the board of RMB in 1984 and joined the board of RMBH upon its formation.

Committee memberships:
Audit and risk committee – Chairman/Directors' affairs and governance committee/ Nominations committee/ Social, ethics and transformation committee

Other listed directorships:
RMB Holdings Limited

Jan Jonathan Durand (47)

Non-executive

BAcc (Hons), MPhil, CA(SA)

APPOINTED: December 2010/ Jannie Durand is a qualified chartered accountant and Rhodes Scholar, with a BAcc (Hons) from the University of Stellenbosch and an MPhil in management studies from Oxford University. He is the chief executive officer of Remgro Limited and before its delisting he was the financial director and chief executive officer of Venfin Limited. He has been a director of Remgro Limited since November 2009 and served as a non-executive director of Alexander Forbes Limited from October 2004 to July 2007.

Committee memberships:
Directors' affairs and governance committee/ Investment committee/ Nominations committee/ Remuneration committee – Chairman

Other listed directorships:
Discovery Limited/Distell Group Limited/FirstRand Limited/ Mediclinic International Limited/RCL Foods Limited/ Remgro Limited/RMB Holdings Limited

Patrick Maguire Goss (66)

Lead independent non-executive

BEcon (Hons), BAccSc (Hons), CA(SA)

APPOINTED: December 2010/ Pat Goss graduated from the University of Stellenbosch. He qualified as a chartered accountant with Ernst and Young and then joined the Industrial Development Corporation. He has served as a director on various group companies for the past 30 years. A former chairman of the Natal Parks Board, his family interests include Umngazi River Bungalows and certain other conservation related activities.

Committee memberships:
Directors' affairs and governance committee – Chairman/Nominations committee

Other listed directorships:
FirstRand Limited/RMB Holdings Limited – Lead independent non-executive




Paul Kenneth Harris (64)

Non-executive

MCom

APPOINTED: December 2010/ Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation. He was a co-founder of RCI in 1977 and he became an executive director of RMB in 1985. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 as deputy managing director of RMB. In 1992 he took over as chief executive officer. Subsequent to the formation of FirstRand, he was appointed as chief executive officer of FirstRand Bank Holdings in 1999, a position he held until December 2005 when he was appointed as chief executive officer of FirstRand. He retired from his executive position at the end of December 2009.

Committee memberships:
Directors' affairs and governance committee/ Investment committee/ Nominations committee

Other listed directorships:
FirstRand Limited/Remgro Limited/RMB Holdings Limited

Per-Erik Lagerström (50)

Independent non-executive

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

APPOINTED: June 2014/ Per Lagerström is the co-founder of the Energos Group; specialist in big data solutions for human capital. Previously he was a partner at McKinsey & Company where he headed up the Financial Services Sector and the Organisation Practice.

Committee memberships:
Directors' affairs and governance committee/ Nominations committee

Other listed directorships:
RMB Holdings Limited

Mafison Murphy Morobe (57)

Independent non-executive

Diploma in Project Management, MCEF-Princeton '91

APPOINTED: August 2014/ Murphy Morobe has a career spanning more than 30 years covering inter alia the worlds of student activism, trade unionism, the public sector, politics, environment and conservation. A past CEO of Kagiso Media Limited, he is national director of the Programme to Improve Learner Outcomes and continues to be involved in various social causes relating to youth development, environment and conservation.

Committee memberships
Directors' affairs and governance committee/ Nominations committee

Other listed directorships
Remgro Limited/RMB Holdings Limited

Obakeng Phetwe (36)

Non-executive

BCom (Hons), CA(SA)

APPOINTED: February 2013/ Obakeng Phetwe is a chartered accountant and completed his articles with PricewaterhouseCoopers Inc.(PwC). Currently he is the CEO of the Royal Bafokeng Nation Development Trust, which holds all the commercial assets on behalf of the Royal Bafokeng Nation. He serves on the board of Royal Bafokeng Holdings Proprietary Limited and was appointed to the board of Impala Platinum Limited. Mr Phetwe has also held the position of finance manager for the Royal Bafokeng Administration and was a senior audit manager at Mokua and Associates Chartered Accountants, a company subsequently acquired by PwC.

Committee memberships
Directors' affairs and governance committee/ Nominations committee

Other listed directorships
RMB Holdings Limited (alternate)

Sonja Emilia Ncumisa Sebotsa (42)

Independent non-executive

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

APPOINTED: December 2010/ Sonja Sebotsa is a principal partner of Identity Partners, an investment firm which holds equity investments, carries out advisory work and facilitates finance for SME's by the Identity Development Fund.

Sonja's areas of study were in law, business and economics. She had been an executive director of WDB Investment Holdings where she led the structuring of WDB's participation in the FirstRand BEE transaction. As a result, she served as WDB's representative on the FirstRand board. She was previously a vice president in the investment banking division of Deutsche Bank, in Mergers & Acquisitions and Corporate Finance.

Committee memberships:
Audit and risk committee/
Directors' affairs and governance committee/
Nominations committee/
Remuneration committee/
Social, ethics and transformation committee – chairperson

Other listed directorships:
Aquarius Platinum Limited – chairperson/
Discovery Limited/
RMB Holdings Limited

Khehla Cleopas Shubane (58)

Independent non-executive

BA (Hons), MBA

APPOINTED: December 2010/ Khehla Shubane graduated at the University of the Witwatersrand. Prior to this he was a student at the University of the North where his studies were terminated following his arrest for political activities, conviction and sentence which he served on Robben Island. Upon his release he was employed at Liberty Life for a short time. He served on various political organisations until joining the Centre for Policy Studies in 1988. He is an author and has co-authored several political publications and is a member of the board of the Centre for Policy Studies.

Committee memberships:
Directors' affairs and governance committee/
Nominations committee

Other listed directorships:
MMI Holdings Limited/
RMB Holdings Limited

Leon Crouse (61)

Alternate non-executive

CA(SA)

APPOINTED: June 2014/ Leon Crouse studied at the Nelson Mandela Metropolitan University in Port Elizabeth and qualified as a chartered accountant in 1977. He joined the former Rembrandt Group in 1986 and transferred to Switzerland to hold the position of financial controller of Compagnie Financiére Richemont AG. He was part of the team that unbundled the luxury goods business from the Rembrandt Group to form the separately listed Richemont. In 1993, as a Rembrandt appointee, he returned to South Africa to become a founder member of the Vodacom Group executive team and thereafter served as its chief financial officer. Rembrandt, at the time, held a 15% interest in Vodacom. He joined Remgro in April 2008 as designate Director: Group Finance and was appointed to the board on 18 June 2008.

Committee memberships:
Directors' affairs and governance committee/
Nominations committee

Other listed directorships:
FirstRand Limited/
MMI Holdings Limited/
Remgro Limited/
RMB Holdings Limited

Albertina Kekana (41)

Alternate non-executive

BCom (Hons), CA(SA), Post-graduate diploma in Accounting, Advanced Management Programme (Harvard University)

APPOINTED: February 2013/ Albertina Kekana is the CEO of Royal Bafokeng Holdings Proprietary Limited. She has extensive asset management, investment banking and business leadership experience. She was previously the COO of the Public Investment Corporation.

Committee memberships:
Directors' affairs and governance committee/
Investment committee/
Nominations committee

Other listed directorships:
Impala Platinum Holdings Limited/RMB Holdings Limited




DIRECTORS' INTERESTS IN ORDINARY SHARES OF RMI HOLDINGS (AUDITED)

Directors have disclosed the following interests in the ordinary shares of RMI Holdings at 30 June 2014:

000's	Direct beneficial	Indirect beneficial	Held by associate	**Total 2014**
HL Bosman	–	–	–	**–**
JP Burger	–	1 184	–	**1 184**
P Cooper	758	–	3 061	**3 819**
LL Dippenaar	–	73 387	233	**73 620**
JW Dreyer	1	–	–	**1**
JJ Durand	–	–	–	**–**
GT Ferreira	149	–	39 889	**40 038**
PM Goss	–	11 580	–	**11 580**
PK Harris	–	12 000	–	**12 000**
P Lagerström	–	–	–	**–**
MM Morobe	–	–	–	**–**
O Phetwe	–	–	–	**–**
SEN Sebotsa	–	–	–	**–**
KC Shubane	3	3	–	**6**
TOTAL INTEREST	911	98 154	43 183	**142 248**

Directors have disclosed the following interests in the ordinary shares of RMI Holdings at 30 June 2013:

000's	Direct beneficial	Indirect beneficial	Held by associate	Total 2013
P Cooper	710	–	3 061	3 771
L Crouse	–	–	–	–
LL Dippenaar	–	73 903	233	74 136
JW Dreyer	1	–	–	1
JJ Durand	–	–	–	–
GT Ferreira	149	–	40 405	40 554
PM Goss	–	11 580	–	11 580
PK Harris	–	12 168	–	12 168
TV Mokgatlha	–	–	–	–
O Phetwe	–	–	–	–
SEN Sebotsa	–	–	–	–
KC Shubane	3	3	–	6
TOTAL INTEREST	863	97 654	43 699	142 216

Since 30 June 2014 to the date of this report, the interest of directors remained unchanged.

DIRECTORS' EMOLUMENTS (AUDITED)

Schedule of directors' emoluments in respect of the year ended 30 June 2014:

R000's	Services as director	Cash package	Other benefits[1]	**Total 2014**
Executive				
P Cooper – Paid to RMBH[2]	–	4 513	926	**5 439**
HL Bosman[3]	–	2 797	9	**2 806**
Non-executive				
GT Ferreira	203	–	–	**203**
JP Burger[4]	–	–	–	**–**
L Crouse[5]	112	–	–	**112**
LL Dippenaar	112	–	–	**112**
JW Dreyer	198	–	–	**198**
JJ Durand[5]	112	–	–	**112**
PM Goss	112	–	–	**112**
PK Harris	112	–	–	**112**
P Lagerström[4]	–	–	–	**–**
TV Mokgatlha	158	–	–	**158**
O Phetwe	112	–	–	**112**
SEN Sebotsa	158	–	–	**158**
KC Shubane	112	–	–	**112**
TOTAL	1 501	7 310	935	**9 746**

Notes:

1. *"Other benefits" comprise pension fund, provident fund and medical aid contributions.*
2. *Mr Cooper's executive remuneration is paid for by RMBH. RMBH recovers a portion of his remuneration and other infrastructure costs from RMI Holdings.*
3. *Mr Bosman was appointed on 2 April 2014 as CEO designate.*
4. *Messrs Burger and Lagerström were appointed on 30 June 2014.*
5. *Directors' fees for serviced rendered by Messrs Crouse and Durand were paid to the Remgro group.*

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

RMI Holdings share appreciation rights

Participant	Strike price (cents)	Exercise date	Balance 1 July 2013	Issued 000's	Forfeited 000's	Exercised 000's	**Balance 30 June 2014**	Benefit derived R000's
P Cooper	1 309	14/09/2014	439	–	–	–	**439**	–
P Cooper	2 028	14/09/2015	275	–	–	–	**275**	–
P Cooper	2 028	14/09/2016	275	–	–	–	**275**	–
P Cooper	2 028	14/09/2017	275	–	–	–	**275**	–
P Cooper	2 645	14/09/2016	–	73	–	–	**73**	–
P Cooper	2 645	14/09/2017	–	73	–	–	**73**	–
P Cooper	2 645	14/09/2018	–	72	–	–	**72**	–
HL Bosman	2 874	02/04/2017	–	631	–	–	**631**	–
HL Bosman	2 874	02/04/2018	–	631	–	–	**631**	–
HL Bosman	2 874	02/04/2019	–	631	–	–	**631**	–

RMI Holdings deferred bonus plan

Participant	Strike price (cents)	Exercise date	Balance 1 July 2013	Issued 000's	Forfeited 000's	Exercised 000's	**Balance 30 June 2014**	Benefit derived R000's
P Cooper	None	14/09/2013	47	–	–	(47)	**–**	1 260
P Cooper	None	14/09/2014	37	–	–	–	**37**	–

Schedule of directors' emoluments in respect of the year ended 30 June 2013:

R000's	Services as director	Cash package	Other benefits[1]	Total 2013
Executive				
P Cooper – Paid to RMBH[2]	–	4 611	843	5 454
Non-executive				
GT Ferreira	155	–	–	155
L Crouse[3]	82	–	–	82
LL Dippenaar	104	–	–	104
JW Dreyer	176	–	–	176
JJ Durand[3]	104	–	–	104
PM Goss	104	–	–	104
PK Harris	104	–	–	104
TV Mokgatlha	140	–	–	140
O Phetwe	42	–	–	42
SEN Sebotsa	140	–	–	140
KC Shubane	104	–	–	104
TOTAL	1 255	4 611	843	6 709

Notes:

1. *"Other benefits" comprise pension fund, provident fund and medical aid contributions.*
2. *Mr Cooper's executive remuneration is paid for by RMBH. RMBH recovers a portion of his remuneration and other infrastructure costs from RMI Holdings.*
3. *Directors' fees for serviced rendered by Messrs Crouse and Durand were paid to the Remgro group.*

DIRECTORS' EMOLUMENTS PAID BY SUBSIDIARIES AND ASSOCIATES (AUDITED)

Schedule of directors' emoluments paid by subsidiaries and associates in respect of the year ended 30 June 2014:

R000's	**Total 2014**	Total 2013
Executive		
P Cooper[1]	**905**	884
HL Bosman[1]	**75**	–
Non-executive		
GT Ferreira	**–**	–
JP Burger[2]	**1 043**	1 292
L Crouse[3]	**652**	794
LL Dippenaar	**193**	182
JW Dreyer	**–**	–
JJ Durand[3]	**535**	497
PM Goss	**–**	–
PK Harris	**–**	–
P Lagerström	**–**	–
TV Mokgatlha	**–**	–
MM Morobe	**–**	–
O Phetwe	**–**	–
SEN Sebotsa	**5 856**	3 239
KC Shubane	**614**	747
TOTAL	**9 873**	7 635

***Notes**:*

1. *Directors' fees for serviced rendered by Messrs Cooper and Bosman were paid to RMI Holdings.*
2. *Directors' fees for services rendered by Mr Burger were paid to FirstRand Limited.*
3. *Directors' fees for services rendered by Messrs Crouse and Durand were paid to Remgro Limited.*

BOARD MEETINGS

The board met four times during the year. The attendance at the meetings was as follows:

	September 2013	November 2013	March 2014	June 2014
GT Ferreira (chairman)	✓	✓	✓	✓
HL Bosman (appointed 2 April 2014)	–	–	✓	✓
JP Burger (appointed 30 June 2014)	–	–	–	–
P Cooper	✓	✓	✓	✓
L Crouse (resigned 30 June 2014)	✓	✓	✓	✓
LL Dippenaar	✓	✓	✓	✓
JW Dreyer	✓	✓	✓	✓
JJ Durand	✓	✓	✓	✓
PM Goss	✓	✓	✓	✓
PK Harris	✓	*	✓	✓
P Lagerström (appointed 30 June 2014)	–	–	–	–
TV Mokgatlha (resigned 30 June 2014)	✓	✓	✓	*
MM Morobe (appointed 1 August 2014)	–	–	–	–
O Phetwe	*	✓	✓	✓
SEN Sebotsa	✓	✓	✓	✓
KC Shubane	✓	✓	✓	✓

✓ *Attended meeting.* * *Apology received.*

AUDIT AND RISK COMMITTEE MEETINGS

The audit and risk committee met twice during the year and attendance was as follows:

	September 2013	March 2014
JW Dreyer (chairman)	✓	✓
JP Burger (appointed 21 August 2014)	–	–
TV Mokgatlha (resigned 30 June 2014)	✓	✓
SEN Sebotsa	*	✓

✓ *Attended meeting.* * *Apology received.*

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE MEETINGS

The social, ethics and transformation committee met twice during the year and attendance was as follows:

	March 2014	June 2014
SEN Sebotsa (chairperson)	✓	✓
JP Burger (appointed 21 August 2014)	–	–
JW Dreyer	✓	✓
TV Mokgatlha (resigned 30 June 2014)	✓	*

✓ *Attended meeting.* * *Apology received.*

NOMINATIONS COMMITTEE MEETINGS

Since all non-executive directors are members of this committee, matters relating to the charter of this committee are dealt with as an integral part of the normal proceedings of the quarterly board meetings. When these issues are discussed, it is usual for the chief executive officer to excuse himself from the meeting. Mr GT Ferreira, chairman of the board of directors of RMI Holdings is also chairman of the nominations committee.

DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE MEETINGS

Since all non-executive directors are members of this committee, matters relating to the charter of this committee are dealt with as an integral part of the normal proceedings of the quarterly board meetings. When these issues are discussed, it is usual for the chief executive officer to excuse himself from the meeting. The lead independent director, Mr PM Goss, is the chairman of the directors' affairs and governance committee.

REMUNERATION COMMITTEE MEETINGS

The remuneration committee comprises Messrs JJ Durand (chairman), JP Burger and Ms SEN Sebotsa. The remuneration committee meets once annually to discuss the remuneration of the executive directors and staff.

INVESTMENT COMMITTEE MEETINGS

The investment committee comprises Messrs JP Burger (chairman), HL Bosman, P Cooper, LL Dippenaar, JJ Durand, GT Ferreira, PK Harris and Ms A Kekana. The investment committee meets on an ad hoc basis as and when required.

ANNUAL GENERAL MEETING

All the directors with the exception of Mr PK Harris attended the annual general meeting of the shareholders held on 22 November 2013.

CONTENTS

OF THE GROUP ANNUAL **FINANCIAL STATEMENTS**

2

These annual financial statements have been audited in terms of the Companies Act (71 of 2008) and have been prepared by Schalk Human CA(SA) under the supervision of Peter Cooper CA(SA).

Directors' responsibility statement

TO THE SHAREHOLDERS OF RAND MERCHANT INSURANCE HOLDINGS LIMITED

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

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

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

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

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

It is the responsibility of the group's independent external auditors, PricewaterhouseCoopers Inc., to report on the fair presentation of the annual financial statements. Their unqualified report appears on page 54.

The consolidated annual financial statements of the group, which appear on pages 55 to 178 and the separate annual financial statements of the company, which appear on pages 179 to 202, were approved by the board of directors on 11 September 2014 and signed on its behalf by:

GT FERREIRA
Chairman

HL BOSMAN
Chief executive officer

Declaration by the company secretary

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

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

JS HUMAN
Company secretary

11 September 2014

Audit and risk committee report

The audit and risk committee has pleasure in submitting this report, as required in terms of the Companies Act of South Africa ("Companies Act"). The audit and risk committee is an independent statutory committee and consists of three non-executive directors who act independently as described in section 94 of the Companies Act.

Its members for the financial year ended 30 June 2014 comprised the chairman, Mr JW Dreyer (BCom, LLB, HDip Co Law, HDipTax), Ms SEN Sebotsa (LLB (Hons), LSE, MA (McGill), SFA) and Mr TV Mokgatlha (BCompt (Hons), CA(SA)). Mr Mokgatlha resigned on 30 June 2014 and was replaced by Mr JP Burger (BCom (Hons), CA(SA)) subsequent to year-end.

During the year under review, meetings were held in September 2013 and March 2014. Two of the three members attended the September 2013 meeting and all three members attended the March 2014 meeting.

At the meetings, the members fulfilled all their functions as prescribed by the Companies Act and its charter as approved by the board. A detailed list of the functions of the audit and risk committee is contained in the corporate governance report.

The audit and risk committee has satisfied itself that the auditors are independent of the company and are thereby able to conduct their audit functions without any undue influence from the company. The committee has also considered and satisfied itself of the appropriateness of the expertise and experience of the financial director.

JW DREYER
Chairman of the audit and risk committee

11 September 2014

Independent auditor's report

TO THE SHAREHOLDERS OF RMI HOLDINGS LIMITED

We have audited the consolidated and separate financial statements of RMI Holdings Limited, set out on pages 60 to 202, which comprise the consolidated and separate statements of financial position as at 30 June 2014, the consolidated and separate income statements, the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of RMI Holdings Limited as at 30 June 2014, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with the International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2014, we have read the directors' responsibility statement, declaration by the company secretary, directors' report and audit and risk committee report for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Tom Winterboer
Registered Auditor
Sandton
11 September 2014

Directors' report

NATURE OF BUSINESS

RMI Holdings is a listed, insurance-focused investment entity comprising an investment portfolio of South Africa's premier insurance brands.

In October 2013, RMI Holdings acquired an additional 2 155 172 ordinary shares in OUTsurance Holdings Limited for a cash consideration of R7 million. This resulted in an increase of RMI Holdings' investment in OUTsurance Holdings Limited from 83.38% to 83.44%.

The table below summarises RMI Holdings' actual interest in its investee companies as at 30 June 2014 compared to 30 June 2013:

	30 June 2014	30 June 2013
Discovery Limited ("Discovery")	**25%***	25%*
MMI Holdings Limited ("MMI")	**25%***	25%*
OUTsurance Holdings Limited ("OUTsurance")	**83%***	83%*
RMB-SI Investments Proprietary Limited ("RMBSI")	**76%***	76%*

* *Actual interest differs from the effective interest used for financial reporting due to the consolidation of treasury shares and "deemed" treasury shares held by group companies (see note 42).*

Further details regarding the investments are provided in notes 43 and 44 of these annual financial statements.

SHARE CAPITAL

Ordinary shares

The total authorised number of ordinary shares is 2 000 000 000, with a par value of R0.0001 per share. The total issued number of ordinary shares is 1 485 688 346, issued at a premium of R9.1926 cent per share. The unissued share capital is under the control of the board of directors until the forthcoming annual general meeting.

Preference shares

The total authorised number of cumulative redeemable preference shares is 100 000 000, with a par value of R0.0001 per share.

At the beginning of the 2014 financial year, RMI Holdings had 549 500 issued fixed rate, cumulative, redeemable preference shares with a par value of R0.0001 per share, issued at a premium of R999.9999 per share. On 13 December 2013, RMI Holdings redeemed 200 500 of these fixed rate, cumulative, redeemable preference shares at a redemption price of R200.5 million. The remaining 349 000 preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 15 June 2016. The preference shares pay dividends at a fixed rate of 9.14% (2013: 9.14%) at the end of March and September annually.

RMI Holdings also had 299 001 issued variable rate, cumulative, redeemable preference shares with a par value of R0.0001 per share, issued at a premium of R999.9999 per share as at 30 June 2014. These preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 15 June 2016. The preference shares pay dividends at a rate of 80.85% (2013: 80.85%) of the prime interest rate at the end of March and September annually.

SHAREHOLDER ANALYSIS

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

	30 June 2014	30 June 2013
Financial Securities Limited ("Remgro")	**30%**	30%
Royal Bafokeng Holdings Proprietary Limited	**15%**	15%
Public Investment Corporation	**8%**	9%
Allan Gray (on behalf of clients)	**6%**	5%

EARNINGS

The group changed its accounting policy governing the treatment of deferred acquisition costs for short-term and long-term insurance contracts during the 2014 financial year. Details of this change in accounting policy are set out in the accounting policies and note 47 to the group financial statements.

Earnings attributable to ordinary shareholders for the year ended 30 June 2014 amounted to R3 053 million or 205.8 cents per share (restated 2013: R2 255 million or 152.0 cents per share). Headline earnings amounted to R2 879 million or 194.0 cents per share (restated 2013: R2 242 million or 151.1 cents per share).

DIVIDENDS

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

- An interim dividend for the six months ended 31 December 2013 of 46.0 cents per ordinary share, declared on 6 March 2014 and paid on 31 March 2014 (2013: 40.0 cents per ordinary share, declared on 7 March 2013 and paid on 8 April 2013).
- A final dividend for the year ended 30 June 2014 of 62.0 cents per ordinary share was declared on 11 September 2014, payable on 13 October 2014 (2013: 55.0 cents per ordinary share, declared on 12 September 2013 and paid on 14 October 2013).

The last day to trade in RMI Holdings shares on a cum-dividend basis in respect of the final dividend will be Friday, 3 October 2014, while the first day to trade ex-dividend will be Monday, 6 October 2014. The record date will be Friday, 10 October 2014 and the payment date Monday, 13 October 2014.

No dematerialisation or rematerialisation of shares may be done during the period Monday, 6 October 2014 to Friday, 10 October 2014, both days inclusive.

DIRECTORATE

The directorate comprises:

Name	Date of appointment
GT Ferreira (Chairman)	8 December 2010
HL Bosman (CEO)	2 April 2014
JP Burger	30 June 2014
P Cooper	8 December 2010
LL Dippenaar	8 December 2010
JW Dreyer	8 December 2010
JJ Durand	8 December 2010
PM Goss	8 December 2010
PK Harris	8 December 2010
P Lagerström	30 June 2014
MM Morobe	1 August 2014
O Phetwe	6 February 2013
SEN Sebotsa	8 December 2010
KC Shubane	8 December 2010
Alternate directors	
L Crouse	30 June 2014
A Kekana	6 February 2013

Mr HL Bosman was appointed as CEO designate on 2 April 2014. Mr L Crouse resigned as a non-executive director and was appointed as an alternate non-executive director on 30 June 2014. Mr TV Mokgatlha resigned as an independent non-executive director on 30 June 2014. Messrs JP Burger and P Lagerström were appointed as independent non-executive directors on 30 June 2014 and Mr MM Morobe as independent non-executive director on 1 August 2014.

The board has confirmed Mr Bosman as chief executive officer and financial director of RMI Holdings effective 11 September 2014.

DIRECTORS' INTERESTS IN RMI HOLDINGS

Details of directors' interests in the company are disclosed on page 44.

INTERESTS OF DIRECTORS AND OFFICERS

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the group. The directors had no interest in any third party or company responsible for managing any of the business activities of the group except to the extent that they are shareholders in RMI Holdings as disclosed in this report. Arm's length insurance transactions entered into by the company's directors with the group's associates are disclosed in note 40.

DIRECTORS' EMOLUMENTS AND SERVICE CONTRACTS

Directors' and prescribed officers' emoluments are disclosed on pages 45 to 48 and page 167.

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

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

DIRECTORS' PARTICIPATION IN GROUP SHARE INCENTIVE SCHEMES

RMI Holdings operates a cash-settled share scheme as part of its remuneration philosophy, which tracks the company's share price. Messrs Cooper and Bosman participate in this scheme. Mr Cooper also participates in the equity-settled deferred bonus scheme, details of which are set out on page 46.

INSURANCE

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

COMPANY SECRETARY AND REGISTERED OFFICES

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

MANAGEMENT CONTRACT

RMB Holdings Limited ("RMBH") renders management services to RMI Holdings. Mr Cooper's executive remuneration is paid for by RMBH. RMBH recovers a portion of his remuneration and other infrastructure costs from RMI Holdings.

SPECIAL RESOLUTIONS

The following special resolutions were passed at the annual general meeting of RMI Holdings held on 22 November 2013:

- approval of non-executive directors' remuneration with effect from 1 December 2013;
- general authority to repurchase company shares; and
- financial assistance to directors, prescribed officers, employee share scheme beneficiaries and related or interrelated companies in terms of sections 44 and 45 of the Companies Act.

OUTsurance passed the following special resolutions at its annual general meeting held on 5 November 2013:

- general authority to provide financial assistance to related companies and interrelated parties in terms of section 45 the Companies Act;
- approval of the remuneration of non-executive directors;
- amendment to the memorandum of incorporation of OUTsurance International Holdings Proprietary Limited to include 1 000 non-cumulative redeemable preference shares as well as the terms and conditions thereof; and
- amendment to the memorandum of incorporation of Youi Proprietary Limited to include an additional 90 000 ordinary shares with the same rights, terms and conditions compared to the existing 10 000 ordinary shares.

RMB-SI Investments Proprietary Limited passed the following special resolutions during the 2014 financial year:

- approval of the remuneration of non-executive directors;
- amendment to the memorandum of incorporations of RMB-SI Investments Proprietary Limited, RMB Structured Life Limited and RMB Structured Insurance Limited to make provision for section 36 (1) (d) shares; and
- general authority to provide financial assistance to related companies and interrelated parties in terms of section 45 the Companies Act.

EVENTS SUBSEQUENT TO REPORTING DATE

The following events occurred between 30 June 2014 and the date of this report:

- African Bank Investments Limited was placed under curatorship on 10 August 2014. The impact of this credit event on the RMI group is immaterial;
- RMI Holdings has converted its variable rate cumulative, redeemable preference shares to fixed rate cumulative, redeemable preference shares at a fixed rate of 6.89% payable six monthly effective from 21 August 2014. The rate on the existing fixed rate cumulative, redeemable preference shares was also changed to 6.89% payable six monthly effective from 21 August 2014. The compulsorily redeemable date of 15 June 2016 was extended to 22 August 2017. Refer to note 8 of the separate annual financial statements on page 189;
- RMI Holdings declared a final dividend of 62.0 cents per ordinary share (921 million) on 11 September 2014, payable on 13 October 2014.

Statement of financial position
as at 30 June

		GROUP		
R million	*Notes*	**2014**	Restated 2013	Restated 1 July 2012
Assets				
Property and equipment	1	**520**	460	413
Intangible assets	2	**110**	43	50
Investments in associates	3	**11 582**	10 442	9 864
Financial assets				
Equity securities				
– available-for-sale	4	**725**	676	695
– fair value through profit or loss	4	**2 104**	2 233	1 650
Debt securities				
– available-for-sale	4	**540**	453	872
– held-to-maturity	4	**79**	79	79
– fair value through profit or loss	4	**3 396**	4 331	4 307
Derivative asset	5	**17**	9	–
Loans and receivables including insurance receivables	6	**3 078**	1 668	998
Deferred acquisition cost	7	**357**	250	180
Reinsurance contracts	8	**301**	275	273
Deferred taxation	9	**232**	334	385
Disposal group held for sale		**–**	–	211
Cash and cash equivalents	10	**4 725**	2 664	2 462
TOTAL ASSETS		**27 766**	23 917	22 439
Equity				
Share capital and premium	11	**13 592**	13 632	13 614
Reserves	12	**1 886**	95	(316)
Total shareholders’ equity		**15 478**	13 727	13 298
Non-controlling interests	44	**899**	614	645
TOTAL EQUITY		**16 377**	14 341	13 943
Liabilities				
Insurance contracts	8	**5 948**	4 797	3 669
Share-based payment liability	13	**145**	50	–
Financial liabilities				
Convertible debentures	14	**15**	15	15
Preference shares	15	**731**	912	1 498
Interest bearing loans	16	**4**	19	272
Policyholders’ interest	17	**1 448**	1 176	685
Financial liabilities at fair value through profit or loss	18	**105**	110	115
Derivative liability	19	**20**	11	–
Investment contracts at fair value through profit or loss	20	**1 381**	1 358	1 145
Deferred acquisition revenue	21	**5**	8	8
Provisions	22	**54**	35	36
Insurance and other payables	23	**1 130**	870	656
Deferred taxation	9	**379**	176	324
Taxation		**24**	39	14
Disposal group held for sale		**–**	–	59
TOTAL LIABILITIES		**11 389**	9 576	8 496
TOTAL EQUITY AND LIABILITIES		**27 766**	23 917	22 439

Income statement
for the year ended 30 June

		GROUP	
R million	*Notes*	**2014**	Restated 2013
Gross insurance premiums		**11 508**	8 925
Less: Reinsurance premiums		**(759)**	(555)
Net insurance premiums		**10 749**	8 370
Change in provision for unearned premiums net of reinsurance		**(729)**	(501)
Net insurance premiums earned	24	**10 020**	7 869
Fee and other income	25	**138**	146
Investment income	26	**625**	631
Profit on sale of subsidiary	27	**–**	38
Net fair value gains on financial assets	28	**804**	560
Net income		**11 587**	9 244
Gross claims paid	29	**(5 476)**	(4 224)
Reinsurance recoveries received	29	**538**	351
Fair value adjustment to investment contracts	30	**(287)**	(237)
Transfer to policyholders' interest	17	**(272)**	(491)
Transfer to policyholder liabilities under insurance contracts	8.5	**(20)**	(11)
Provision for cash bonuses	8.4	**(301)**	(271)
Acquisition expenses	31	**(261)**	(166)
Fair value adjustment to financial liabilities		**(191)**	(201)
Marketing and administration expenses	32	**(2 835)**	(2 201)
Profit before finance costs, results of associates and taxation		**2 482**	1 793
Finance costs	34	**(79)**	(125)
Share of after taxation results of associates	3	**1 776**	1 179
Profit before taxation		**4 179**	2 847
Taxation	35	**(870)**	(391)
PROFIT FOR THE YEAR		**3 309**	2 456
Attributable to:			
Equity holders of the company		**3 053**	2 255
Non-controlling interests		**256**	201
PROFIT FOR THE YEAR		**3 309**	2 456
Earnings per share	37	**205.8**	152.0
Diluted earnings per share	37	**203.6**	151.0
Headline earnings per share	38	**194.0**	151.1
Diluted headline earnings per share	38	**191.9**	150.1

Statement of comprehensive income
for the year ended 30 June

	GROUP	
R million	**2014**	Restated 2013
Profit for the year	**3 309**	2 456
Other comprehensive income for the year		
Items that may subsequently be reclassified to profit or loss		
Fair value gains on available-for-sale financial assets	**41**	19
Deferred taxation relating to available-for-sale financial assets	**(16)**	–
Exchange differences on translation of foreign operations	**125**	71
Share of comprehensive income of associates	**108**	173
Items that may subsequently be reclassified to profit or loss, after taxation	**74**	173
Items that will not be reclassified to profit or loss, after taxation	**34**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**258**	263
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3 567**	2 719
Attributable to:		
Equity holders of the company	**3 288**	2 505
Non-controlling interests	**279**	214
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3 567**	2 719

Statement of changes in equity
for the year ended 30 June

R million	Share capital (note 11)	Equity accounted reserves (note 12)	Transactions with non-controlling interests (note 12)	Other reserves (note 12)	Retained earnings (note 12)	Non-controlling interests (note 44)	Total equity
Balance as at 1 July 2012							
– Balance as originally stated	13 614	420	(2 071)	88	1 133	626	13 810
– Change in accounting policy	–	–	–	3	111	19	133
Restated balance as at 1 July 2012	13 614	420	(2 071)	91	1 244	645	13 943
Total comprehensive income	–	173	–	77	2 255	214	2 719
Dividends paid	–	–	–	–	(2 154)	(189)	(2 343)
Income of associates retained	–	271	–	–	(271)	–	–
Movement in treasury shares	18	21	–	–	–	–	39
Transactions with non-controlling interests	–	22	–	–	–	–	22
Profit on preference share buy-back	–	28	–	–	–	–	28
Sale of subsidiary	–	–	–	(1)	–	(75)	(76)
Share-based payment reserve	–	–	–	1	–	–	1
Change from equity-settled to cash-settled scheme	–	–	–	(9)	(2)	(2)	(13)
Change in reserves due to a change in holding	–	–	–	13	(13)	21	21
Balance as at 30 June 2013	**13 632**	**935**	**(2 071)**	**172**	**1 059**	**614**	**14 341**
Total comprehensive income	**–**	**108**	**–**	**127**	**3 053**	**279**	**3 567**
Dividends paid	**–**	**–**	**–**	**–**	**(1 500)**	**(149)**	**(1 649)**
Income of associates retained	**–**	**1 043**	**–**	**–**	**(1 043)**	**–**	**–**
BEE cost	**–**	**1**	**–**	**–**	**–**	**–**	**1**
Movement in treasury shares	**(40)**	**7**	**–**	**–**	**–**	**–**	**(33)**
Transactions with non-controlling interests	**–**	**–**	**(5)**	**–**	**–**	**(2)**	**(7)**
Issue of share capital to non-controlling interests by a subsidiary	**–**	**–**	**–**	**–**	**–**	**122**	**122**
Change in reserves due to a change in holding	**–**	**–**	**–**	**44**	**(44)**	**35**	**35**
BALANCE AS AT 30 JUNE 2014	**13 592**	**2 094**	**(2 076)**	**343**	**1 525**	**899**	**16 377**

Cash flow statement
for the year ended 30 June

		GROUP	
R million	*Notes*	**2014**	Restated 2013
Cash flows from operating activities			
Cash generated from operations	36	**1 595**	1 827
Interest income		**314**	412
Dividends received		**865**	1 288
Income tax paid		**(560)**	(451)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**2 214**	3 076
Cash flows from investing activities			
Purchase of property and equipment		**(158)**	(143)
Disposal of property and equipment		**–**	1
Additions to investments		**(4 992)**	(4 825)
Disposals of investments		**6 652**	5 233
Investments in associates		**(24)**	(41)
Acquisition of shares in subsidiary		**(7)**	–
Proceeds on sale of shares in subsidiary		**–**	126
NET CASH GENERATED BY INVESTING ACTIVITIES		**1 471**	351
Cash flows from financing activities			
Redemption of preference share debt		**(201)**	(614)
Proceeds on issue of shares to non-controlling interests		**122**	–
Issue of preference share debt		**20**	28
Borrowings repaid		**(15)**	(244)
Cost of funding		**(4)**	(21)
Dividends paid on preference shares in issue		**(80)**	(124)
Dividends paid by subsidiaries to non-controlling interests		**(149)**	(189)
Dividends paid to shareholders		**(1 500)**	(2 154)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(1 807)**	(3 318)
Net increase in cash and cash equivalents for the year		**1 878**	109
Unrealised foreign currency translation adjustment included in cash and cash equivalents		**183**	93
Cash and cash equivalents at the beginning of the year		**2 664**	2 462
CASH AND CASH EQUIVALENTS AND THE END OF THE YEAR		**4 725**	2 664

Accounting policies

1. BASIS OF PREPARATION

RMI Holdings is an investment holding company. RMI Holdings' separate and group financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), the requirements of the Companies Act and the Listings Requirements of the JSE Limited.

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

- Certain financial assets and liabilities where the group adopts the fair value basis of accounting.
- The valuation of long-term insurance contract liabilities are done based on the financial soundness valuation basis as detailed in the Standards of Actuarial Practice (SAP) 104 issued by the Actuarial Society of South Africa ("ASSA").
- Investments in associates are measured using the equity method of accounting.
- The intellectual property bonus intangible asset is valued using the projected unit credit method.
- Non-current assets and liabilities held for sale are measured at the lower of carrying value or fair value less cost to sell.

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

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

The principal accounting policies applied in the preparation of these separate and consolidated financial statements are set out below and are consistent in all material aspects with those applied in the previous accounting year, except for the change in accounting policy governing the treatment of deferred acquisition costs for short-term and long-term insurance contracts.

The rationale behind the change in the treatment of deferred acquisition costs for short-term insurance contracts is explained as follows:

- Per Australian GAAP, OUTsurance's Australian operation is required to defer acquisition costs for policies which have a duration of a year. Historically, the group's accounting policy has not provided for the deferral of these acquisition costs. The group's consolidated results therefore ignored the deferral of acquisition costs accounted for in the standalone results of the Australian operation. By allowing for the deferral of acquisition costs at a group level, the mismatch between the Australian operation's standalone results and the consolidated results is eliminated.
- The requirement to defer acquisition costs is likely to be prescribed under IFRS 4 phase II, the new accounting standard for insurance contracts which is being developed by the International Accounting Standards Board. It treats deferred acquisitions costs as contractual cash flows. The standard is expected to be issued in 2015 and to be effective for the financial year ending 30 June 2018. The change in accounting policy therefore aligns the accounting practice with the expected future accounting requirements.
- The revised accounting policy allows for acquisition costs relating to monthly policies to be expensed as incurred. The policy change therefore does not impact the Southern African short-term insurance business.

The rationale behind changing the treatment of acquisition costs relating to the long-term insurance contracts is as follows:

- Historically the group expensed acquisition costs as incurred when writing long-term insurance contracts. During the year under review, the group concluded that an accounting policy which defers acquisition costs over the expected life-time of the policy will reflect a more appropriate accounting result given the long-term nature of business written.
- The long-term insurance business is also likely to be required to implicitly defer acquisition costs as part of the contractual service margin under IFRS 4 phase II. The change in accounting policy therefore aligns the accounting practice with the expected future accounting requirements.

The revised accounting policies are described in notes 18.1 and 18.2 below. The impact of the change in accounting policy for the group is disclosed in note 47.

The following accounting standards and amendments to accounting standards were effective for the first time in the current financial year:

- IFRS 1: First-time adoption of International Financial Reporting Standards (effective for reporting periods commencing on or after 1 January 2013) was amended to provide guidance on how entities would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also provides an exception to the retrospective application of IFRS, which provides first-time adopters with the same relief as was granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. The amendment does not have an impact on the group as the group has already adopted IFRS.
- IFRS 7 (amended): Financial instruments: Disclosures (effective for reporting periods commencing on or after 1 January 2013). The amendments to IFRS 7 requires additional disclosure of gross amounts subject to rights of set-off, amounts set-off in accordance with the accounting standards followed and the related net credit exposure to enable investors to understand the extent to which an entity has set-off in its statement of financial position and the effects of rights of set-off on the entity's rights and obligations. This amendment results in additional disclosures in the annual financial statements and does not affect recognition and measurement. The amendment does not have an impact on the group as the group has no instruments that are set-off or have rights subject to set-off.
- IFRS 10: Consolidated financial statements (effective for reporting periods commencing on or after 1 January 2013). This standard replaces the consolidation requirements in SIC 12: Consolidation – Special purpose entities and IAS 27: Consolidated and separate financial statements. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The group has applied IFRS 10 retrospectively in accordance with the transition provisions of IFRS 10. The adoption of IFRS 10 had resulted in the consolidation and non-consolidation of certain entities by RMI Holdings' associates without any impact on the profit or net asset value of these associates in previous accounting periods. As a result of this, the restatements made by these associates as required by IFRS 10 had no impact on the group's results as previously reported.

- IFRS 11: Joint arrangements (effective for reporting periods commencing on or after 1 January 2013). This standard provides for a more realistic reflection of joint arrangements by focusing more on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. There is no impact on the group as the group has no joint arrangements.
- IFRS 12: Disclosures of interest in other entities (effective for reporting periods commencing on or after 1 January 2013). This standard includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Refer to notes 43 and 44 for the revised disclosures as required by IFRS 12.
- IFRS 13: Fair value measurement (effective for reporting periods commencing on or after 1 January 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The implementation of IFRS 13 has not had a material impact on the group and the additional disclosures are provided in note 46.
- IAS 19: Employee benefits (effective for reporting periods commencing on or after 1 January 2013). IAS 19 was amended to eliminate the corridor approach and recognise all gains and losses in other comprehensive income as they occur. Further amendments included recognising all past service costs immediately, replacing interest cost and expected return on plan assets with a net interest amount calculated by applying the discount rate to the net defined benefit liability/asset. Only the associates in the group have defined benefit plans and the amendment did not have a significant impact on the results of the group.
- IAS 27: Separate financial statements (revised 2011) (effective for reporting periods commencing on or after 1 January 2013). This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The standard did not have a significant impact on the group.
- IAS 28: Associates and joint ventures (revised 2011) (effective for reporting periods commencing on or after 1 January 2013). This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The standard did not have a significant impact on the group.
- As part of its annual improvements project the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The annual improvement project for 2011 is effective for reporting periods commencing on or after 1 January 2013. The group has adopted these amendments during the current financial year. These amendments did not have a significant impact on the group's results nor has it resulted in the restatement of prior year numbers.

2. CONSOLIDATION

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

Accounting policies of subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the group.

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

The group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration transferred for the acquisition is measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

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

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

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

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

Common control transactions are business combinations in which the combining entities are ultimately controlled by the same party both before and after the business combination and control is not transitory. The consideration transferred for an acquisition of a subsidiary in a common control transaction is measured at the group carrying value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the acquisition date. The acquirer incorporates the assets and liabilities of the acquiree at their pre-combination carrying amounts from the date that control is obtained.

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

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

Associates: Associates are entities in which the group has the ability to exercise significant influence, but does not control.

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

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

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

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

Separate financial statements: In RMI Holdings' separate financial statements, investments in subsidiaries and associates are carried at cost. Transaction costs are separately expensed.

3. REVENUE AND EXPENDITURE RECOGNITION

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

Fair value income: The group includes profits or losses and fair value adjustments as fair value income in profit or loss.

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

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

Insurance contacts: Revenue treatment is detailed in note 18 of the accounting policies.

4. FOREIGN CURRENCY TRANSLATION

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

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

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

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

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

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

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

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

5. DIRECT TAXES

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

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

Secondary taxation on companies was applicable until 31 March 2012 and was provided for in respect of dividend payments, net of dividends received or receivable and was recognised as a taxation charge in profit or loss. As from 1 April 2012, dividend withholding tax came into effect which does not impact on the group's profit or loss.

6. RECOGNITION OF ASSETS

Assets: The group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the enterprise.

Contingent assets: The group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the group's control.

7. RECOGNITION OF LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

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

Contingent liabilities: The group discloses a contingent liability where:

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

8. FINANCIAL INSTRUMENTS

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

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

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

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities.

Held-to-maturity financial instruments: Instruments with fixed maturity that the group has the intent and ability to hold to maturity are classified as held-to-maturity financial instruments and are carried at amortised cost using the effective interest rate method.

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

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

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

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

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

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

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

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

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

Where a current legally enforceable right of set-off exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

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

9. PROPERTY AND EQUIPMENT

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

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

The periods of depreciation used are as follows:

Freehold property and property held under finance lease	
– Buildings and structures	50 years
– Mechanical, electrical and components	20 years
Computer equipment	3 years
Furniture, fittings and office equipment	6 years
Motor vehicles	4 years

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

Leased assets: Assets leased in terms of finance leases, i.e. where the group assumes substantially all the risks and rewards of ownership, are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum finance lease payments. Leased assets are depreciated over the shorter of the lease period or the period over which the particular asset category is otherwise depreciated. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The finance charges are accounted for in profit or loss over the term of the lease using the effective interest rate method. Hire purchase agreements are accounted for as finance leases.

Leases of assets where the lessor substantially retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are accounted for in income on a straight-line basis over the period of the lease.

10. INTANGIBLE ASSETS

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

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

The carrying amounts of intangible assets are reviewed for impairment on an annual basis or sooner if there is an indication of impairment.

11. IMPAIRMENT OF ASSETS

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

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

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

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

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

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

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

Impairment losses on financial assets carried at fair value that were recognised in profit or loss are not subsequently reversed through profit or loss – such reversals are accounted for in the statement of other comprehensive income.

Goodwill: Goodwill is assessed annually for possible impairments. For purposes of impairment testing, goodwill is allocated to cash-generating units, being the lowest component of the business measured in the management accounts that is expected to generate cash flows that are largely independent of another business component. Impairment losses relating to goodwill are not reversed.

12. DEFERRED TAXATION

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

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

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

13. EMPLOYEE BENEFITS

Post-employment benefits: The group operates defined benefit (through its associates) and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant group companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all group employees. Qualified actuaries perform annual valuations.

The group expenses current service costs, past service costs, experience adjustments, changes in actuarial assumptions and plan amendments as they occur.

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

Post-retirement medical benefits: In terms of certain employment contracts, the group provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Qualified actuaries perform annual valuations.

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

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

Intellectual property bonuses: In terms of the intellectual property bonus plan operated by a subsidiary, employees are paid intellectual property bonuses at the company's discretion. The beneficiaries under the plan are subject to retention periods and amounts have to be repaid should the employee be in breach of the retention period. The intellectual property bonuses are recognised as current service costs over a 2.5 to 3 year period and are originally valued using the projected credit unit method.

14. SHARE CAPITAL

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

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

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

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

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

15. SEGMENT REPORTING

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

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

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

16. SHARE-BASED PAYMENTS

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

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

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

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

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at fair value and include cash at hand, short-term deposits held with banks and listed government bonds under resale agreements.

Short-term deposits with banks and listed government bonds under resale agreements are considered instruments that can be liquidated within a period of three months from the reporting date. Short-term deposits which cannot be accessed within this period are classified as financial assets.

18. INSURANCE CONTRACTS

Classification of insurance and investment contracts

The group issues investment contracts and contracts that transfer insurance risk:

- Contracts are classified as insurance contracts if the group accepts significant insurance risk. Insurance risk is defined as a risk on the occurrence of a defined uncertain insured event. The amount paid may significantly exceed the amount payable should the event not have occurred.

- Investment contracts are contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument, due to a change in the interest rate, commodity prices, index of prices, foreign exchange rate or other measurable variable.

Once a contract has been classified as an insurance contract the class will remain unchanged for the lifetime of the contract even if the policy conditions change significantly over time.

Insurance contracts are classified into two main categories, depending on the duration of the risk:

18.1 Short-term insurance

Short-term insurance is the providing of benefits under short-term policies which includes property, accident, health, liability, motor and miscellaneous or a contract comprising a combination of any of these policies.

Recognition and measurement

- **Premium revenue**

  Gross insurance premium revenue reflects business written during the year and excludes any taxes or levies payable on premium. Premium revenue includes all premiums for the period of risk covered by the policy, regardless of whether or not these are due for payment in the accounting period. Premiums are shown before deduction of commission.

- **Unearned premium provision**

  The provision for unearned premiums comprises the proportion of gross premium revenue which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the method most reflective of any variation in the incidence of risk during the period covered by the contract.

- **Provision for claims reported but not paid**

  Claims outstanding comprise provisions for the group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date and, if applicable, related internal and external handling expenses and an appropriate prudential margin. Claims outstanding are assessed by reviewing individual claims and making allowance for claims reported but not yet paid, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Adjustments to claims provisions established in prior years are reflected in the financial statements of the year in which the adjustments are made and disclosed separately if material. The methods used and the estimates made are reviewed annually.

- **Provision for claims incurred but not reported**

  Provision is made on a prudent basis for the estimated final costs of claims incurred at year end but not reported until after that date, using historical experience and the best information available at the time. Estimates provide for inflation as well as claim handling and assessing costs. Estimates are adjusted for management's expectations of trends relating to the development of such claims.

- **Salvage and subrogation recoveries**

  Certain insurance contracts permit the group to sell usually damaged property acquired in settling a claim (salvage) as well as to pursue third parties for payment of some or all costs (subrogation).

Salvage and subrogation recoveries are recognised when it is reasonably certain that the amounts will be recovered. The recoveries are credited to claims incurred in profit or loss.

Deferred acquisition costs ("DAC")

Directly attributable acquisition costs include advertising and other selling and underwriting costs incurred in generating insurance premium revenue. Acquisition costs are amortised systematically over the contractual term of the policy.

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

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

Deferred acquisition revenue ("DAR")

Reinsurance commission is recognised as a liability and amortised over the duration of the reinsurance agreement as reinsurance premium is expensed.

Reinsurance contracts held

The group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential. Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The benefits to which the group is entitled under its reinsurance contracts held are recognised as assets. These assets consist of short-term balances due from reinsurers on settled claims (classified within loans and receivables), as well as receivables classified as reinsurance assets that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Reinsurance premiums paid under reinsurance contracts are recognised as reinsurance assets and expensed as the gross premiums are released to income. Reinsurance liabilities are primarily premiums payable for reinsurance contracts.

The group assesses its reinsurance assets for impairment on a six monthly basis. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss. The group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due at amortised cost unless impaired. These include amounts due to and from brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets.

Liability adequacy test for unexpired risk liabilities

At the end of the reporting period, the adequacy of the unearned premium provision is assessed against the present value of the expected future cash flows resulting from potential future claims relating to unexpired periods of insurance contracts in force at the end of the reporting period, plus an additional risk margin to reflect the inherent uncertainty of the estimate (liability adequacy test). If the unearned premium provision less deferred acquisition costs is deficient, the resulting deficiency is recognised first by writing off any deferred acquisition costs and thereafter any excess is recognised as an unexpired risk provision in the statement of financial position with the resulting expense recognised in profit or loss.

Non-claims bonus provision

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

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

18.2 Long-term insurance

Benefits are provided under long-term policies for credit life and fully underwritten life. Benefits are recorded as an expense when they are incurred.

Policyholder liabilities

As permitted under IFRS 4, RMI Holdings does not enforce uniform accounting policies across its subsidiaries and associates relating to the measurement of insurance liabilities. Refer to the annual integrated report of Discovery Limited at www.discovery.co.za and MMI Holdings Limited at www.mmiholdings.com for information on the accounting policies of these insurers. The approach adopted by each of the insurance entities within the group is based on their service offerings, governance process and risk assessment.

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

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

Discretionary margins are specifically allowed for to zerorise negative reserves which may arise from the FSV calculation. Such a margin is allowed for after allowing for the acquisition costs.

The zerorisation of negative reserves ensures that profit and risk margins allowed for in premium income are not recognised before it is probable that future economic benefits will flow to the entity.

Premiums

Gross premiums comprise the premiums as received on insurance contracts during the year. Premiums are disclosed before the deduction of commission.

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

Reinsurance

The group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the group from its direct obligations to its policyholders. Premiums ceded and claims reimbursed are presented in profit or loss and the statement of financial position separately from the gross amounts. Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such reinsurance contracts are recognised in the same year as the related claim. Such assets are deemed impaired if there is objective evidence as a result of an event that occurred after initial recognition that the group may not recover all amounts due and that the impact of the event on the amounts that the group will receive from the reinsurer can be measured.

Insurance contract claims incurred

Claims on long-term insurance contracts, which include death, disability, critical illness and retrenchment payments are charged to profit or loss when notified of a claim based on the estimated liability for compensation owed to policyholders. Claims which have been reported but which are outstanding at the reporting date are recognised in insurance and other payables. Reinsurance recoveries are accounted for in the same period as the related claim.

Incurred but not reported claims

Provision is made in the policyholder liabilities under insurance contracts for the estimated cost at the end of the year for claims incurred but not reported at that date. These liabilities are not discounted due to the short-term nature of the outstanding claims.

- **Liability adequacy test**

  At each reporting date the adequacy of the insurance liabilities is assessed. If that assessment shows that the carrying amount of the insurance liabilities as measured under the FSV basis, net of any related intangible present value of acquired in-force business assets, is inadequate in light of the estimated future cash flows (based on the best estimate basis underlying the FSV basis, but excluding compulsory margins as described in SAP 104 as well as any additional discretionary margins), the deficiency is recognised immediately in profit or loss.

- **Non-claims bonuses on insurance contracts**

  The expected non-claims cash bonuses to be paid in the future to policyholders on fulfilment of certain claims-related conditions are taken into account in the FSV as per SAP 104.

- **Deferred acquisition costs**

  Acquisition costs represent costs directly attributable to the underwriting and acquiring of long-term insurance contracts. These costs are expensed as incurred. The FSV method for valuing insurance contracts allows for the implicit deferral of acquisition costs by valuing future policy changes/premiums levied for recouping these costs and recognising day one profits up to the amount of acquisition costs and hence no explicit DAC asset is recognised in the statement of financial position for these contracts. The level of day one profit is determined with reference to directly attributable acquisition costs.

  The level of acquisition costs deferred is compared to the negative reserve (excluding directly attributable acquisition costs) available on each individual policy. Where the implicit DAC asset, the day one gains arising on the deferral of the directly attributable acquisition costs, is greater than the negative reserve available on the policy, the deferral of directly attributable acquisition costs is limited to the negative reserve. Where the DAC asset is less than the negative reserve, the deferral is limited to the amount of the DAC asset.

18.3 Accounting for profit share arrangements on ring-fenced insurance business

Economic benefits generated are distributed by way of a bi-annual preference dividend to the preference shareholder, an independent entity. Losses incurred are for the group's account and there is no recourse against the preference shareholder for such losses. The group however retains the right to offset such losses against future profits generated in the determination of any preference dividends to be paid to the preference shareholder. These shareholders for preference share dividends are accounted for as a financial liability on the face of the statement of financial position. The profit is reflected as a fair value adjustment to the financial liability in profit or loss.

The profitability of this business is reviewed on a monthly basis to ensure that the group is not exposed to uneconomical risks over which it has no day-to-day management control.

19. CONVERTIBLE DEBENTURES

Convertible debentures originated by the group are initially recognised at the fair value, less attributable transaction costs and subsequently carried at this value. The convertible debentures can be converted at the option of the debenture holder to non-redeemable preference shares. The carrying amount equals the amount at which the debentures could be converted to non-redeemable preference shares. The dividend rights to the non-redeemable preference shares have been contractually determined and are non-discretionary. The convertible debentures are classified as long-term liabilities. Interest incurred on the convertible debentures is recognised in profit or loss using the effective yield method.

20. PREFERENCE SHARES

The group issues fixed and variable rate cumulative, compulsory redeemable preference shares to fund the statutory capital requirements of its insurance subsidiaries and whilst the timing of the redemption is at the option of the issuer, the group has no intention to defer redemption of the various allotments of shares beyond the duration of the underlying transactions in respect of which the shares were issued. Accordingly, these preference shares are classified as long-term liabilities. The preference shares originated by the group are initially recognised at the amount equal to the proceeds received, less attributable transaction costs and subsequently carried at that value, which equals redemption value. The dividends on these shares are non-discretionary and recognised in profit or loss as a charge against the profit before taxation and disclosed separately. Provision for dividends payable is disclosed separately in the statement of financial position under current liabilities.

21. POLICYHOLDERS' INTEREST

The group and its clients share in the operating result of certain insurance business. For the duration of the profit sharing agreement the estimated entitlement to profit or losses by clients is determined annually and transferred to the policyholders' interest liability. Increases and decreases in the estimated entitlement to the operating result that may become apparent in future years are transferred from or to the operating result of that year.

22. INVESTMENT CONTRACTS

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts. The proceeds from payments against these contracts are excluded from profit or loss and recognised directly against the liability. The results from investment contracts included in profit or loss are limited to administration fees earned as well as fair value gains or losses from the revaluation of assets underlying the investment contracts.

Liabilities for individual market related long-term insurance policies where benefits are dependent on the performance of underlying investment portfolios are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date calculated in accordance with IAS 39.

23. DIVIDENDS AND INTEREST INCOME

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

24. STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE

The group will comply with the new standards and interpretations from the effective date:

Standard or interpretation	Description	Effective date for annual reporting periods commencing on or after
Improvements to IFRS's	The IASB has issued its 2012 and 2013 annual improvement projects. The annual improvement projects' aim is to clarify and improve the accounting standards. The improvements include clarifications or removal of unintended inconsistencies between IFRS's. These improvements are effective for reporting periods commencing on or after 1 July 2014 but early application is permitted and must be applied retrospectively. There are no significant changes in the improvement projects that are expected to affect the group.	1 July 2014
IFRS 9: Financial instruments	New standard arising from the IASB's project to replace the current IAS 39 Financial instruments: Recognition and measurement. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The accounting and presentation for financial liabilities and for derecognising a financial instrument has been relocated from IAS 39: Financial instruments: Recognition and measurement without change, except for financial liabilities that are designated at fair value through profit or loss. IFRS 9 replaces the rule-based hedge accounting requirements in IAS 39 to more closely align the accounting with risk management activities. No material reclassifications are expected.	1 January 2018, but earlier adoption is permitted
IFRS 10: Consolidated financial statements	This amendment to IFRS 10 defines investment entities and requires that investment entities not be consolidated but rather accounted for at fair value under IFRS 9: Financial instruments or IAS 39: Financial instruments: Recognition and measurement. This amendment is not expected to have an impact on the group.	1 January 2014
IFRS 12: Disclosures of interests in other entities	The amendments will require additional disclosure for investment entities as defined per IFRS 10: Consolidated financial statements. The impact is not expected to be significant for the group.	1 January 2014

Standard or interpretation	Description	Effective date for annual reporting periods commencing on or after
IFRS 15: Revenue from contracts with customers	This is a new standard arising from the IASB's and FASB's joint project. The core principle of the new standard is to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration expected to be received in exchange for those goods or services. The new standard also sets out enhanced disclosures about revenue and provides guidance on certain transactions that were not previously dealt with in sufficient detail. The group is yet to assess IFRS 15's full impact but no material reclassifications are expected.	1 January 2017, but earlier adoption is permitted
IAS 19: Employee benefits	IAS 19 was amended to provide additional guidance on the accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan. The amendment is not expected to have a significant impact on the group.	1 January 2014
IAS 27: Separate financial statements	This standard has been amended to include a requirement to account for interests in investment entities as defined in IFRS 10: Consolidated financial statements, under IFRS 9: Financial instruments, or IAS 39: Financial instruments: Recognition and measurement, in the separate financial statements of a parent. This amendment is not expected to have a significant impact on the group.	1 January 2014
IAS 32: Financial instruments: Presentation	Arises from the amendments to IFRS 7 which requires additional disclosure regarding set-off. The amendments to IAS 31 clarify the application of certain offsetting criteria in IAS 32. This includes confirmation of the meaning of a legally enforceable right of set-off and that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payments in a single settlement process. The amendment is not expected to have an impact on the group.	1 January 2014

Standard or interpretation	Description	Effective date for annual reporting periods commencing on or after
IFRIC 21: Levies	This is an interpretation of IAS 37: Provisions, contingent liabilities and contingent assets and clarifies that the obligating event that gives rise to a liability to pay a levy imposed by government (other than income taxes) is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not expected to have a material impact on the group.	1 January 2014
Other potential accounting developments	The IASB have issued the following exposure drafts which, if issued as standards, could materially impact the group's current financial position: • Insurance contracts • Leases Both the insurance contracts and leases exposure drafts were re-exposed in the first half of 2013. Given the significant comments received on both of these exposure drafts, re-deliberations on these projects by the IASB will continue during 2014. At this stage, there is still insufficient clarity to be able to report on the full implications of the proposed standards. For the proposed insurance contracts standard, the group has considered the requirements governing deferred acquisition costs and has changed the accounting policy governing the treatment of deferred acquisition costs for short-term and long-term insurance contracts. The revised accounting policy is described under "basis of preparation" and the impact of the accounting policy change for the group is disclosed in note 47.	Not known yet

25. CRITICAL ACCOUNTING ASSUMPTIONS

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimation of the ultimate liability arising from claims made under insurance contracts is the group's most critical accounting estimate. This liability comprises short-term insurance contracts and long-term insurance contracts. Several sources of uncertainty have to be considered in estimating the liability that the group will ultimately be exposed to for such claims. The risk environment can change quickly and unexpectedly owing to a wide range of events or influences. The group is constantly refining the tools with which it monitors and manages risks to place the group in a position to assess risk situations appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which the group operates means that there cannot be absolute certainty in the measurement of the insurance contract liability when it comes to identifying risks at an early stage.

Refer to the annual integrated report of Discovery Limited at www.discovery.co.za and MMI Holdings Limited at www.mmiholdings.com for information on critical accounting assumptions in these companies.

Short-term insurance

Provision for outstanding claims ("OCR")

Each reported claim is assessed separately on a case by case basis, by either a computer algorithm based on past experience or a claims assessor with the relevant experience, taking into account information available from the insured. The estimates are updated as and when new information becomes available.

Provision for claims incurred but not reported ("IBNR")

The estimation of the IBNR provision generally holds a greater level of uncertainty than the other provisions as this is an estimation of claims that have not been reported yet based on past information. The longer the expected period between the date of loss and the claims reporting date and/or the more severe the unreported claims, the larger the IBNR provision.

The required IBNR percentage is calculated with reference to the run-off period of incurred claims and includes an additional margin to bring the IBNR reserves to a 75% sufficiency level in line with the requirements of SAP 401. This risk margin is derived using a Bootstrap method for the transactions where the Bornhuetter-Ferguson or Basic Chain Ladder methods were used to derive the best estimate IBNR claims provision. Where there is inadequate or insufficient data, the IBNR provision is based on the interim measures requirements as set out by the Financial Services Board ("FSB") in Board Notice 169 of 2011.

Unearned premium provision ("UPP")

The underlying risk of the insurance contracts underwritten is predominately evenly spread over the contract term. The unearned premium is released over the term of the insurance contract in line with the risk profile release. Where relevant, the UPP calculation basis has been adjusted to take account of the actual outstanding risk as well as the pattern of risk expected in future periods.

Liability for non-claims cash bonuses on insurance contracts
The provision for non-claims cash bonuses on insurance contracts is determined with reference to the contractual obligation per the contract of insurance adjusted for expected future claims and client cancellations based on historical experience. A risk margin is added to the best estimate of the future liability to allow for the uncertainty relating to future claims and cancellation experience.

Long-term insurance

Valuation of policyholder liabilities
Long-term insurance liabilities are valued based on the FSV method which is a prospective, discounted cash flow basis calculated as the difference between the present value of future benefit payments and expenses and the present value of future premiums. In addition, compulsory margins are added to allow for risk and uncertainty based on the requirements of SAP 104.

The methodology followed and the assumptions used in this valuation are the same as that used in the previous year's valuation except for the economic assumptions which have been changed in line with market rates.

As at 30 June 2014 the compulsory margins were as follows:

Assumption	Margin
Investment return	0.25% increase/decrease*
Mortality	7.5% increase
Morbidity	10% increase
Disability	10% increase
Retrenchment	10% increase
Expenses	10% increase
Expense inflation	10% increase of estimated escalation rate
Lapses	25% increase/decrease* on best estimate

** Depending on which change increases the liability.*

In addition to the above compulsory margins, discretionary margins may be added to protect against future possible adverse experience. A discretionary margin is added to allow for the zerorisation of negative reserves after taking into account the release of negative reserves to offset acquisition costs.

For the purposes of determining the value of the policyholder liability for regulatory purposes, the implicit deferral of acquisition costs is ignored in the statutory valuation method calculation.

The liabilities under investment linked contracts are valued at the value of the assets backing these contracts.

Demographic assumptions
The best estimate assumptions with regard to dread disease and disability, mortality and retrenchment rates were set equal to those used in the most recent pricing basis as developed by the reinsurer and approved by the statutory actuary. Provision has been made for the expected increase in the occurrence of AIDS-related claims.

Economic assumptions

INVESTMENT RETURN

In the current year, the group calculated its investment return assumption using a full yield curve as opposed to using a point estimate on the underlying yield curve. The comparative point estimate of the current yield curve at the appropriate duration at the valuation date is 8.98%.

In the prior financial year, the assumed future investment return was set with reference to bond yields of appropriate duration at the valuation date. This resulted in an assumed investment return, gross of tax of 8.1%.

INFLATION

In the current year, the group calculated its inflation assumption using a full inflation curve as opposed to using a point estimate on the underlying inflation curve, derived from nominal and real curves. The comparative point estimate of the current inflation curve at the appropriate duration at the valuation date is 6.98%.

In the prior financial year, the assumed level of future expense inflation is 6.1% per annum and was derived by comparing the real yield on inflation linked bonds with the nominal yield on conventional gilts both of similar terms.

TAXATION

Future taxation and taxation relief are allowed for at the rates and on the bases applicable to section 29A of the Income Tax Act at the reporting date. The group's current tax position is taken into account and the taxation rates, consistent with that position and the likely future changes in that position, are allowed for.

IBNR

In addition to the discounted cash flow liability an IBNR provision is held. The IBNR was set using a claims run-off model based on recent experience and best estimates. The IBNR for classes of business in run-off is based on two months of projected claims.

Refer to note 8 for a sensitivity analysis of the long-term and short-term insurance contract liability which illustrates the impact of the assumptions and judgments on the measurement of the insurance contract liability.

Management of insurance and financial risk

RISK MANAGEMENT FRAMEWORK

The group has developed an enterprise risk management framework to provide reasonable assurance that the group's risks are being prudently and soundly managed. The framework is designed according to acceptable principles on corporate governance and risk management standards. The risk management framework outlines the key risks facing the business and how these risks are monitored.

Risk and governance oversight is provided by the board, audit and risk committee and social, ethics and transformation committee. The four main focus areas are changes to the regulatory landscape, the management of insurance risk, the management of financial risk and capital management.

1. CHANGING REGULATORY LANDSCAPE

The companies in the group operate in an ever changing regulatory business landscape. There are a number of new and ongoing regulatory projects which will continue to impact the group in the medium term. The changes are also expected to have an impact on the group's solvency requirements, financial reporting and the way it conducts its business.

The group's board of directors and management are actively monitoring and preparing for the possible implications of these various regulatory and legislative changes. The group seeks positive and constructive engagement with its various regulators and policy makers, both directly and through appropriate participation in industry forums, to partner with them in ensuring optimal regulatory outcomes for the industry and all its stakeholders.

The main changes anticipated to have a significant impact particularly on South African and in some instances international operations are briefly described below.

1.1 IFRS 4 phase II

The recognition and measurement of insurance liabilities is currently the focus of IFRS 4 phase II, the International Accounting Standards Board ("IASB") project on the accounting for insurance contracts. Although various decisions on principles regarding measurement have been tentatively agreed by the IASB, there is still debate and uncertainty around the methodologies used to value participating contracts and transition arrangements on adoption of the IFRS. The IASB published a revised exposure draft on insurance contracts in June 2013. The earliest envisaged implementation date is for years commencing on or after 1 January 2018, however, earlier adoption may be allowed.

The group will continue to monitor any tentative decisions that are made prior to the final IFRS being published. It is anticipated that the final standard will have an impact on the group's current reported financial position and future revenue recognition, but to date there is insufficient clarity around certain decisions to be able to understand and provide guidance on the specific implications of the new standard.

1.2 Solvency Assessment and Management ("SAM")

The FSB is in the process of developing a new risk-based solvency regime for South African long-term and short-term insurers, known as the SAM regime. This initiative will align the South African insurance industry with the standards of the International Association of Insurance Supervisors ("IAIS"). This process is being guided by principles around insurance regulation produced by the IAIS and developments in Europe. The basis of the SAM regime will be the principles of the Solvency II Directive, as adopted by the European Parliament, but adapted to South African specific circumstances where necessary. As an overarching principle, the recommendations arising from the SAM project should meet the requirements of a third country equivalent assessment under Solvency II.

A key change to the regulatory environment is the move to a Twin Peaks model of financial regulation. Prudential regulation of insurers is due to shift to the South African Reserve Bank ("SARB") by 2015. Preparations for the smooth transition of the SAM project to SARB are underway and no impact on the SAM implementation plan is anticipated.

The FSB is currently intending to implement both the standard formula and internal model approaches under the SAM regime by January 2016 for both long-term and short-term insurers, with all insurers required to do a parallel run on the standard formula in the second half of 2014 and 2015.

Given the gap between the current South African regulatory regime and the expected final requirements of SAM, an interim regulatory regime has been adopted for South African short-term insurers, effective 1 January 2012 up until the SAM implementation date of 1 January 2016.

The interim measures for SAM initially envisaged in the Insurance Laws Amendment Bill ("ILAB") will now be introduced through alternative means, including:

- enhanced governance and risk management framework requirements will be introduced through a Board Notice; and
- a formal framework for insurance group supervision will be provided for through the Twin Peaks process.

A new Insurance Act is being developed concurrently with the SAM programme which will combine the current Short-term and Long-term Insurance Acts into one Act. The first public version of the SAM primary legislation is expected to be released for comment in the third quarter of 2014. At the same time, the FSB will release a comprehensive version of the subordinate legislation to the SAM governance structure for consideration.

The introduction of the SAM regime will require a full review of the tax legislation applicable to both long-term and short-term insurers.

The group is in the process of preparing for the timeous adoption of the new regulatory regime once effective.

1.3 Draft Financial Sector Regulation Bill

In December 2013 the National Treasury ("NT") issued a media statement in respect of the implementation of the Twin Peaks model of financial regulation and inviting public comment thereon by 7 February 2014. The Twin Peaks model will provide a comprehensive framework for regulating the financial sector. The implementation thereof is a multi-year project with a two phase process which is set out below.

The first phase is to establish two regulatory authorities:

- A new prudential authority within the SARB who will be responsible for the oversight of the safety and soundness of banks, insurers and financial conglomerates.
- A new market conduct authority to protect customers of financial services firms and to improve the way financial service providers conduct their business. This authority will also be responsible for ensuring the integrity and efficiency of financial markets and promoting effective financial consumer education.

The Bill further gives the SARB primary responsibility to oversee financial stability. To facilitate this, the Bill creates a statutory inter-agency Financial Stability Oversight Committee ("FSOC"), chaired by the governor of the SARB with appropriate financial stability powers.

The draft Bill also creates the concepts of "mono-regulated" and "dual-regulated" institutions. Mono-regulated are firms that only give rise to market conduct regulation whilst dual-regulated entities are those that undertake activities that give rise to both prudential and market conduct regulation.

The second phase will see the existing sectorial legislation being gradually amended or replaced with laws which more appropriately align with the Twin Peaks framework. For example, a comprehensive market conduct framework will be legislated, which will give legal effect to the Treating Customers Fairly initiative and will ensure a comprehensive, consistent and complete approach to governing the conduct of financial institutions across the financial sector.

Further objectives of the Bill include:

- enhancing coordination and cooperation between regulators;
- balancing operational independence and accountability of regulators;
- establishing a crises management and resolution framework;
- creating a Financial Services Tribunal and strengthening enforcement; and
- strengthening Ombud Schemes.

The Financial Services Laws General Amendment Act ("FSLGAA") which became effective on 28 February 2014 aims to ensure that during the transition to the Twin Peaks model, South Africa has a sounder and better regulated financial services industry which promotes financial stability by strengthening the financial sector regulatory framework and enhancing the supervisory powers of the regulators.

1.4 Treating Customers Fairly ("TCF")

Since the FSB issued the TCF roadmap on 31 March 2011, considerable progress has been made in implementing the milestones set out in the roadmap by both the FSB and the group. However, the sequencing and timelines of some of these milestones have shifted, in part due to the need to align TCF with the roll-out of the broader Twin Peaks regulatory reforms being led by the NT. The group participated in the FSB's self-assessment pilot exercise in July 2011 as well as the baseline study conducted in February 2013 and is satisfied that its business practices are aligned with the TCF principles. This is evident in various business measurements and the published complaints statistics of the Ombudsmen for short-term and long-term insurance.

Ongoing TCF projects include the development of standard key information documents to be sent to clients in order for the client to be able to compare benefits between different insurers when taking out insurance cover. There are ongoing discussions around the proposed content, timing of the dissemination of the documents, the length of the documents, costs involved and how to avoid possible duplication of information.

1.5 Quarterly Conduct of Business Return ("CBR")

During October 2013 the FSB indicated that they intend to, as part of their enhanced supervisory approach, introduce a quarterly CBR which all registered short-term and long-term insurers will be required to submit.

The current statutory returns are aimed at prudential and financial soundness assessments. The objectives of the CBR are therefore to:

- strengthen the conduct of business supervision framework by making it more comprehensive, consistent, pre-emptive and pro-active;
- encourage insurers to develop management information systems that will support TCF outcome monitoring; and
- enable the development of industry-wide conduct indicators and benchmarks.

The current project aims to finalise the requirements of these returns in consultation with the insurance industry.

1.6 Long-term tax legislation

The tax landscape for South African long-term insurance companies is in the midst of potential changes. NT published a first draft Taxation Laws Amendment Bill, 2014, for comment. The draft legislation gives effect to matters presented by the Minister of Finance in the budget review 2014, as tabled in Parliament early in 2014, in respect of tax treatment of the risk business of long-term insurers. The section under comment for possible amendment is section 29A of the Income Tax Act, No 58 of 1962.

The group is in the process of assessing the implications of the draft Bill and will monitor the decisions taken going forward.

1.7 Protection of Personal Information ("POPI") Act

The POPI Act regulates the processing and use of personal information, protecting persons both natural and juristic from the abuse of personal information and providing rights and remedies to victims of unlawful processing. POPI was enacted on 27 November 2013 with certain provisions of the Act coming into effect on 11 April 2014. An effective date for the remaining sections of the Act is yet to be announced upon which there will be a one year transitional period to comply with the Act.

1.8 Advertising guidelines

During December 2013 the FSB issued a draft information letter with suggested guidelines for compliance with sections 4(3) of the Long-term Insurance Act and Short-term Insurance Act, specifically relating to advertisements, brochures or similar communications.

The purpose of the information letter is to provide guidance to insurers on the interpretation and application of section 4(3) of the Insurance Acts. It will also ensure that the advertisements, brochures or similar communications relating to insurance business are not misleading, contrary to the public interest or contain incorrect statements of fact.

The industry was invited to comment on the suggested guidelines by the end of February 2014 and provided detailed comments through the industry bodies.

The main themes set out in the guidelines are that advertisements and marketing material must:

- be factually correct;
- not be misleading;
- be in the public interest and not ridicule or criticise other insurers, policies or marketing methods;
- identify the insurer in adverts; and
- take preventative remedial measures to ensure that adverts are acceptable before they are used.

Our approach is to give due consideration to the draft guidelines in designing our advertising and marketing material until such time that the final information letter is issued regarding the FSB's guidelines.

2. MANAGEMENT OF INSURANCE RISK

2.1 Background and insurance risk management philosophy

The group's consolidated insurance businesses are conducted in two separate subsidiaries, namely OUTsurance and RMBSI.

The following tables show the gross insurance contract liabilities for each of these entities:

As at 30 June 2014

R million	**OUTsurance**	**RMBSI**	**Total**
Gross insurance contracts			
Short-term insurance contracts			
– claims reported	**965**	**310**	**1 275**
– claims incurred but not reported	**332**	**115**	**447**
– unearned premiums	**2 729**	**717**	**3 446**
– unexpired risk provision	**–**	**345**	**345**
– insurance contracts cash bonuses	**382**	**–**	**382**
Long-term insurance contracts	**48**	**5**	**53**
TOTAL GROSS INSURANCE CONTRACT LIABILITIES	**4 456**	**1 492**	**5 948**

As at 30 June 2013 – Restated

R million	OUTsurance	RMBSI	Total
Gross insurance contracts			
Short-term insurance contracts			
– claims reported	787	341	1 128
– claims incurred but not reported	339	121	460
– unearned premiums	1 764	784	2 548
– unexpired risk provision	–	292	292
– insurance contracts cash bonuses	373	–	373
Long-term insurance contracts	(8)	4	(4)
TOTAL GROSS INSURANCE CONTRACT LIABILITIES	3 255	1 542	4 797

OUTsurance is a direct personal lines and small business short-term insurer and provides long-term insurance to individuals in the form of death, disability and critical illness cover, as well as credit protection and credit life.

RMBSI holds both short-term and life insurance licences. It creates individual insurance and financial risk solutions for large corporates by using sophisticated risk techniques and innovative financial structures. RMBSI's business strategy is to mitigate insurance risk by passing a significant portion of risk back to the policyholders or external parties or to write business where the overall portfolio insurance risk is controlled within acceptable limits with minimal residual risk accruing to shareholders. In the case of customer protection and credit insurance, policies are written over the entire customer base of the corporate client. This business is written in all retail outlets of the corporate client which has branches throughout South Africa and its adjoining territories. The geographic diversity of this business reduces concentration risk to acceptable levels.

Due to the appropriate use of reinsurance and catastrophe cover, the RMI group believes that there is no single risk or event that represents a significant concentration of insurance risk for the group.

As the insurance offerings and therefore insurance risks of OUTsurance and RMBSI differ, the management of insurance risk is presented separately for each of these businesses grouped under short-term and long-term insurance.

2.2 Short-term insurance

2.2.1 OUTsurance

TERMS AND CONDITIONS OF INSURANCE CONTRACTS

The group conducts short-term insurance business on different classes of short-term insurance risk. Furthermore, the group underwrites risk products marketed and distributed by other companies. Currently, the majority of business is written within personal lines.

Types of insurance contracts written	Personal lines	Commercial	Profit sharing arrangements on ring-fenced insurance business
Personal accident	<1%	<1%	–
Liability	<1%	7.1%	–
Miscellaneous	<1%	–	45.6%
Motor	64.7%	63.3%	–
Property	34.7%	27.4%	–
Transportation	<1%	2.0%	–
Guarantee	–	–	54.4%

The personal lines segment of the business sells insurance to the general public allowing them to cover their personal possessions and property. The commercial segment of the business targets medium and small businesses in South Africa. Insurance products are sold with either a monthly or an annual premium payable by the covered party or entity. Profit sharing arrangements on ring-fenced insurance business refers to arrangements whereby the group underwrites various risk products marketed and distributed by other companies. The management of profit sharing risks underwritten by the group is performed by the administrators of the profit sharing arrangements. The following gives a brief explanation of each risk:

Personal accident

Provides compensation arising out of the death or disability directly caused by an accident occurring anywhere in the world, provided that death or disability occurs within 12 months of this accident.

Liability

Provides cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.

Miscellaneous

Provides cover relating to all other risks that are not covered more specifically under another insurance contract.

Motor
Provides indemnity cover relating to the possession, use or ownership of a motor vehicle. The cover includes comprehensive cover, third party, fire, theft and liability to other parties.

Property
Provides indemnity relating to damage to movable and immovable property caused by perils including fire, explosion, earthquakes, acts of nature, burst geysers and pipes and malicious damage.

Transportation
Provides cover to risks relating to stock in transit.

Engineering
Provides cover for liability to other parties, loss or damage related to the ownership and usage of machinery and equipment as well as the construction of buildings and other structures.

INSURANCE RISKS
The primary activity of the group relates to the assumption of possible loss arising from risks to which the group is exposed through the sale of short-term insurance products. Insurance risks to which the group is exposed relate to property, personal accident, liability, motor, transportation and other miscellaneous perils that may result from a contract of insurance. The group is exposed to uncertainty regarding the timing, magnitude and frequency of such potential losses.

The theory of probability forms the core base of the risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, the group can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio. Insurance perils are unpredictable in nature, timing and extent which expose the group to a risk that the effect of future insured losses could exceed the expected value of such losses.

Along with its underwriting approach, the group also manages its insurance risk through its reinsurance programme which is structured to protect the group against material losses to either a single insured risk, or a group of insured risks in the case of a catastrophe where there would tend to be a concentration of insured risks.

The underwriting of insurance risk and the passing on of excessive insurance risk to reinsurers is further described below.

Underwriting strategy
The group aims to diversify the pool of insured perils through writing a balanced portfolio of insurance risks over a large geographical area. Products are priced using statistical regression techniques which identify risk factors through correlations identified in past loss experiences. Risk factors would typically include factors such as age of the insured person, past loss experiences, past insurance history, type and value of asset covered, security measures taken to protect the asset, major use of the covered item and so forth. Risks are priced and accepted on an individual basis and as such there is a minimal cross subsidy between risks. Insurance premiums charged for a certain pool of risks are adjusted frequently according to the normalised loss ratios experienced on that pool of risks.

Insurance risk is monitored within the group on a daily basis to ensure that risks accepted by the group for its own account are within the limits set by the board of directors. Exception reporting is used to identify areas of concentration of risk so that management is able to consider the levels adopted in the reinsurance programme covering that pool of risk.

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

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

Reinsurance strategy

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

Concentrations of risk and mitigating policies

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

The South African operation is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 50.4% (2013: 51.0%) of the total sum insured is domiciled. The Australian operation is exposed to a concentration of insurance risk in South East Queensland where 21.9% (2013: 22.5%) of the total sum insured is domiciled. In order to manage this concentration of insurance risk, the group has entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the group to predetermined levels following the occurrence of a localised catastrophe in these areas.

Exposure to catastrophes and policies mitigating this risk

Catastrophe modelling is performed to determine the impact of different types of catastrophe events (including natural disasters) in different geographical areas, at different levels of severity and at different times of the day. Catastrophe limits are set so as to render satisfactory results to these simulations. The catastrophe cover is also placed with reinsurers with a reputable credit rating and cognisance is taken of the geographical spread of the other risks underwritten by the reinsurers in order to reduce correlation of the group's exposure with the balance of reinsurers' exposure. These reinsurance models are run at least annually to take account of changes in the portfolio and to take the latest potential loss information into account.

Profit share arrangements on ring-fenced insurance business

Profit share arrangements have been entered into with other companies. Per these arrangements, certain risk products marketed and distributed by these companies are underwritten by OUTsurance Insurance Company Limited. Profits arising on these arrangements are shared with these companies and distributed by way of preference share dividends.

The collection of premium and the payment of claims is a function that is performed by the ring-fenced insurance business or its administrator. The results of the ring-fenced insurance business are fully accounted for in the results of OUTsurance Insurance Company Limited and hence are included in these group results. OUTsurance Insurance Company Limited is responsible for maintaining the required solvency for the ring-fenced insurance businesses.

The profitability of ring-fenced insurance business is reviewed on a monthly basis to ensure that the group is not exposed to uneconomical risks.

Profit sharing arrangements

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

Claims development tables

The tables below show the development pattern of OUTsurance's claims liabilities. The presentation of the claims development tables for the group is based on the actual date of the event that caused the claim (accident year basis).

Reporting development

		FINANCIAL YEAR IN WHICH CLAIMS WERE REPORTED				
Net claims **Accident year** *R million*	Total	**2014**	2013	2012	2011	Prior 2010
2014	4 543	**4 543**	–	–	–	–
2013	3 557	**(24)**	3 581	–	–	–
2012	2 859	**–**	15	2 844	–	–
2011	2 696	**3**	4	(6)	2 695	–
2010 and prior	10 613	**–**	1	3	10	10 599
CURRENT ESTIMATE OF CUMULATIVE CLAIMS INCURRED	24 268	**4 522**	3 601	2 841	2 705	10 599

Payment development

Net claims Accident year *R million*	Total	2014	2013	2012	2011	Prior 2010
		FINANCIAL YEAR IN WHICH CLAIMS WERE PAID				
2014	4 344	**4 344**	–	–	–	–
2013	2 862	**(46)**	2 908	–	–	–
2012	2 851	**28**	383	2 440	–	–
2011	2 614	**10**	18	327	2 259	–
2010 and prior	10 637	**7**	17	34	334	10 245
CUMULATIVE PAYMENTS TO DATE	23 308	**4 343**	3 326	2 801	2 593	10 245

Incurred development

Net claims Accident year *R million*	Total	2014	2013	2012	2011	Prior 2010
		FINANCIAL YEAR IN WHICH CHANGES OCCURRED IN CLAIMS LIABILITY				
2014	4 385	**4 385**	–	–	–	–
2013	3 602	**97**	3 505	–	–	–
2012	2 868	**(1)**	22	2 847	–	–
2011	2 643	**(6)**	3	(35)	2 681	–
2010 and prior	10 611	**(14)**	(12)	(17)	33	10 621
CUMULATIVE PAYMENTS TO DATE	24 109	**4 461**	3 518	2 795	2 714	10 621

2.2.2 RMBSI

RMBSI's insurance business comprises a small number of large corporate insurance contracts issued to corporates and institutions, as well as a large number of smaller insurance contracts issued on behalf of the group by its corporate clients or underwriting managers under underwriting mandates. The group's deal and risk committee meets on a regular basis, performing a detailed review of all new corporate insurance contracts and underwriting mandates and annually reviews the status of these contracts and mandates. The group's risk appetite is determined with reference to past experience, its capital base, predictability and volatility of the underwriting result, economic climate and the availability of reinsurance cover, where applicable. In addition, the results from the internal capital model are also used to set risk appetite. There are a large number of small contracts, therefore the risk exposure on this business is diversified as it reduces the concentration risk.

RMBSI mainly underwrites insurance risk in South Africa, with a small portion arising from risks in Sub Saharan Africa. Due to the number and size of insurance contracts, the profile of the group's business changes regularly and as a result thereof gross premiums and gross claims show little comparability between different reporting periods. RMBSI therefore manages its insurance risk in respect of each insurance contract separately through limits of indemnity, reinsurance arrangements or through other arrangements with the group's clients where they provide the risk capital required for the business, whether on an actual or contingent basis. RMBSI does not pool insurance risks, with the exception of the credit protection business and is able to re-price most of its insurance products in respect of future risks.

Customers are legally bound to report claims soon after a loss has been incurred. Most of the insurance contracts are not subject to significant lags or claim complexity risk and result in relatively low estimation uncertainty. Underwriting exposures are also limited by contractual limits of indemnity. The underwriting strategy provides for a variety of risks.

Reinsurance decisions are made on a case-by-case basis when the deal and risk committee approves or reviews a transaction. The group reinsures a portion of the risks it underwrites in order to limit its exposures to losses and protect its own customers' capital resources. Reinsurance contracts comprise both proportional and non-proportional reinsurance. Amounts recoverable under reinsurance contracts are reported after impairment provisions. The ability of reinsurers to meet reinsurance claims is monitored on an ongoing basis.

The following table shows the net actuarial liabilities of RMBSI as at 30 June 2014:

R million	UPP net of DAC/ DAR	IBNR	Out-standing claims	Unexpired risk provision	Total
Motor	82	33	85	–	200
Property	(1)	17	26	–	42
Accident & health	36	2	2	–	40
Engineering	2	15	7	–	24
Guarantee	–	12	12	–	24
Liability[(1)]	575	3	11	345	934
Transport	4	–	16	–	20
Miscellaneous	–	3	3	–	6
TOTAL	698	85	162	345	1 290

(1) This portfolio relates to the post-retirement medical aid policy of a large corporate client.

The following table shows the net actuarial liabilities of RMBSI as at 30 June 2013:

R million	UPP net of DAC/DAR	IBNR	Outstanding claims	Total
Motor	102	20	82	204
Property	(6)	25	38	57
Accident & health	47	3	4	54
Engineering	2	19	23	44
Guarantee	–	13	7	20
Liability(1)	597	6	4	607
Transport	4	6	14	24
Miscellaneous	–	8	3	11
TOTAL	746	100	175	1 021

(1) This portfolio relates to the post-retirement medical aid policy of a large corporate client.

The actuarial liabilities of RMBSI include the following:

UPP

The UPP is calculated on the assumption that the risk profile under a policy is uniformly distributed over the term of the policy. The method applies the proportion of the policy term still outstanding to the total written premium to obtain the value of premiums still to be earned.

For debt-related business, the premium in any period is related to the value of the outstanding debt. RMBSI therefore calculates the outstanding debt value as a proportion of the original debt and apply this to the total written premium to obtain the UPP.

For inward reinsurance business the UPP is subject to a minimum of 50% of the net written premiums.

It was assumed that all UPP implicitly include a risk margin equivalent to a 75% level of sufficiency in line with the requirements of SAP 401 for the purposes of the current valuation. This assumption is regarded as reasonable considering that on average premium rates are set at a profitable level.

UNEXPIRED RISK PROVISION ("URP") AND ADDITIONAL UNEXPIRED RISK PROVISION ("AURP")

The URP is equal to the expected cost of future claims and related expenses expected to arise from policies that have unexpired cover as at the valuation date. The methods used to estimate the URP may differ from one case to another. For most of the insurance transactions the historical loss ratios were considered to form a view on the URP. If the URP exceeds the UPP this could indicate that the premiums charged are inadequate for the risks covered.

To allow for this, an AURP is set aside to cater for the additional expected loss. The AURP is the positive difference between the URP and UPP after the deduction of any deferred acquisition costs.

None of the insurance transactions of RMBSI required an AURP as at 30 June 2014.

IBNR

The most common techniques used to determine IBNR provisions are the ultimate loss ratio method, Chain-Ladder and the Bornheutter-Ferguson methods or a combination of these methods.

The Bornheutter-Ferguson method combines the Chain-Ladder technique with a market– or company-related estimate of ultimate loss ratio and is intended to stabilise the projections where data is scarce. This method is often useful where developed claims experience is not alone sufficient to determine IBNR provisions. The ultimate loss ratio method requires less information than the Bornheutter-Ferguson method in that it does not use or assume a development pattern.

The IBNR provisions were calculated using a combination of methods. On some transactions the IBNR was derived using a combination of the Bornhuetter-Ferguson and Basic Chain-Ladder methods on paid claims data. In instances where the nature of the available data did not permit the application of standard actuarial methodologies, the IBNR was calculated using the valuation method prescribed by the FSB in Board Notice 169 of 2011. This methodology is considered part of the interim measures on the valuation of technical provisions under the SAM regulatory framework.

2.3 Long-term insurance

2.3.1 OUTsurance

TERMS AND CONDITIONS OF INSURANCE CONTRACTS

The group conducts long-term insurance business on various classes of long-term insurance risk. Products are only sold to the South African retail market. The types of insurance products sold are as follows:

- Life Insurance;
- Credit Protection; and
- Credit Life.

The following gives a brief explanation of each product:

Life Insurance

The Life Insurance product covers the following insurance risks:

- death cover;
- disability cover; and
- critical illness cover.

In the event of a valid death, permanent disability (occupational disability) or critical illness claim, OUTsurance Life Insurance Company Limited ("OUTsurance Life") pays the sum assured.

Credit Protection

The Credit Protection product covers the following insurance risks:

- death cover;
- disability cover;
- critical illness cover;
- retrenchment cover; and
- temporary disability cover.

In the event of a valid death, permanent disability (occupational disability) or critical illness claim, OUTsurance Life pays the sum assured. In the event of a valid temporary disability or retrenchment claim, OUTsurance Life undertakes to pay the policyholder a monthly instalment of a specified percentage of the sum assured as well as the premium for the specified period.

Credit Life

The Credit Life product covers the following insurance risks:

- death cover;
- disability cover;
- critical illness cover;
- retrenchment cover; and
- temporary disability cover.

In the event of a valid death, permanent disability or critical illness claim, OUTsurance Life settles the policyholder's outstanding debt by way of a lump sum payment to the finance provider. In the event of a valid temporary disability or retrenchment claim, OUTsurance Life undertakes to pay the policyholder's monthly instalment to the finance provider as well as the risk premium for the specified period. This product has been replaced by the Credit Protection product and is currently in run-off.

INSURANCE RISKS

The primary activity of OUTsurance Life relates to the assumption of loss arising from risks to which it is exposed through the sale of long-term insurance products. It is exposed to uncertainty regarding the timing, magnitude and frequency of such potential losses.

The theory of probability forms the core base of the risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, OUTsurance Life can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio.

Along with its underwriting approach, OUTsurance Life also manages its retention of insurance risk through its quota share and excess of loss reinsurance programme which is structured to protect it against material losses on single insured risks.

The underwriting of insurance risk and the passing on of excessive insurance risk to reinsurers is further described below:

Mortality and morbidity risk

Mortality risk is the risk of loss arising due to actual death rates on life insurance business being higher than expected. Morbidity risk is the risk of loss arising due to policyholder health related claims being higher than expected.

The following processes and procedures are in place to manage mortality and morbidity risk:

- premium rates are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claims experience such as medical history and condition, age, gender, smoker status and HIV status;
- the expertise of reinsurers is used for pricing where adequate claims history is not available; and
- reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual policy and provide cover in catastrophic events.

Underwriting experience risk

There is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of the claims being higher than expected. Selection risk is the risk that worse than expected risks are attracted and charged inadequate premiums. There is also a risk that the number of claims can increase due to the emergence of a new disease or pandemic.

Underwriting experience risk is managed through:

- **Product design and pricing**
  Rating factors are applied to different premium rates to differentiate between different levels of risk. Amongst other, premiums are differentiated by age, gender, smoking status and medical history. Premium rates are approved and reviewed by the statutory actuary.

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

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

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

Lapse risk

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

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

Modelling and data risk

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

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

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

Expense risk

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

Tax risk

Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of interpretation or application of tax legislation or as a result of changes in the tax legislation. External tax advice is obtained where necessary.

Non-claims bonus risk

Non-claims bonus risk is the risk that the expected future contractual bonus payments are higher than assumed in the calculation of the policyholder liability. A decrease in the lapse rate will result in an increase in the non-claims bonus risk. This risk is managed by applying an appropriate margin of above the best estimate of lapse and claims experience to allow for uncertainty.

2.3.2 RMBSI

RMBSI currently has the following business on its books:

INVESTMENT LINKED POLICIES

The group has issued linked policies to companies and universities for their future uncertain employee obligations. The calculation of the investment contract liability is an amount equal to the underlying financial assets.

CREDIT LIFE POLICIES

These policies grant protection to policyholders who have entered into instalment sale agreements. The protection is for the accidental loss of life and/or retrenchment of the policyholder.

CREDIT LIFE COVER POLICIES

These policies offer a compulsory life cover benefit and optional incapacity and retrenchment cover.

The following shows the gross and net actuarial liability of RMBSI:

30 June 2014

R million	**Gross**	**Reinsurance**	**Net**
Credit life policies	**5**	**(3)**	**2**
Investment contracts – linked policies	**1 381**	**–**	**1 381**
TOTAL	**1 386**	**(3)**	**1 383**

30 June 2013

R million	Gross	Reinsurance	Net
Credit life policies	4	(2)	2
Investment contracts – linked policies	1 358	–	1 358
TOTAL	1 362	(2)	1 360

MANAGEMENT OF FINANCIAL RISK

The group is exposed to various financial risks in connection with its current operating activities, such as market risk, credit risk, liquidity risk and capital adequacy risk. These risks contribute to the key financial risk that the proceeds from the group's financial assets might not be sufficient to fund the obligations arising from insurance and investment policy contracts.

To manage these risks the subsidiary and associate boards established sub-committees to which it has delegated some of its responsibilities in meeting its corporate governance and fiduciary duties. The sub-committees include an audit and risk committee, a compliance committee, an investment committee, an actuarial committee and a remuneration committee. Each committee adopted a charter, which sets out the objectives, authority, composition and responsibilities of the committee. The boards approved the charters of these committees.

Additional information on the management of financial risks is provided below.

3.1 Market risk

Market risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

3.1.1 Currency risk

Currency risk is the risk that the value of the financial instrument denominated in a currency other than the reporting currency may fluctuate due to changes in the foreign currency exchange rate between the reporting currency and the currency in which such instrument is denominated.

The group's exposure to currency risk is mainly in respect of foreign investments made. The group had invested in foreign subsidiaries operating in Ireland, Mauritius and Australia.

The operations as described expose the group to foreign currency risk. The board monitors these exposures on a quarterly basis. Any significant changes in the foreign currency balances are followed up throughout the period and are reported to the board. The table below lists the group's exposure to foreign currency risk:

30 June 2014

R million	**Rand**	**Australian Dollar**	**New Zealand Dollar**	**United States Dollar**	**Euro**	**Total**
TOTAL ASSETS	**22 463**	**4 672**	**585**	**44**	**2**	**27 766**
TOTAL LIABILITIES	**7 745**	**3 608**	**21**	**15**	**–**	**11 389**
Exchange rates:						
Closing rate		**10.02**	**9.30**	**10.61**	**14.46**	
Average rate		**9.52**	**8.65**	**10.29**	**14.20**	

30 June 2013

R million	Rand	Australian Dollar	United States Dollar	Euro	Total
TOTAL ASSETS	21 028	2 839	41	9	23 917
TOTAL LIABILITIES	7 554	2 010	12	–	9 576
Exchange rates:					
Closing rate		9.03	9.97	13.00	
Average rate		9.09	8.79	13.23	

The effect on the group comprehensive income after taxation and the net asset value of the group after an appreciation or depreciation in the foreign currency rate is provided in the following table:

30 June 2014 *R million*	**10% increase**	**10% decrease**
Comprehensive income after taxation	**2**	**(2)**
Net asset value	**17**	**(17)**

30 June 2013 *R million*	10% increase	10% decrease
Comprehensive income after taxation	–	–
Net asset value	11	(11)

3.1.2 Interest rate risk

Interest rate risk is when the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The group makes use of asset managers and internal resources to invest in securities exposed to interest rate risk. The securities managed by asset managers are contractually agreed with specific risk levels. The internally managed money market investments are managed in line with the mandate approved by the investment committee. The investment committee monitors the performance of all the investments and reports to the board on a quarterly basis.

The group's financial instruments are exposed to interest rate risk. Policyholders' funds are exposed to interest rate risk and the capital loss on fixed rate instruments would be for the policyholders' account as the liability is calculated with reference to the value of the assets. Therefore the investment contract liability and assets backing this liability have been excluded from the table below.

The table below reflects the shareholders' exposure to interest rate risk, which represents a cash flow risk. An increase or decrease in the market interest rate would result in the following changes in other comprehensive income of the group:

	30 JUNE 2014		30 JUNE 2013	
R million	**200 bps increase**	**200 bps decrease**	200 bps increase	200 bps decrease
Financial assets				
Unlisted preference shares	**11**	**(11)**	9	(9)
Government, municipal and public utility securities	**6**	**(6)**	3	(3)
Money market instruments	**33**	**(33)**	39	(39)
Cash and cash equivalents	**79**	**(79)**	53	(53)
Financial liabilities				
Preference shares	**(5)**	**5**	(5)	5

The table below lists the policyholders' funds exposure to interest rate risk. An increase or decrease in interest rates of 200 bps could result in the following changes in the fair value of interest rate instruments.

	30 JUNE 2014			30 JUNE 2013		
R million	**Carrying value**	**200 bps increase**	**200 bps decrease**	Carrying value	200 bps increase	200 bps decrease
Financial assets						
Unlisted preference shares	**79**	**81**	**78**	79	81	78
Listed preference shares						
Fixed rate	**347**	**340**	**354**	349	342	356
Variable rate	**182**	**186**	**178**	910	928	891

3.1.3 Other price risk

Equity risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity securities are mandated to stockbrokers and asset managers. Asset managers' mandates include benchmarks by which performance is measured based on fee structures. The investment committee monitors the performance for each asset manager against benchmarks and reports to the board on a quarterly basis.

All equities are split between listed and unlisted securities. Listed equities which relates to linked policies do not require a sensitivity analysis as the liability is not guaranteed and will be determined solely by reference to the value of the assets. These assets do not expose the group to any risks.

The table below reflects the shareholders' exposure to equity price risk. A hypothetical 10% increase or decrease in the equity prices would result in the following changes in other comprehensive income of the group:

	30 JUNE 2014		30 JUNE 2013	
R million	**10% increase**	**10% decrease**	10% increase	10% decrease
Financial assets				
Listed preference shares	**55**	**(55)**	61	(61)
Derivative asset	**14**	**(14)**	4	(4)
Collective investment scheme	**54**	**(54)**	54	(54)
Listed equity shares	**37**	**(37)**	13	(13)
Unlisted preference shares	**54**	**(54)**	45	(45)
Financial liabilities				
Derivative liability	**(9)**	**9**	(6)	6

3.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The key areas where the group is exposed to credit risk are:

- unlisted preference shares with put options to the large banks;
- debt securities;
- loans and receivables;
- reinsurance contracts; and
- cash and cash equivalents.

Significant concentrations of credit risk, if applicable, are disclosed in the financial statements. The credit exposure to any one counterparty is managed by the board in accordance with the requirements of the Short-term Insurance Act of 1998 and Long-term Insurance Act of 1998 and by setting transaction/exposure limits, which are reviewed at each board and audit committee meeting. The credit worthiness of existing and potential clients is monitored quarterly at the board meeting and bi-annually by the actuarial committee and investment committee.

Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that the gross claim is paid. However, the group remains liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently, the group is exposed to credit risk. The group reviews its reinsurance agreements on an annual basis and ensures the appropriate credit quality of any reinsurer prior to renewing an agreement or entering into a new agreement.

No significant financial assets exposed to credit risk are past due or impaired.

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

30 June 2014

R million	**AAA**	**AA**	**A**	**BBB**	**BB**	**Not rated**	**Total**
Collective investment scheme	**–**	**–**	**71**	**472**	**–**	**–**	**543**
Money market instruments	**–**	**2**	**398**	**1 166**	**67**	**–**	**1 633**
Debt securities							
– available-for-sale – unlisted	**–**	**–**	**30**	**510**	**–**	**–**	**540**
– held-to-maturity	**–**	**–**	**–**	**–**	**–**	**79**	**79**
– at fair value through profit or loss							
– fixed rate	**258**	**16**	**9**	**115**	**–**	**34**	**432**
– variable rate	**12**	**21**	**24**	**204**	**–**	**527**	**788**
Derivative asset	**–**	**–**	**–**	**–**	**–**	**17**	**17**
Loans and receivables	**–**	**44**	**–**	**1**	**–**	**3 033**	**3 078**
Reinsurance contracts	**11**	**196**	**46**	**42**	**–**	**6**	**301**
Cash and cash equivalents	**11**	**3 801**	**32**	**480**	**–**	**401**	**4 725**
TOTAL	**292**	**4 080**	**610**	**2 990**	**67**	**4 097**	**12 136**

30 June 2013

R million	AAA	AA	A	BBB	BB	Not rated	Total
Collective investment scheme	–	128	–	351	61	–	540
Money market instruments	54	54	105	1 460	252	11	1 936
Debt securities							
– available-for-sale – unlisted	–	–	–	448	–	5	453
– held-to-maturity	–	–	–	–	–	79	79
– at fair value through profit or loss							
– fixed rate	85	145	90	113	–	–	433
– variable rate	19	12	19	900	3	469	1 422
Derivative asset	–	–	–	–	–	9	9
Loans and receivables	–	24	57	2	–	1 585	1 668
Reinsurance contracts	196	71	–	–	–	8	275
Cash and cash equivalents	7	2 146	213	291	–	7	2 664
TOTAL	361	2 580	484	3 565	316	2 173	9 479

The ratings were obtained from Fitch. The ratings are based on long-term investment horizons. Where long-term ratings are not available, the financial instruments are categorised according to short-term ratings. The ratings are defined as follows:

Long-term investment grade:

AAA The financial instrument is judged to be of the highest credit quality, with minimal credit risk and indicates the best quality issuers that are reliable and stable.

AA The financial instrument is judged to be of high quality and is subject to a very low credit risk and indicates quality issuers.

A The financial instrument is considered upper-medium grade and is subject to low credit risk although certain economic situations can more readily affect the issuers' financial soundness adversely than those rated AAA or AA.

BBB The financial instrument is subject to moderate credit risk and indicates medium class issuers, which are currently satisfactory.

BB Speculative quality. "BB" ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time, however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

Not rated

The credit exposure for the assets listed above is considered acceptable by the board even though certain assets do not have a formal rating. Refer to note 6 for a breakdown of loans and receivables including insurance receivables which makes up the majority of the unrated assets.

3.3 Fair value

The carrying amounts of the following categories of financial assets and liabilities approximate fair value:

- amounts receivable from policyholders;
- other amounts receivable;
- cash and cash equivalents;
- financial assets – debt securities held-to-maturity;
- unlisted preference shares investments;
- accounts payable and accruals; and
- provisions for liabilities and charges.

The unlisted preference shares are redeemable with a notice period ranging from thirty days to three years. Dividend yields range from 50.8% to 70% of the prime overdraft rate. To mitigate credit risk, the unlisted preference share investments are secured by put options to the major South African banks. The fair value of the preference shares which are redeemable within one year from the reporting date is deemed to equal the redemption value. 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, being one of the large South African banks. Due to the redeemable nature, the preference shares are deemed to be debt securities. The other assets listed above either have a maturity term of less than one year or the difference between the fair value and carrying value is considered to be insignificant.

3.4 Liquidity risk and asset liability matching

The group is exposed to daily calls on its available cash resources from claims arising. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The group's liabilities are matched by appropriate assets and it has significant liquid resources to cover its obligations. The group's liquidity and ability to meet such calls are monitored quarterly at the board meeting and bi-annually by the investment committee.

In the tables below, the maturity profile for the insurance liability is presented based on expected values. The maturity profile for the assets and other liabilities is presented based on contractual values, which are well aligned with the expected values. The only significant liability that is discounted is the preference share liability, which is presented on an undiscounted basis.

30 June 2014

R million	Total	Call to 6 months	7 – 12 months	1 – 5 years	>5 years	No contractual maturity
Assets						
Property and equipment	**520**	**–**	**–**	**–**	**–**	**520**
Intangible assets	**110**	**–**	**–**	**–**	**–**	**110**
Investments in associates	**11 582**	**–**	**–**	**–**	**–**	**11 582**
Financial assets						
Equity securities						
– available-for-sale	**725**	**–**	**–**	**725**	**–**	**–**
– fair value through profit or loss	**2 104**	**1 989**	**–**	**115**	**–**	**–**
Debt securities						
– available-for-sale	**540**	**145**	**7**	**388**	**–**	**–**
– held-to-maturity	**79**	**–**	**–**	**–**	**79**	**–**
– fair value through profit or loss	**3 396**	**1 728**	**600**	**983**	**85**	**–**
Derivative asset	**17**	**–**	**–**	**17**	**–**	**–**
Loans and receivables including insurance receivables	**3 078**	**2 507**	**323**	**83**	**165**	**–**
Deferred acquisition cost	**357**	**91**	**245**	**–**	**–**	**21**
Reinsurance contracts	**301**	**244**	**5**	**51**	**1**	**–**
Deferred taxation	**232**	**–**	**–**	**–**	**–**	**232**
Cash and cash equivalents	**4 725**	**4 725**	**–**	**–**	**–**	**–**
TOTAL ASSETS	**27 766**	**11 429**	**1 180**	**2 362**	**330**	**12 465**

30 June 2014

R million	Total	Call to 6 months	7 – 12 months	1 – 5 years	>5 years	No contrac-tual maturity
Liabilities						
Insurance contracts	**5 948**	**3 201**	**876**	**373**	**7**	**1 491***
Share-based liabilities	**145**	**82**	**–**	**63**	**–**	**–**
Financial liabilities						
Convertible debentures	**15**	**–**	**–**	**–**	**15**	**–**
Preference shares (undiscounted)	**837**	**27**	**27**	**783**	**–**	**–**
Interest bearing loans	**4**	**4**	**–**	**–**	**–**	**–**
Policyholders' interest	**1 448**	**1 448**	**–**	**–**	**–**	**–**
Financial liability at fair value through profit or loss	**105**	**105**	**–**	**–**	**–**	**–**
Derivative liability	**20**	**–**	**–**	**20**	**–**	**–**
Investment contracts:						
– at fair value through income	**1 381**	**1 381**	**–**	**–**	**–**	**–**
Deferred acquisition revenue	**5**	**–**	**–**	**–**	**–**	**5**
Provisions	**54**	**35**	**19**	**–**	**–**	**–**
Insurance and other payables	**1 130**	**1 084**	**4**	**7**	**35**	**–**
Deferred taxation liabilities	**379**	**–**	**–**	**–**	**–**	**379**
Taxation	**24**	**24**	**–**	**–**	**–**	**–**
TOTAL LIABILITIES	**11 495**	**7 391**	**926**	**1 246**	**57**	**1 875**

* *The majority of this amount comprises unearned premiums and there is no obligation of payment.*

30 June 2013

R million	Total	Call to 6 months	7 – 12 months	1 – 5 years	>5 years	No contractual maturity
Assets						
Property and equipment	460	128	–	332	–	–
Intangible assets	43	–	–	–	–	43
Investments in associates	10 442	–	–	–	–	10 442
Financial assets						
Equity securities						
– available-for-sale	676	–	–	676	–	–
– fair value through profit or loss	2 233	2 173	–	60	–	–
Debt securities						
– available-for-sale	453	145	155	153	–	–
– held-to-maturity	79	–	–	–	79	–
– fair value through profit or loss	4 331	2 143	876	1 258	54	–
Derivative asset	9	–	–	9	–	–
Loans and receivables including insurance receivables	1 668	1 216	180	77	195	–
Deferred acquisition cost	250	65	150	–	–	35
Reinsurance contracts	275	258	4	13	–	–
Deferred taxation	334	–	–	–	–	334
Cash and cash equivalents	2 664	2 664	–	–	–	–
TOTAL ASSETS	23 917	8 792	1 365	2 578	328	10 854

30 June 2013

R million	Total	Call to 6 months	7 – 12 months	1 – 5 years	>5 years	No contractual maturity
Liabilities						
Insurance contracts	4 797	2 673	272	310	–	1 542*
Share-based liabilities	50	1	–	49	–	–
Financial liabilities						
Convertible debentures	15	–	–	–	15	–
Preference shares (undiscounted)	1 121	36	35	1 050	–	–
Interest bearing loans	19	19	–	–	–	–
Policyholders' interest	1 176	1 176	–	–	–	–
Financial liability at fair value through profit or loss	110	110	–	–	–	–
Derivative liability	11	–	–	11	–	–
Investment contracts:						
– at fair value through income	1 358	1 358	–	–	–	–
Deferred acquisition revenue	8	–	–	–	–	8
Provisions	34	12	19	3	–	–
Insurance and other payables	871	834	2	1	34	–
Deferred taxation liabilities	176	–	–	–	–	176
Taxation	39	39	–	–	–	–
TOTAL LIABILITIES	9 785	6 258	328	1 424	49	1 726

* *The majority of this amount comprises unearned premiums and there is no obligation of payment.*

4. CAPITAL MANAGEMENT

Capital adequacy risk is the risk that there are insufficient reserves to provide for variations in actual future experience that is worse than what has been assumed in the setting of short-term insurance technical provisions and in the financial soundness valuation of the group's long-term insurance business. The group must maintain a capital balance that will be at least sufficient to meet obligations in the event of substantial deviations from the main risk assumptions affecting the group's business. This is used to determine required capital levels that will ensure sustained solvency within an acceptable confidence level.

The group's objectives when managing capital are:

- to comply with the insurance capital requirements specified by the regulators of the insurance markets where the group operates;
- to safeguard the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance commensurately with the level of risk.

In each country in which the group operates, the local insurance regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the year. The group is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts and it has complied with all the local solvency regulations.

Management regards share capital, share premium, retained earnings and available-for-sale reserves as capital for regulatory solvency purposes.

Refer to page 90 for details regarding the expected impact of the changing regulatory landscape on the group's solvency requirements.

The tables below summarise the minimum required capital across the group and the regulatory capital against each of them. These figures are an aggregate number, being the sum of the statutory capital and surplus for each insurance subsidiary in each country subject to local regulatory requirements, which may differ from jurisdiction to jurisdiction:

OUTsurance's insurance operations:

	Jurisdiction	Statutory solvency requirement	**Actual solvency 2014**	Actual solvency 2013
OUTsurance Insurance Company Limited	South Africa	Minimum CAR* cover of 1 time	**1.7**	1.6
Youi Proprietary Limited	Australia	Minimum CAR cover of 1.5 times	**2.2**	1.8
OUTsurance Life Insurance Company Limited	South Africa	Minimum CAR cover of 1 time	**2.5**	3.1

RMBSI's insurance operations:

	Jurisdiction	Statutory solvency requirement	**Actual solvency 2014**	Actual solvency 2013
RMB Structured Insurance Limited	South Africa	Minimum CAR* cover of 1 time	**4.7**	6.6
RMB Financial Services Limited	Ireland	Minimum CAR cover of 1 time	**2.1**	1.8
RMB Structured Insurance Limited PCC	Mauritius	Minimum CAR cover of 1.5 times	**3.5**	3.0
RMB Structured Life Limited	South Africa	Minimum CAR cover of 1 time	**4.5**	5.9

* *Capital adequacy ratio which is defined as the ratio of regulatory admissible net assets to the solvency capital requirement.*

	GROUP				
R million	Land and buildings	Leasehold improve-ments	Furniture, fittings and equipment	Motor vehicles	Total
1. PROPERTY AND EQUIPMENT					
30 June 2014					
Net book value at the beginning of the year	**344**	**13**	**102**	**1**	**460**
Additions	**–**	**17**	**141**	**–**	**158**
Disposals	**–**	**–**	**(4)**	**–**	**(4)**
Foreign exchange adjustments	**1**	**1**	**4**	**–**	**6**
Depreciation (note 32)	**(17)**	**(8)**	**(75)**	**–**	**(100)**
NET BOOK VALUE AT THE END OF THE YEAR	**328**	**23**	**168**	**1**	**520**
Cost	**364**	**38**	**592**	**2**	**996**
Accumulated depreciation	**(36)**	**(15)**	**(424)**	**(1)**	**(476)**
NET BOOK VALUE AT THE END OF THE YEAR	**328**	**23**	**168**	**1**	**520**
30 June 2013					
Net book value at the beginning of the year	303	14	95	1	413
Additions	55	2	85	1	143
Disposals	–	–	(2)	–	(2)
Foreign exchange adjustments	2	–	3	–	5
Depreciation (note 32)	(16)	(3)	(79)	(1)	(99)
NET BOOK VALUE AT THE END OF THE YEAR	344	13	102	1	460
Cost	362	19	510	2	893
Accumulated depreciation	(18)	(6)	(408)	(1)	(433)
NET BOOK VALUE AT THE END OF THE YEAR	344	13	102	1	460

Land and buildings are utilised by the group in the normal course of operations to provide services. The construction of an additional building on Erf 1956, Zwartkop Extension 7, Gauteng, was completed on 1 July 2012. This property is owner-occupied and depreciation commenced from 1 July 2012.

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

The fair value of the land and buildings at 30 June 2014 is R413 million (2013: R413 million) as derived per an independent valuation calculated using a value-in-use methodology. The capitalisation rate used in the valuation was 8.75% and a cost to income ratio of 11%.

Refer to the management of liquidity risk note on page 112 for the current and non-current analysis of property and equipment.

R million	Goodwill	Intellectual property bonuses	Total
	GROUP		

2. INTANGIBLE ASSETS

R million	Goodwill	Intellectual property bonuses	Total
30 June 2014			
Net book value at the beginning of the year	**4**	**39**	**43**
Additions	**–**	**115**	**115**
Service cost relating to intellectual property (note 32)	**–**	**(48)**	**(48)**
NET BOOK VALUE AT THE END OF THE YEAR	**4**	**106**	**110**
Cost	**4**	**199**	**203**
Accumulated amortisation	**–**	**(93)**	**(93)**
NET BOOK VALUE AT THE END OF THE YEAR	**4**	**106**	**110**
30 June 2013			
Net book value at the beginning of the year	4	46	50
Additions	–	49	49
Settlements	–	(11)	(11)
Service cost relating to intellectual property (note 32)	–	(45)	(45)
NET BOOK VALUE AT THE END OF THE YEAR	4	39	43
Cost	4	114	118
Accumulated amortisation	–	(75)	(75)
NET BOOK VALUE AT THE END OF THE YEAR	4	39	43

Goodwill is derived from investments in subsidiaries. Goodwill is tested annually for any possible impairment. During the year under review no impairment of goodwill was identified.

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

Refer to the management of liquidity risk note on page 112 for the current and non-current analysis of intangible assets.

R million	GROUP 2014	GROUP 2013
3. INVESTMENTS IN ASSOCIATES		
Shares at cost	**9 548**	9 524
Treasury shares	**(60)**	(18)
Equity accounted reserves	**2 094**	936
INVESTMENTS IN ASSOCIATES	**11 582**	10 442
Analysis of the movement in the carrying value of associates:		
Balance at the beginning of the year	**10 442**	9 864
Additional acquisition of associates	**24**	41
Treasury shares	**(42)**	21
Equity accounted earnings for the year	**1 776**	1 179
Dividends received for the year	**(733)**	(898)
Share of associates' other reserves	**115**	245
Intergroup profit on sale of Momentum Short-term Insurance	**–**	(10)
BALANCE AT THE END OF THE YEAR	**11 582**	10 442
Carrying value comprises:		
Discovery Limited	**5 292**	4 456
MMI Holdings Limited	**6 212**	5 936
OUTsurance Insurance Company of Namibia Limited	**26**	23
Truffle Capital Proprietary Limited	**22**	14
HCV Underwriting Managers Proprietary Limited	**13**	13
CIB Insurance Administrators Proprietary Limited	**13**	–
Cyan Capital Proprietary Limited	**4**	–
TOTAL CARRYING VALUE	**11 582**	10 442
Market value of listed associates		
Discovery Limited	**14 383**	12 445
MMI Holdings Limited	**10 302**	8 701
TOTAL MARKET VALUE OF LISTED ASSOCIATES	**24 685**	21 146

R million	GROUP 2014	GROUP 2013
3. INVESTMENTS IN ASSOCIATES continued		
The group's interests in associates are as follows:		
Discovery Limited – Number of shares	**148 048 168**	148 048 168
Discovery Limited – % of equity*	**25.8**	26.7
MMI Holdings Limited – Number of shares	**392 465 075**	392 465 075
MMI Holdings Limited – % of equity*	**25.2**	25.2
OUTsurance Insurance Company of Namibia Limited – Number of shares	**49**	49
OUTsurance Insurance Company of Namibia Limited – % of equity	**49.0**	49.0
Truffle Capital Proprietary Limited – Number of shares	**58**	36
Truffle Capital Proprietary Limited – % of equity	**23.4**	15.3
HCV Underwriting Managers Proprietary Limited – Number of shares	**90**	90
HCV Underwriting Managers Proprietary Limited – % of equity	**30.0**	30.0
CIB Insurance Administrators Proprietary Limited – Number of shares	**935**	–
CIB Insurance Administrators Proprietary Limited – % of equity	**10.4**	–
Cyan Capital Proprietary Limited – Number of shares	**935**	–
Cyan Capital Proprietary Limited – % of equity	**10.4**	–

* *After consolidation of share trusts.*

The group is believed to exercise significant influence over CIB Insurance Administrators Proprietary Limited and Cyan Capital Proprietary Limited notwithstanding the fact that it only owns 10.4% of the issued share capital of these two companies.

Further details of significant associates are disclosed in note 43.

Refer to the management of liquidity risk note on page 112 for the current and non-current analysis of investments in associates.

4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES

R million	GROUP 2014	GROUP 2013
The group's equity and debt securities are summarised by measurement category below:		
Available-for-sale	**1 265**	1 129
– Equity	**725**	676
– Debt	**540**	453
Fair value through profit or loss	**5 500**	6 564
– Equity	**2 104**	2 233
– Debt	**3 396**	4 331
Held-to-maturity – Debt	**79**	79
TOTAL FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES	**6 844**	7 772
Current portion of equity and debt securities	**4 477**	4 633
The assets included in each of the categories above are detailed below:		
Available-for-sale financial assets		
Equity securities		
– Listed shares	**176**	131
– Listed preference shares	**549**	545
TOTAL EQUITY SECURITIES	**725**	676
Debt securities		
– Unlisted preference shares	**540**	453
TOTAL AVAILABLE-FOR-SALE EQUITY AND DEBT SECURITIES	**1 265**	1 129

The unlisted preference share investments are held to redemption and are carried at fair value. Carrying value is original cost plus accrued dividends, which equals fair value. Accrued dividends are disclosed in loans and receivables (note 6). To mitigate credit risk, the unlisted preference share investments are secured by put options to the major South African banks.

Listed preference shares are carried at fair value as determined by current quoted market bid prices.

R million	GROUP 2014	GROUP 2013

4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES continued

R million	2014	2013
Financial assets at fair value through profit or loss		
Equity securities		
– Listed		
– Designated upon initial recognition – Domestic	**2 070**	2 159
– Unlisted		
– Designated upon initial recognition – Domestic	**34**	74
TOTAL EQUITY SECURITIES	**2 104**	2 233
Debt securities		
– Collective investment scheme assets	**543**	540
– Money market instruments	**1 633**	1 936
– Listed		
– Designated upon initial recognition		
– Variable rate	**788**	1 422
– Fixed rate	**432**	433
TOTAL DEBT SECURITIES	**3 396**	4 331
TOTAL EQUITY AND DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**5 500**	6 564

Listed equity securities are ordinary shares listed on the JSE Securities Exchange ("JSE"). The carrying amount represents the quoted bid prices on the JSE at the close of business on the last day of the financial year-end.

Listed preference shares classified at fair value through profit or loss are designated in this category upon initial recognition.

Debt securities represent South African Government issued interest securities and other listed interest securities on the Bond Exchange of South Africa ("BESA"). The carrying amount represents the quoted bid prices at the close of business on the last business day of the financial year. Debt securities classified at fair value through profit or loss are designated in this category upon initial recognition.

R million	2014	2013
Held-to-maturity assets		
Debt securities – Interest bearing instruments	**79**	79

4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES continued

Financial assets held-to-maturity are carried on the group's statement of financial position at amortised cost. The carrying amount approximates the fair value based on the nature of the asset. The asset would be viewed as a level 1 instrument in terms of the fair value hierarchy described in note 46.

At the year-end, other interest bearing instruments included an inflation-linked annuity issued by the South African National Road Fund for the building of the N3 toll road.

The cash flow stream pays quarterly CPI (metropolitan and other urban areas) adjusted annuities in February, May, August and November of each year up to November 2024. The inflation-linked cash flow stream is carried at cost plus interest amortised at the real effective yield of 8.05% per annum and is adjusted for changes in the CPI (metropolitan and other urban areas). The carrying amount is reduced by the cash flows received. The held-to-maturity value approximates fair value due to the adjustment for change in the CPI.

Refer to note 46 for information relating to the fair value of investment securities.

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

R million	Available-for-sale	Fair value through profit or loss	Held-to-maturity	Total
30 June 2014				
Financial assets at the beginning of the year	**1 129**	**6 564**	**79**	**7 772**
Additions	**100**	**4 892**	**–**	**4 992**
Disposals (sales and redemptions)	**(5)**	**(6 636)**	**–**	**(6 641)**
Net fair value gains				
– Recognised in the income statement	**–**	**680**	**–**	**680**
– Recognised in equity	**41**	**–**	**–**	**41**
FINANCIAL ASSETS AT THE END OF THE YEAR	**1 265**	**5 500**	**79**	**6 844**
30 June 2013				
Financial assets at the beginning of the year	1 567	5 957	79	7 603
Additions	115	4 710	–	4 825
Disposals (sales and redemptions)	(572)	(4 651)	–	(5 223)
Net fair value gains				
– Recognised in the income statement	–	548	–	548
– Recognised in equity	19	–	–	19
FINANCIAL ASSETS AT THE END OF THE YEAR	1 129	6 564	79	7 772

R million	GROUP 2014	GROUP 2013
5. DERIVATIVE ASSET		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	**17**	9
Notional value	**153**	32

The derivative is an economic hedge but does not meet the qualifying criteria for hedge accounting and is managed in conjunction with the liability which is fair valued. The notional amount of the derivative does not necessarily indicate the future cash flow involved or the current fair value of the instrument and therefore does not represent RMI Holdings' exposure to credit or market risk. The derivative instrument becomes favourable (asset) or unfavourable (liability) based on changes in share prices and counterparty credit risk. The aggregate notional amount and fair value of derivative financial instruments can fluctuate over time.

Refer to the management of liquidity risk note on page 112 for the current and non-current analysis of the derivative asset.

	GROUP	
R million	**2014**	2013
6. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES		
Receivables arising from insurance and reinsurance contracts:		
– Due from policyholders	**1 522**	1 185
– Due from agents, brokers and intermediaries	**8**	7
– Due from reinsurers	**225**	96
Other receivables:		
– Accrued investment income	**175**	10
– Income tax receivable	**12**	8
– Receivables in respect of disposal of bonds	**969**	–
– Other receivables and prepayments	**167**	362
TOTAL LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES	**3 078**	1 668

Insurance receivables are recognised and carried at the contractual amount less any allowance for uncollectible amounts. Non-insurance receivables are carried at the amount which approximates the contractual cash flows due to the group. Where the effects of discounting are deemed material, the receivables are reflected at the discounted amounts.

Loans and receivables are considered current assets. None of the loans and receivables listed above are considered to be past due or impaired.

Included in loans and receivables are amounts due by related parties. Refer to note 40 for further details thereof.

The carrying amount of loans and receivables approximates the fair value based on the nature of this asset. Loans and receivables would be viewed as a level 2 instrument in terms of the fair value hierarchy described in note 46.

R million	GROUP 2014	GROUP 2013	GROUP 2012
7. DEFERRED ACQUISITION COST			
Balance at the beginning of the year	**250**	180	57
Deferred acquisition cost asset raised	**657**	494	215
Deferred acquisition cost charged to the income statement	**(580)**	(436)	(98)
Foreign exchange movement	**30**	12	6
BALANCE AT THE END OF THE YEAR	**357**	250	180

Refer to the management of liquidity risk note on page 112 for the current and non-current analysis of the deferred acquisition cost asset.

R million	GROUP 2014	GROUP 2013
8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS		
Gross insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	**1 275**	1 128
– Claims incurred but not reported	**447**	460
– Unearned premiums	**3 446**	2 548
– Unexpired risk provision	**345**	292
– Insurance contract cash bonuses	**382**	373
Total short-term insurance contracts	**5 895**	4 801
Long-term insurance contracts	**53**	(4)
TOTAL GROSS INSURANCE LIABILITIES	**5 948**	4 797
Recoverable from reinsurers		
Short-term insurance contracts		
– Outstanding claims provision	**(204)**	(209)
– Claims incurred but not reported	**(33)**	(20)
– Unearned premiums	**(19)**	(38)
Total short-term insurance contracts	**(256)**	(267)
Long-term insurance contracts	**(45)**	(8)
TOTAL RECOVERABLE FROM REINSURERS	**(301)**	(275)

R million	GROUP 2014	GROUP 2013
8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued		
Net insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	**1 071**	919
– Claims incurred but not reported	**414**	440
– Unearned premiums	**3 427**	2 510
– Unexpired risk provision	**345**	292
– Insurance contract cash bonuses	**382**	373
Total short-term insurance contracts	**5 639**	4 534
Long-term insurance contracts	**8**	(12)
TOTAL NET INSURANCE LIABILITIES	**5 647**	4 522

Analysis of movement in short-term insurance contract liabilities:

R million	GROUP Gross	GROUP Re-insurance	GROUP Net
8.1 Analysis of movement in claims reserves			
30 June 2014			
Opening balance			
– Outstanding claims provision	**1 128**	**(209)**	**919**
– Claims incurred but not reported	**460**	**(20)**	**440**
TOTAL	**1 588**	**(229)**	**1 359**
Current year			
– Claims incurred	**5 327**	**(503)**	**4 824**
– Claims paid	**(5 051)**	**281**	**(4 770)**
Prior year			
– Claims incurred	**89**	**(11)**	**78**
– Claims paid	**(252)**	**236**	**(16)**
Movement in claims incurred but not reported	**(24)**	**(9)**	**(33)**
Change in risk margin	**(27)**	**(1)**	**(28)**
Change in claims handling cost	**19**	**–**	**19**
Foreign exchange difference	**53**	**(1)**	**52**
Closing balance			
– Outstanding claims provision	**1 275**	**(204)**	**1 071**
– Claims incurred but not reported	**447**	**(33)**	**414**
TOTAL	**1 722**	**(237)**	**1 485**

R million	GROUP Gross	GROUP Re-insurance	GROUP Net

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.1 Analysis of movement in claims reserves continued

R million	Gross	Re-insurance	Net
30 June 2013			
Opening balance			
– Outstanding claims provision	755	(196)	559
– Claims incurred but not reported	322	(21)	301
TOTAL	1 077	(217)	860
Current year			
– Claims incurred	4 131	(354)	3 777
– Claims paid	(3 402)	237	(3 165)
Prior year			
– Claims incurred	10	141	151
– Claims paid	(531)	(36)	(567)
Movement in claims incurred but not reported	(15)	1	(14)
Foreign exchange difference	17	(1)	16
Portfolio transfer in	301	–	301
Closing balance			
– Outstanding claims provision	1 128	(209)	919
– Claims incurred but not reported	460	(20)	440
TOTAL	1 588	(229)	1 359

R million	GROUP Gross	Re-insurance	Net
8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued			
8.2 Analysis of movement in unearned premium provision			
30 June 2014			
Balance at the beginning of the year	**2 548**	**(38)**	**2 510**
Charge to profit and loss for the year	**708**	**22**	**730**
Foreign exchange movement	**190**	**–**	**190**
Portfolio transfer in	**–**	**(3)**	**(3)**
BALANCE AT THE END OF THE YEAR	**3 446**	**(19)**	**3 427**
30 June 2013			
Balance at the beginning of the year	2 005	(54)	1 951
Charge to profit and loss for the year	455	18	473
Foreign exchange movement	58	–	58
Portfolio transfer in	30	(2)	28
BALANCE AT THE END OF THE YEAR	2 548	(38)	2 510

R million	GROUP 2014	2013
8.3 Analysis of change in unexpired risk provision		
Balance at the beginning of the year	**292**	227
Charge to profit and loss for the year	**53**	65
BALANCE AT THE END OF THE YEAR	**345**	292
8.4 Analysis of movement in insurance contract cash bonuses		
Balance at the beginning of the year	**373**	384
Cash bonuses paid during the year	**(292)**	(282)
Charge to profit and loss for the year	**301**	271
BALANCE AT THE END OF THE YEAR	**382**	373

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.5 Analysis of movement in long-term insurance contract liabilities

The policyholder liability represents the present value of the expected cash outflow to existing policyholders at measurement date. The policyholder liability is calculated by present valuing the expected future cash flows derived from the best estimates of the variables which influence these cash flows.

R million	GROUP				
	Gross long-term insurance contract liabilities	Reinsurer's share of policyholder liabilities	Net long-term insurance contract liabilities	Deferral of acquisition costs	Net long-term insurance contract liabilities including deferral of acquisition costs
30 June 2014					
Balance at the beginning of the year	**54**	**(8)**	**46**	**(58)**	**(12)**
Transfer to policyholder liabilities under insurance contracts	**85**	**(37)**	**48**	**(28)**	**20**
Unwind of discount rate	**26**	**(2)**	**24**	**–**	**24**
Experience variance	**11**	**–**	**11**	**–**	**11**
Modelling methodology changes	**(11)**	**(1)**	**(12)**	**–**	**(12)**
Change in non-economic assumptions	**23**	**(19)**	**4**	**–**	**4**
New business	**36**	**(15)**	**21**	**–**	**21**
Deferral of acquisition costs	**–**	**–**	**–**	**(28)**	**(28)**
BALANCE AT THE END OF THE YEAR	**139**	**(45)**	**94**	**(86)**	**8**

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.5 Analysis of movement in long-term insurance contract liabilities continued

	GROUP				
R million	Gross long-term insurance contract liabilities	Reinsurer's share of policyholder liabilities	Net long-term insurance contract liabilities	Deferral of acquisition costs	Net long-term insurance contract liabilities including deferral of acquisition costs
30 June 2013					
Balance at the beginning of the year	18	–	18	(41)	(23)
Transfer to policyholder liabilities under insurance contracts	36	(8)	28	(17)	11
Unwind of discount rate	7	(2)	5	–	5
Experience variance	2	–	2	–	2
Modelling methodology changes	–	(3)	(3)	–	(3)
Change in non-economic assumptions	28	(1)	27	–	27
Change in economic assumptions	(14)	2	(12)	–	(12)
New business	12	(2)	10	–	10
Incurred but not reported claims	1	(2)	(1)	–	(1)
Deferral of acquisition costs	–	–	–	(17)	(17)
BALANCE AT THE END OF THE YEAR	54	(8)	46	(58)	(12)

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.5 Analysis of movement in long-term insurance contract liabilities continued

R million	GROUP Gross long-term insurance contract liabilities	Reinsurer's share of policyholder liabilities	Net long-term insurance contract liabilities	Deferral of acquisition costs	Net long-term insurance contract liabilities including deferral of acquisition costs
30 June 2012					
Balance at the beginning of the year	6	–	6	(22)	(16)
Transfer to policyholder liabilities under insurance contracts	12	–	12	(19)	(7)
Unwind of discount rate	2	–	2	–	2
Modelling methodology changes	1	–	1	–	1
Change in economic assumptions	1	–	1	–	1
New business	6	–	6	–	6
Incurred but not reported claims	2	–	2	–	2
Deferral of acquisition costs	–	–	–	(19)	(19)
BALANCE AT THE END OF THE YEAR	18	–	18	(41)	(23)

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.6 Sensitivities

The following sensitivities are provided on insurance risk assumptions:

Short-term insurance

The table below illustrates the sensitivity of the total short-term insurance contract liability in respect of a 10% increase or decrease in the following components of this liability net of reinsurance:

30 June 2014

	GROUP		
R million	**Short-term insurance contract liability**	**10% increase**	**10% decrease**
Incurred but not reported provision	**5 639**	**41**	**(41)**
Unexpired risk provision	**5 639**	**35**	**(35)**
Insurance contract cash bonus provision	**5 639**	**38**	**(38)**

Long-term insurance

The following sensitivities are provided on insurance risk assumptions:

Assumption	Margin
Lapses	10% increase/decrease
Investment return	1% increase/decrease
Mortality, morbidity, disability, retrenchment	5% increase/decrease
Expenses	10% increase/decrease

Insurance risk sensitivities are applied as a proportional percentage change to the assumptions made in the measurement of policyholder liabilities and the impact is reflected as the change in policyholder liabilities.

Each sensitivity is applied in isolation with all other assumptions left unchanged.

The sensitivities shown in the table below are based on the assumption that negative reserves are not eliminated in order to derive sensitivity stresses which are more closely aligned with economic reality.

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.6 Sensitivities continued

	GROUP		
	Impact on liability		
R million	Change in variable	Increase in variable	Decrease in variable
Lapses	**10%**	**(24)**	**32**
Investment return	**1%**	**(10)**	**18**
Mortality, morbidity, disability, retrenchment	**5%**	**36**	**(36)**
Expenses	**10%**	**27**	**(27)**

Refer to the management of liquidity risk note on pages 112 and 113 for the current and non-current analysis of the insurance contracts asset and insurance contracts liability.

9. DEFERRED TAXATION

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relates to the same fiscal authority.

	GROUP		
R million	**2014**	2013	2012
Deferred taxation assets			
Provisions	**208**	130	102
Payment received in advance	**–**	–	4
Tax loss	**139**	262	318
Service cost on employee benefits	**7**	5	6
Operating lease charges	**3**	–	–
Special transfer credit	**5**	–	–
Difference between accounting and tax values of assets	**1**	–	–
TOTAL DEFERRED TAXATION ASSETS	**363**	397	430
Deferred taxation liabilities set-off in same legal entities	**(131)**	(63)	(45)
TOTAL DEFERRED TAXATION ASSETS DISCLOSED IN THE STATEMENT OF FINANCIAL POSITION	**232**	334	385

9. DEFERRED TAXATION continued

R million	GROUP 2014	2013	2012
Deferred taxation liabilities			
Deferred acquisition costs	**(100)**	(63)	(45)
Available-for-sale financial assets	**(16)**	–	–
Deferred expenditure immediately deductible	**(12)**	–	–
Prepayments	**(3)**	(2)	(1)
Imputation of controlled foreign company	**(307)**	(174)	(323)
Other deferred taxation liabilities	**(72)**	–	–
TOTAL DEFERRED TAXATION LIABILITIES	**(510)**	(239)	(369)
Deferred taxation liabilities set-off in same legal entities	**131**	63	45
TOTAL DEFERRED TAXATION LIABILITIES DISCLOSED IN THE STATEMENT OF FINANCIAL POSITION	**(379)**	(176)	(324)
Reconciliation of movement			
Deferred taxation asset at the beginning of the year	**397**	430	180
Deferred taxation (charge)/credit for the year	**(67)**	(60)	252
Foreign exchange movement	**33**	22	–
Transfer to share-based payment reserve	**–**	5	–
Disposal group held for sale	**–**	–	(2)
TOTAL DEFERRED TAXATION ASSET AT THE END OF THE YEAR	**363**	397	430
Deferred taxation liabilities set-off in same legal entities	**(131)**	(63)	(45)
TOTAL DEFERRED TAXATION ASSETS DISCLOSED IN THE STATEMENT OF FINANCIAL POSITION	**232**	334	385

R million	GROUP 2014	2013	2012
9. DEFERRED TAXATION continued			
Reconciliation of movement			
Deferred taxation liability at the beginning of the year	**(239)**	(369)	(220)
Deferred taxation (charge)/credit for the year	**(246)**	133	(149)
Available-for-sale financial assets	**(16)**	–	–
Foreign exchange movement	**(9)**	(3)	–
TOTAL DEFERRED TAXATION LIABILITIES AT THE END OF THE YEAR	**(510)**	(239)	(369)
Deferred taxation liabilities set-off in same legal entities	**131**	63	45
TOTAL DEFERRED TAXATION LIABILITIES DISCLOSED IN THE STATEMENT OF FINANCIAL POSITION	**(379)**	(176)	(324)

The group reviews the carrying amount of deferred taxation assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

The group has recognised a deferred taxation asset on the assessed losses in Youi Holdings Proprietary Limited of R387 million (2013: R704 million) and OUTsurance Life Insurance Company Limited of R16 million (2013: R7 million) as it is expected that it will be recovered against future profits.

Refer to the management of liquidity risk note on pages 112 and 113 for the current and non-current analysis of the deferred taxation asset and liability.

R million	GROUP 2014	GROUP 2013
10. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	**1 112**	2 134
Short-term bank deposits	**665**	455
Money market investments	**2 927**	46
Advances made under resale agreement	**21**	29
TOTAL CASH AND CASH EQUIVALENTS	**4 725**	2 664

Cash and cash equivalents represent current accounts, call deposits and short-term fixed deposits with large banks in South Africa, Australia, Ireland and Mauritius, or listed South African government bonds acquired by the group under resale agreements. The short-term deposits with banks are spread among these banks to reduce the credit risk exposure. Since all short-term deposits and listed South African government bonds under resale agreements will be held to maturity, it is carried at cost plus accrued interest. This carrying value approximates fair value.

Included in money market investments are deposits with a term to maturity of less than three months.

Advances made under resale agreements are collateralised by listed bond investments, which are South African government issued interest securities held under short duration resale agreements. At 30 June 2014, the group held a nominal value of R27 million R214 bonds at an effective yield to maturity of 9.1% (2013: R7 million R202 bonds at an effective yield to maturity of 7.7%). During the year the average yield earned on bonds under resale agreements amounted to 5.1% (2013: 4.9%).

R million	GROUP Number of shares million	Ordinary shares*	Share premium	Treasury shares	Total
11. SHARE CAPITAL AND SHARE PREMIUM					
30 June 2014					
Balance at the beginning of the year	**1 484**	**–**	**13 657**	**(25)**	**13 632**
Movement in treasury shares	**(1)**	**–**	**–**	**(40)**	**(40)**
BALANCE AT THE END OF THE YEAR	**1 483**	**–**	**13 657**	**(65)**	**13 592**
30 June 2013					
Balance at the beginning of the year	1 483	–	13 657	(43)	13 614
Movement in treasury shares	1	–	–	18	18
BALANCE AT THE END OF THE YEAR	1 484	–	13 657	(25)	13 632

* *Amount less than R500 000.*

The total authorised number of ordinary shares is 2 000 000 000, with a par value of R0.0001 per share. The total number of issued ordinary shares is 1 485 688 346 shares, issued at a premium of R9.1926 per share. The unissued share capital is under the control of the board of directors until the forthcoming annual general meeting.

The total authorised number of redeemable cumulative preference shares is 100 000 000, with a par value of R0.0001 per share. The issued number of preference shares was 848 501 preference shares as at 1 July 2013. During the year, 200 500 of these preference shares were redeemed, resulting in 648 001 preference shares being issued at a premium of R999.9999 per share as at 30 June 2014. As these preference shares are redeemable they are classified as financial liabilities at amortised cost (note 15).

Treasury shares

The life insurance businesses of the associates and a subsidiary acquired RMI Holdings shares as part of their investment programme aimed at meeting policyholders' liabilities. These shares are treated as treasury shares and any gains or losses are reversed from group earnings. The number of treasury shares as at 30 June 2014 was 2 360 513 (2013: 1 364 451).

R million	GROUP 2014	GROUP 2013
11. SHARE CAPITAL AND SHARE PREMIUM continued		
Number of treasury shares held at 30 June (million)	**2**	1
Weighted number of treasury shares held during the year (million)	**2**	2
Cost of shares held at 30 June	**65**	25
Fair value adjustment	**12**	12
FAIR VALUE OF TREASURY SHARES	**77**	37
The treasury sharers are eliminated from the weighted number of shares in issue for the purposes of calculating earnings and headline earnings per share:		
Weighted number of issued shares (million)	**1 486**	1 486
Less: Weighted number of treasury shares (million)	**(2)**	(2)
WEIGHTED NUMBER OF SHARES IN ISSUE (million)	**1 484**	1 484
12. RESERVES		
Distributable reserves		
Retained earnings	**1 525**	1 059
Equity accounted reserves		
Balance at the beginning of the year	**935**	420
Income from associates retained	**1 043**	271
Other comprehensive income	**108**	173
Treasury shares	**7**	21
Other reserves	**1**	50
TOTAL EQUITY ACCOUNTED RESERVES	**2 094**	935
Transactions with non-controlling interests	**(2 076)**	(2 071)
Other reserves		
Retained income transferred due to dilutionary effect of share issue by subsidiary	**55**	11
Currency translation reserve	**240**	134
Available-for-sale reserve	**47**	26
Share-based payments reserve	**1**	1
TOTAL OTHER RESERVES	**343**	172
TOTAL RESERVES	**1 886**	95

R million	GROUP 2014	GROUP 2013
13. SHARE-BASED PAYMENT LIABILITY		
Cash-settled share-based payment liability	**145**	50
Balance at the beginning of the year	**50**	–
Charge for the year	**122**	32
Liability settled	**(27)**	–
Transfer from share-based payment reserve	**–**	18
BALANCE AT THE END OF THE YEAR	**145**	50
Refer to the management of liquidity risk note on page 113 for the current and non-current analysis of the share-based payment liability.		
The income statement charge for share-based payments comprise:		
Equity-settled scheme	**(2)**	(2)
Cash-settled scheme	**(122)**	(32)
TOTAL SHARE-BASED PAYMENT EXPENSE	**(124)**	(34)

RMI Holdings

RMI Holdings operates a share scheme as part of its remuneration philosophy, which tracks the company's share price and settles in cash. It also operates an equity-settled scheme for the deferral of bonuses.

RMI Holdings share appreciation rights

The purpose of this scheme is to provide identified employees, including executive directors, with the opportunity of receiving incentive remuneration payments based on the increase in the market value of the shares in RMI Holdings.

Appreciation rights may only be exercised by the third, fourth and fifth anniversary of the grant date in equal tranches of one third each, provided that the performance objectives set for the grant have been achieved.

Valuation methodology:

The share appreciation rights scheme issues are valued using the Cox Rubenstein binomial tree. The scheme is cash-settled and will thus be repriced at each reporting date.

Market and dividend data consist of the following:

- Volatility is the expected volatility over the period of the option. Historic volatility was used as a proxy for expected volatility.
- The interest rate is the risk-free rate of return, as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the share appreciation right.
- A fixed dividend yield was assumed.

Employee statistic assumptions:

- No forfeiture rate is used due to the limited number of employees participating in the scheme.

13. SHARE-BASED PAYMENT LIABILITY continued

Deferred bonus

The deferred bonus scheme grants the executive director full free shares which will vest over a period of two years.

Valuation methodology:
The deferred bonus is valued using the Cox Rubenstein binomial tree. The scheme is equity-settled and will thus not be repriced at each reporting date.

Market and dividend data consist of the following:
- Volatility is the expected volatility over the period of the plan. Historic volatility was used as a proxy for expected volatility.
- The interest rate is the risk-free rate of return, as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
- A fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

Employee statistic assumptions:
- No forfeiture rate is used due to the short duration of the scheme.

Details of share appreciation rights of Messrs Bosman and Cooper and the shares in respect of Mr Cooper's deferred bonus are provided on page 46.

OUTsurance

The various share schemes are as follows:
- OUTsurance cash-settled share scheme
- OUTsurance equity-settled share scheme
- Youi Holdings equity-settled share scheme

The purpose of these schemes is to attract, incentivise and retain managers within the group by providing them with a facility to acquire shares. In terms of the current trust deed, 12% of the issued share capital of the company is available to the trust for the granting of options to employees. The trust currently holds 1.6% (2013: 2.2%) of the shares in OUTsurance Holdings Limited.

OUTsurance cash-settled share scheme

During the previous financial year, the group partially converted its share scheme from an equity-settled to a cash-settled scheme. As a result, a liability relating to the estimated future cash payments to participants was created out of the share-based payments equity reserve on 1 July 2012.

Under the cash-settled scheme, participants receive notional shares which have a value equal to the market value of an OUTsurance Holdings Limited ordinary share. Participants will receive the after-tax gain in the market value over the vesting period as a cash payment. Participants of this scheme have the option to purchase one ordinary share for each vested notional share from the OUTsurance Holdings Share Trust at the ruling market price on the date of purchase.

13. SHARE-BASED PAYMENT LIABILITY continued

OUTsurance cash-settled share scheme continued

Valuation methodology:

The cash-settled scheme issues are valued using a Black Scholes model with all notional shares (share appreciation rights) vesting in one tranche at the end of year three. The scheme is cash-settled and will thus be repriced at each reporting date.

Market data consists of the following:

- Since OUTsurance Holdings is not listed, expected volatility is derived with reference to comparable listed companies for a historic period matching the duration of the option.
- The risk-free interest rate input is derived from zero-coupon government bonds with a remaining term equal to the term of the option being valued.

Dividend data consists of the following:

- The dividend growth assumption is based on the historic annual dividend paid on OUTsurance Holdings Limited ordinary shares.

Employee statistic assumptions:

- The number of rights granted is reduced by the actual staff turnover at year-end. This turnover is then assumed to be constant over the period of the grant and used to estimate the expected number of rights which will vest on the vesting date.

OUTsurance equity-settled share scheme

Historically the group granted equity share options which are settled by the issue of OUTsurance Holdings Limited shares.

These options have a five year option duration vesting in three equal tranches and the end of years three, four and five.

The equity-settled scheme was replaced by the cash-settled scheme after 1 July 2012.

Youi Holdings equity-settled share scheme

The Youi Holdings employee share option plan was established in 2008. In terms of the plan rules, 20% of the issued share capital of the company is available under the plan for the granting of options to employees. Options issued before 1 July 2011 were fully expensed in prior years in terms of IFRS 2. These options vest immediately and expire on 30 June 2018. Share options are settled by the delivery of Youi Holdings shares.

13. SHARE-BASED PAYMENT LIABILITY continued

Youi Holdings equity-settled share scheme continued

Valuation methodology:

The fair value of share options is determined at grant date and expensed over the vesting period. The share options granted are classified as European call options and the fair value is determined by the use of the Black Scholes share option pricing model.

A share based payment expense is only recognised if the options issued have a positive intrinsic value, therefore, if the market value of the underlying shares is expected to rise above the strike price over the vesting period of the options.

The option duration is the number of years before the options expire, adjusted for a historical rate of early exercise. Options are granted for no consideration and vest immediately, with all options expiring on 30 June 2018.

Market data consists of the following:

- Since Youi Holdings is not listed, expected volatility is derived with reference to comparable listed companies for a historic period matching the duration of the option.
- The risk-free interest rate input is derived from zero-coupon government bonds with a remaining term equal to the term of the option being valued.

Dividend data consists of the following:

- Dividend growth is based on the best estimate of expected future dividends. Given the start-up phase of the business, no dividend history is available.

Employee statistic assumptions:

- The average annual employee turnover estimates the number of participants in the option scheme that will leave before the options have vested.

RMBSI

The RMB-SI Investments Share Trust ("the trust") was created to give certain employees of RMB Structured Insurance Limited the opportunity to acquire shares in RMB-SI Investments Proprietary Limited.

Granting of share options to certain employees is at the discretion of the remuneration committee.

RMB-SI Investments Proprietary Limited issues shares to the trust, with every offer to the beneficiaries. The maximum number of scheme shares shall not exceed 10% of the issued ordinary shares capital of RMB-SI Investments Proprietary Limited.

The sale of the shares between the trust and the beneficiary arising from the exercise of the option in respect of those shares may only be implemented as follows:

- up to 33.3% of the total shares which were the subject of the option and which have been exercised after the third year from the option date.
- up to 67% of the total shares which were the subject of the option and which have been exercised after the fourth year from the option date.
- up to 100% of the total shares which were the subject of the option and which have been exercised after the fifth year from the option date.

R million	GROUP 2014	GROUP 2013
14. CONVERTIBLE DEBENTURES		
Convertible debentures in issue	**15**	15

The debentures are unsecured and subordinated and can be converted at the option of the debenture holders to non-redeemable preference shares on 30 June or 31 December of any year and are compulsorily convertible to non-redeemable preference shares of R1 each on 30 June 2022. The effective net cost incurred on these instruments amounts to 1.5% per annum. The fair value approximates the carrying value.

Refer to the management of liquidity risk note on page 113 for the current and non-current analysis of the convertible debentures

R million	GROUP 2014	GROUP 2013
15. PREFERENCE SHARES		
Unlisted		
Fixed rate, cumulative, redeemable preference shares issued by the company	**349**	550
Variable rate, cumulative, redeemable preference shares issued by the company	**299**	299
Cumulative, redeemable preference shares issued by a subsidiary	**83**	63
TOTAL PREFERENCE SHARES	**731**	912

The fair value of the unlisted preference share liability is R746 million (2013: R929 million).

Refer to the management of liquidity risk note on page 113 for the current and non-current analysis of the preference shares.

Fixed rate cumulative, redeemable preference shares issued by the company

The company issued 750 000 fixed rate cumulative redeemable preference shares, with a par value of R0.0001, at a premium of R999.9999 per share on 15 June 2011. The preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 15 June 2016. The preference shares pay dividends at a fixed rate of 9.14% (2013: 9.14%) six monthly.

R million	GROUP 2014	GROUP 2013
15. PREFERENCE SHARES continued		
Balance at the beginning of the year	**550**	750
Preference shares redeemed during the year	**(201)**	(200)
BALANCE AT THE END OF THE YEAR	**349**	550

On 13 December 2013 the company redeemed 200 500 fixed rate, cumulative, redeemable preference shares at a redemption price of R201 million.

Variable rate, cumulative, redeemable preference shares issued by the company

The company issued 700 001 variable rate cumulative redeemable preference shares, with a par value of R0.0001, at a premium of R999.9999 per share on 15 June 2011. The preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 15 June 2016. The preference shares pay dividends at a rate of 80.85% (2013: 80.85%) of the prime interest rate six monthly.

R million	GROUP 2014	GROUP 2013
Balance at the beginning of the year	**299**	700
Preference shares redeemed during the year	**–**	(401)
BALANCE AT THE END OF THE YEAR	**299**	299
Cumulative, redeemable preference shares issued by a subsidiary		
Balance at the beginning of the year	**63**	48
Preference shares issued during the year	**20**	28
Preference shares redeemed during the year	**–**	(13)
BALANCE AT THE END OF THE YEAR	**83**	63

A subsidiary has 100 000 authorised variable rate, cumulative, redeemable preference shares of 1 cent each of which 1 082 (2013: 582) have been issued.

The variable rate cumulative redeemable preference shares are redeemable at the discretion of the directors of the subsidiary company.

The holders of the variable rate, cumulative, redeemable preference shares have no voting rights at any meeting of the subsidiary company, unless dividends payable on these shares are in arrears, the redemption payment of any capital is in arrears, or if a resolution is passed which affects the rights attached to the preference shares, or where the subsidiary company proposes to dispose of a material portion of its assets.

R million	GROUP 2014	GROUP 2013
15. PREFERENCE SHARES continued		
Redeemable preference shares are issued to certain policyholders to meet the capital requirements of their profit sharing arrangements on ring-fenced insurance business	**83**	63
Some redeemable preference shares accrue dividends equal to an amount of dividends received from an investment in redeemable preference shares equal to the amount in issue, included in the amount disclosed in available-for-sale financial assets (note 4). The group does not incur any costs with regard to these redeemable preference shares.		
Redeemable preference shares issued to policyholders may also entitle the policyholder to participate in the operating result of the profit sharing arrangement, distributed as a dividend. The dividends paid are included in finance costs in the income statement.		
16. INTEREST BEARING LOANS		
Secured bank borrowing originated by the group at amortised cost	**4**	19
Secured bank borrowing originated by the group A subsidiary company obtained a credit facility of R400 million from FirstRand Bank Limited subject to a surety from RMI Holdings. During the year interest accrued at an average rate of 6.5% (2013: 6.5%) per annum. The borrowing is refinanced on a regular basis.		
Balance at the beginning of the year	**19**	272
Repaid	**(15)**	(262)
Interest accrued on the effective yield	**–**	9
BALANCE AT THE END OF THE YEAR	**4**	19

Unutilised credit facilities of the subsidiary at 30 June 2014 amounted to R400 million (30 June 2013: R385 million). The full amount is viewed as current and therefore the carrying value approximates the fair value of this liability. Interest bearing loans would be viewed as a level 2 instrument in terms of the fair value hierarchy described in note 46.

R million	GROUP 2014	GROUP 2013
17. POLICYHOLDERS' INTEREST		
Balance at the beginning of the year	**1 176**	685
Transfer from profit and loss	**272**	491
BALANCE AT THE END OF THE YEAR	**1 448**	1 176

An analysis of revenue reserves is made between retained earnings attributable to shareholders and policyholders. The policyholders' interest represents the accumulated profit or loss after tax and dividends attributable to policyholders. Due to the short-term nature of this liability, the carrying value approximates the fair value.

Refer to the management of liquidity risk note on page 113 for the current and non-current analysis of the policyholders' interest.

R million	GROUP 2014	GROUP 2013
18. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Shareholders for preference dividends on profit sharing arrangements on ring-fenced insurance business	**105**	110

Financial liabilities at fair value through profit or loss relate to the preference shares issued by OUTsurance Insurance Company Limited for various profit sharing arrangements on ring-fenced insurance business. Profits arising from these arrangements are distributed by way of bi-annual preference dividends payable in February and August each year. The preference dividend attributable to the profit share for the year is recognised in the income statement as a fair value adjustment to the liability. The portion of the unpaid preference dividend at 30 June is recognised as a financial liability at fair value through profit or loss.

Refer to the management of liquidity risk note on page 113 for the current and non-current analysis of the financial liabilities at fair value through profit or loss.

R million	GROUP 2014	GROUP 2013
19. DERIVATIVE LIABILITY		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	**20**	11
NOTIONAL VALUE	**86**	46

The derivative is an economic hedge but does not meet the qualifying criteria for hedge accounting and is managed in conjunction with the asset which is fair valued. The notional amount of the derivative does not necessarily indicate the future cash flow involved or the current fair value of the instrument and therefore does not represent RMI Holdings' exposure to credit or market risk. The derivative instrument becomes favourable (asset) or unfavourable (liability) based on changes in share prices and counterparty credit risk. The aggregate notional amount and fair value of derivative financial instruments can fluctuate over time.

Refer to the management of liquidity risk note on page 113 for the current and non-current analysis of the derivative liability.

20. INVESTMENT CONTRACTS

R million	2014	2013
Balance at the beginning of the year	**1 358**	1 145
Premiums received	**5**	7
Claims paid	**(53)**	(29)
Fees deducted from account balances	**(1)**	(3)
Fair value movement credited to profit and loss (note 30)	**287**	237
Terminations during the year	**(215)**	1
BALANCE AT THE END OF THE YEAR	**1 381**	1 358

Investment contracts were designated upon initial recognition as at fair value through profit or loss. The liabilities originated from unit-linked contracts and are measured with reference to their respective underlying assets. Changes in the credit risk of the entity do not impact the measurement of the unit-linked liabilities.

Refer to the management of liquidity risk note on page 113 for the current and non-current analysis of the investment contracts.

R million	GROUP 2014	GROUP 2013
21. DEFERRED ACQUISITION REVENUE		
Balance at the beginning of the year	**8**	8
Amount recognised in the income statement	**(3)**	–
BALANCE AT THE END OF THE YEAR	**5**	8

Refer to the management of liquidity risk note on page 113 for the current and non-current analysis of the deferred acquisition revenue.

R million	GROUP 2014	GROUP 2013
22. PROVISIONS		
Staff incentive bonus		
Balance at the beginning of the year	**35**	36
Additional provisions	**38**	71
Unutilised amounts reversed	**(1)**	(4)
Amount utilised during the year	**(18)**	(68)
BALANCE AT THE END OF THE YEAR	**54**	35

The staff incentive bonus provision is a provision for payments to staff in recognition of their performance during the financial year. The final amount paid may differ from the amount provided due to the fact that staff may resign before the allocated bonus become payable.

All amounts are expected to be settled within 12 months and are therefore considered to be current.

R million	GROUP 2014	GROUP 2013
23. INSURANCE AND OTHER PAYABLES		
Insurance related payables		
Outstanding long-term insurance claims	**18**	16
Profit participation payable to clients	**2**	4
Due to intermediaries	**4**	9
Due to reinsurers	**325**	240
Other payables	**4**	6
Non-insurance related payables		
Trade creditors and accrued expenses	**171**	158
Leave pay liability	**86**	63
Redeemable preference share dividends payable	**13**	18
VAT liability	**44**	29
Other payables	**463**	327
TOTAL INSURANCE AND OTHER PAYABLES	**1 130**	870

Uncertainty exists relating to the timing and extent of cash flows from the leave pay liability. The outstanding balance represents the current value of leave due to employees currently in the employ of companies within the group.

Refer to the management of liquidity risk note on page 113 for the current and non-current analysis of the insurance and other payables.

R million	GROUP 2014	GROUP 2013
24. NET INSURANCE PREMIUMS EARNED		
Long-term insurance contracts		
– Premiums written	**246**	165
– Policyholders' fees written	**9**	7
Short-term insurance contracts		
– Premiums written	**11 135**	8 653
– Policyholders' fees written	**118**	100
– Change in unearned premium provision	**(707)**	(483)
PREMIUM REVENUE ARISING FROM INSURANCE CONTRACTS ISSUED	**10 801**	8 442
Long-term insurance contracts		
– Premiums payable	**(20)**	–
Short-term insurance contracts		
– Premiums payable	**(739)**	(555)
– Change in unearned premium provision	**(22)**	(18)
PREMIUM REVENUE CEDED TO REINSURERS ON INSURANCE CONTRACTS ISSUED	**(781)**	(573)
NET INSURANCE PREMIUMS EARNED	**10 020**	7 869

	GROUP	
R million	**2014**	2013
25. FEE AND OTHER INCOME		
Policy administration and asset management services on investment contracts	**1**	1
Commission earned from reinsurers, net of deferred acquisition revenue	**126**	141
Other income	**11**	4
TOTAL FEE AND OTHER INCOME	**138**	146

Policy fees are monthly or annual fees charged for the administration of policies. Collection fees are charged for the electronic collection of premiums and take-on fees are administration fees charged for new clients.

Other fee income was received for administration and accounting services rendered.

	GROUP	
R million	**2014**	2013
26. INVESTMENT INCOME		
Available-for-sale		
– Dividend income	**218**	113
– Interest income	**31**	39
Assets at fair value through profit and loss		
– Dividend income	**79**	91
Held-to-maturity interest income	**11**	11
Cash and cash equivalents interest income	**263**	362
Loans and receivables interest income	**20**	10
Foreign currency translation gain	**3**	5
TOTAL INVESTMENT INCOME	**625**	631
27. PROFIT ON SALE OF SUBSIDIARY		
Profit on sale of subsidiary	**–**	38

OUTsurance finalised the disposal of its 50% shareholding in MSTI to MMI Holdings Limited on 1 July 2012.

	GROUP	
R million	**2014**	2013
The profit on sale of subsidiary is calculated as follows:		
Cash consideration received	–	126
Less: Net identifiable asset value disposed of	–	(152)
Add: Share-based payment reserve reversed	–	2
Add: Non-controlling share of net asset value at disposal date	–	75
Less: Intergroup profit on sale of subsidiary	–	(13)
PROFIT ON SALE OF SUBSIDIARY	–	38

R million	GROUP 2014	GROUP 2013
28. NET FAIR VALUE GAINS ON FINANCIAL ASSETS		
Fair value gains – Designated upon initial recognition	**840**	619
Fair value losses – Designated upon initial recognition	**(36)**	(59)
NET FAIR VALUE GAINS ON FINANCIAL ASSETS	**804**	560
Net fair value gains/(losses) comprise:		
Equity securities	**685**	511
– Unrealised mark-to-market	**189**	216
– Realised mark-to-market	**496**	295
Debt securities	**123**	52
– Unrealised mark-to-market	**(419)**	61
– Realised mark-to-market	**542**	(9)
Derivative instruments		
– Unrealised mark-to-market	**(4)**	(3)
TOTAL NET FAIR VALUE GAINS	**804**	560

R million	GROUP Gross	GROUP Re-insurance	GROUP Net
29. INSURANCE BENEFITS AND CLAIMS INCURRED			
30 June 2014			
Short-term insurance	**(5 434)**	**522**	**(4 912)**
Claims paid net of salvages and recoveries	**(5 300)**	**514**	**(4 786)**
Change in claims reserves	**(134)**	**8**	**(126)**
Long-term insurance			
Claims paid	**(39)**	**12**	**(27)**
Life claims	**(8)**	**5**	**(3)**
Disability claims	**(2)**	**–**	**(2)**
Retrenchment claims	**(27)**	**7**	**(20)**
Critical illness claims	**(2)**	**–**	**(2)**
Change in provision for outstanding claims	**(3)**	**4**	**1**
Long-term insurance claims incurred	**(42)**	**16**	**(26)**
TOTAL INSURANCE BENEFITS AND CLAIMS INCURRED	**(5 476)**	**538**	**(4 938)**

R million	GROUP Gross	GROUP Re-insurance	GROUP Net
29. INSURANCE BENEFITS AND CLAIMS INCURRED continued			
30 June 2013			
Short-term insurance	(4 190)	340	(3 850)
Claims paid net of salvages and recoveries	(3 782)	329	(3 453)
Change in claims reserves	(408)	11	(397)
Long-term insurance			
Claims paid	(30)	12	(18)
Life claims	(23)	10	(13)
Disability claims	(5)	2	(3)
Retrenchment claims	(1)	–	(1)
Critical illness claims	(1)	–	(1)
Change in provision for outstanding claims	(4)	(1)	(5)
Long-term insurance claims incurred	(34)	11	(23)
TOTAL INSURANCE BENEFITS AND CLAIMS INCURRED	(4 224)	351	(3 873)

R million	GROUP 2014	GROUP 2013
30. FAIR VALUE ADJUSTMENT TO INVESTMENT CONTRACTS		
Fair value adjustment to investment contracts	**(287)**	(237)

Benefits from unit-linked investment contracts are accrued to the account of the contract holder as the fair value of the net gains arising from the underlying linked assets. All these contracts are designated at fair value through profit or loss (note 20).

R million	GROUP 2014	GROUP 2013
31. ACQUISITION EXPENSES		
Expenses by nature:		
Commission paid	**(192)**	(155)
Amortisation of deferred acquisition cost	**(17)**	5
Profit participation paid	**(52)**	(16)
TOTAL ACQUISITION EXPENSES	**(261)**	(166)

R million	GROUP 2014	GROUP 2013
32. MARKETING AND ADMINISTRATION EXPENSES		
Expenses by nature:		
Employee benefit expenses	**(1 482)**	(1 381)
Professional fees and regulatory compliance costs	**(56)**	(41)
Depreciation (note 1)	**(100)**	(99)
Operating lease rentals	**(89)**	(36)
Asset management services	**(9)**	(9)
Audit fees	**(13)**	(10)
Loss on sale of property and equipment	**(4)**	(1)
Third party underwriting administrator cost	**(201)**	(81)
Other expenses	**(881)**	(543)
TOTAL MARKETING AND ADMINISTRATION EXPENSES	**(2 835)**	(2 201)
Employee benefit expenses		
Salaries and incentive bonuses	**(1 136)**	(1 146)
Retirement funding	**(115)**	(101)
Service cost relating to intellectual property (note 2)	**(48)**	(45)
Share-based payment charge	**(124)**	(34)
Medical aid contributions	**(59)**	(55)
TOTAL EMPLOYEE BENEFIT EXPENSES	**(1 482)**	(1 381)
Depreciation		
Buildings	**(17)**	(20)
Leasehold improvements	**(8)**	–
Furniture, fittings and equipment	**(75)**	(79)
Total depreciation (note 1)	**(100)**	(99)
Audit fees		
Statutory audit – Current year	**(13)**	(10)
Operating lease rentals		
The group's operating lease commitments under non-cancellable operating lease agreements are as follows:		
Up to 1 year	**(42)**	(29)
Between 1 to 5 years	**(92)**	(97)
TOTAL OPERATING LEASE COMMITMENTS	**(134)**	(126)

33. RETIREMENT BENEFITS

Group companies are participants in a defined contribution pension fund and a defined contribution provident fund.

To the extent that the company is responsible for contributions to these funds, such contributions are charged against profit and loss as incurred. The funds are registered in terms of the Pension Funds Act, 1956.

R million	GROUP 2014	GROUP 2013
34. FINANCE COSTS		
Interest paid on bank borrowings	**(4)**	(12)
Dividends on redeemable preference shares	**(75)**	(113)
TOTAL FINANCE COSTS	**(79)**	(125)
35. TAXATION		
South African taxation		
Current taxation		
– Current year	**(547)**	(456)
Deferred taxation		
– Current year	**(209)**	74
Australian taxation		
Deferred taxation		
– Current year	**(104)**	(2)
Mauritian taxation		
Current taxation		
– Current year	**(6)**	(4)
Deferred taxation		
– Current year	**–**	1
Irish taxation		
Current taxation		
– Current year	**(2)**	(4)
Deferred taxation		
– Current year	**(2)**	–
TOTAL TAXATION	**(870)**	(391)
The taxation on the group's profit before taxation differs from the theoretical amount that would arise using the standard income taxation rate of South Africa as follows:		
Profit before taxation	**4 179**	2 847
Effective taxation rate	**20.82**	13.73
Net income and expenses not subject to taxation	**0.94**	(3.46)
Income taxation rate differential	**(0.01)**	0.03
Capital gains taxation	**–**	0.10
Deferred taxation asset not recognised in respect of insurance reserves	**(5.76)**	5.42
Mauritius – Category I Global Business Licence taxation rebate at 80% of current taxation charge	**0.01**	1.00
Associates equity accounted using after taxation profits	**11.82**	11.51
Secondary taxation on companies	**–**	(0.01)
Withholding taxation incurred	**(0.15)**	0.10
Other permanent differences	**0.33**	(0.42)
STANDARD INCOME TAXATION RATE IN SOUTH AFRICA	**28.00**	28.00

R million	GROUP 2014	GROUP 2013
36. CASH FLOWS FROM OPERATING ACTIVITIES		
Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation	**4 179**	2 847
Adjusted for:		
Loss on sale of property and equipment	**4**	1
Profit on sale of subsidiary	**–**	(38)
Foreign currency translation difference	**(88)**	29
Treasury shares held by subsidiary	**3**	–
Change in reserves due to a change in holding	**35**	21
Equity accounted earnings	**(1 776)**	(1 179)
Depreciation	**100**	99
Service cost relating to intellectual property	**48**	45
Intellectual property bonuses incurred	**(115)**	(38)
Provisions	**19**	(1)
Share option expenses	**124**	34
Cash paid in terms of share option liability	**(29)**	–
Investment income	**(622)**	(658)
Funding costs	**74**	114
Dividends accrued on preference shares in issue	**5**	11
Net fair value gains on assets at fair value through profit or loss	**(695)**	(546)
Fair value adjustment to financial liabilities	**(5)**	(5)
Changes in insurance balances:		
Gross provision for unearned premiums	**708**	455
Reinsurers' share of provisions for unearned premiums	**22**	18
Gross provision for claims incurred but not reported	**(24)**	(15)
Provision for cash bonus on insurance contracts	**301**	271
Cash bonus paid on insurance contracts	**(292)**	(282)
Insurance contracts	**410**	605
Investment contracts	**23**	213
Deferred acquisition costs	**(107)**	(70)
Deferred acquisition revenue	**(3)**	–
Transfer from policyholders' profit share	**272**	491
Changes in working capital		
Current receivables and prepayments	**(1 241)**	(820)
Current payables and provisions	**265**	225
CASH GENERATED FROM OPERATIONS	**1 595**	1 827

	GROUP	
R million	**2014**	2013
37. EARNINGS PER SHARE		
Earnings per share is calculated by dividing the earnings attributable to shareholders by the weighted number of ordinary shares in issue during the year.		
Earnings attributable to ordinary shareholders	**3 053**	2 255
Weighted average number of ordinary shares in issue (full amount)	**1 483 825 864**	1 483 374 979
Earnings per share (cents) – Basic	**205.8**	152.0
Earnings attributable to ordinary shareholders	**3 053**	2 255
Dilution on earnings from associates	**(32)**	(15)
DILUTED EARNINGS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	**3 021**	2 240
Weighted average number of ordinary shares in issue (full amount)	**1 483 825 864**	1 483 374 979
Earnings per share (cents) – Diluted	**203.6**	151.0
38. HEADLINE EARNINGS PER SHARE		
Headline earnings per share is calculated by dividing the adjusted earnings attributable to shareholders by the weighted number of ordinary shares in issue during the year.		
Headline earnings reconciliation		
Earnings attributable to ordinary shareholders	**3 053**	2 255
Adjusted for(1):		
– Profit on sale of subsidiary	**–**	(24)
– (Profit)/loss on dilution of shareholding	**(135)**	11
– Intangible asset impairments	**8**	1
– Realised profit on sale of available-for-sale assets	**(49)**	(1)
– Loss on disposal of property and equipment	**2**	–
HEADLINE EARNINGS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	**2 879**	2 242
(1) Adjustments include RMI Holdings' share of adjustments made by associates.		
Weighted average number of ordinary shares in issue (full amount)	**1 483 825 864**	1 483 374 979
Headline earnings per share (cents) – Basic	**194.0**	151.1
Headline earnings attributable to ordinary shareholders	**2 879**	2 242
Dilution on earnings from associates	**(31)**	(15)
DILUTED HEADLINE EARNINGS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	**2 848**	2 227
Weighted average number of ordinary shares in issue (full amount)	**1 483 825 864**	1 483 374 979
Headline earnings per share (cents) – Diluted	**191.9**	150.1

R million	GROUP 2014	GROUP 2013
39. DIVIDEND PER SHARE		
Total dividends paid during the year	**1 500**	2 154
Total dividends declared relating to the profit for the year	**1 605**	1 411
Number of ordinary shares in issue (full amount)	**1 485 688 346**	1 485 688 346
Dividend declared per share (cents)	**108.0**	95.0

40. RELATED PARTIES

Principal shareholders

Details of major shareholders are disclosed in the directors' report. The principal shareholders are Remgro Limited and Royal Bafokeng Holdings Proprietary Limited (2013: Remgro Limited and Royal Bafokeng Holdings Proprietary Limited).

Key management personnel

Only RMI Holdings' directors are key management personnel. Information on directors' emoluments and their shareholding in the company appears on pages 44 to 48.

Subsidiaries

Details of income from and investments in RMI Holdings' main subsidiaries are disclosed in note 44.

The following companies are subsidiaries of RMI Holdings:

– OUTsurance Holdings Limited
– OUTsurance Insurance Company Limited
– OUTsurance Life Insurance Company Limited
– OUTsurance International Holdings Proprietary Limited
– OUTsurance Shared Services Proprietary Limited
– Youi Proprietary Limited (South Africa)
– Youi Holdings Proprietary Limited
– Youi Proprietary Limited (Australia)
– Youi New Zealand Proprietary Limited
– Micawber 296 Proprietary Limited
– RMB-SI Investments Proprietary Limited
– RMB Structured Insurance Limited
– RMB Structured Insurance Limited PCC
– RMB Structured Life Limited
– RMB Financial Services Limited
– RMB-SI Investments (Mauritius) Limited
– Firness International Proprietary Limited

40. RELATED PARTIES continued

Associates

Details of income from and investments in RMI Holdings' main associates are disclosed in note 43.

The following companies are associates of RMI Holdings:
- Discovery Limited
- MMI Holdings Limited
- OUTsurance Insurance Company of Namibia Limited
- Truffle Capital Proprietary Limited
- RTS Construction an Engineering Underwriters Proprietary Limited
- Risk Guard Alliance Proprietary Limited
- HCV Underwriting Managers Proprietary Limited
- CIB Insurance Administrators Proprietary Limited
- Cyan Capital Proprietary Limited

Other

RMI Holdings invested in preference shares issued by New Seasons Financial Services Proprietary Limited ("NSFS"). NSFS is a shareholder of RMB-SI Investments Proprietary Limited.

	GROUP	
R million	**2014**	2013
Related party transactions		
Transactions of RMI Holdings and its subsidiary companies with:		
Principal shareholders		
Dividends paid	**679**	975
Key management personnel		
Salaries and other benefits	**21**	7
Transactions of RMI Holdings' key management with associates of the group		
Investment products		
Balance at the beginning of the year	**1 160**	884
Net deposits	**129**	11
Net investment return	**331**	270
Commission and other transaction fees	**(11)**	(5)
BALANCE AT THE END OF THE YEAR	**1 609**	1 160

40. RELATED PARTIES continued

R million	GROUP 2014	GROUP 2013
Associates		
Income statement effect:		
– Dividends received	**733**	893
– Investment income	**4**	4
– Administration fees received	**50**	53
– Administration fees paid	**5**	7
– Insurance benefits and claims incurred	**6**	8
– Premiums received	**25**	29
– Dividends paid	**10**	11
– Asset manager administration fees	**3**	4
– Retirement fund contributions	**65**	63
– Group life	**9**	13
– Disability fees paid	**3**	2
– Medical aid premiums paid	**59**	57
Effect on the statement of financial position:		
– Loans and receivables	**1**	4
– Preference share investment	**60**	57
Other		
Income statement effect:		
– Investment income	**–**	1
Effect on the statement of financial position:		
– Financial assets – Available-for-sale	**–**	5

41. POST REPORTING DATE EVENTS, CONTINGENCIES AND COMMITMENTS

Final dividend declaration

RMI Holdings declared a final dividend of 62.0 cents per ordinary share (R921 million) on 11 September 2014, payable on 13 October 2014.

African Bank Investments Limited

After year-end there was a credit event reported for African Bank Investments Limited. The impact on the RMI group is immaterial.

Preference shares

RMI Holdings has converted its variable rate cumulative, redeemable preference shares to fixed rate cumulative, redeemable preference shares at a fixed rate of 6.89% payable six monthly effective from 21 August 2014. The rate on the existing fixed rate cumulative, redeemable preference shares was also changed to 6.89% payable six monthly effective from 21 August 2014. The compulsorily redeemable date of 15 June 2016 was extended to 22 August 2017. Refer to note 8 of the separate annual financial statements on page 189.

Contingencies

There are no contingencies that require disclosure in the consolidated annual financial statements of RMI Holdings.

Commitments

The group's operating lease commitments under non-cancellable operating lease agreements are disclosed in note 32.

42. EFFECTIVE INTEREST IN SUBSIDIARIES AND ASSOCIATES

There is a difference between the actual and effective holdings in associates and subsidiaries as a result of the consolidation by such entities of:

- treasury shares held by them;
- shares held in them by their share incentive trusts;
- deemed treasury shares held in them by policyholders and mutual funds managed by them; and
- deemed treasury shares arising from BEE transactions entered into.

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

	GROUP	
R million	**2014**	2013
Discovery effective	**25.8%**	26.7%
Discovery actual	**25.0%**	25.0%
MMI effective	**25.2%**	25.2%
MMI actual	**25.0%**	25.0%
OUTsurance effective	**84.7%**	85.3%
OUTsurance actual	**83.4%**	83.4%
RMBSI effective	**78.6%**	79.1%
RMBSI actual	**76.4%**	76.4%

43. ASSOCIATES

Listed associates

Discovery Limited		
Financial year	**30 June**	30 June
Year used for equity accounting	**30 June**	30 June
Country of incorporation	**RSA**	RSA
Number of shares held ('000)	**148 048**	148 048
Interest held (%) (after consolidation of share trust)	**25.8%**	26.7%
Carrying value of investment in associate	**5 291**	4 456
Total share of post-acquisition reserves of associate	**1 892**	1 056
Income attributable to RMI Holdings for the year	**972**	542
Less: Dividends received	**(204)**	(168)
SHARE OF RETAINED INCOME FOR THE YEAR	**768**	374
MARKET VALUE	**14 383**	12 445

43. ASSOCIATES continued

R million	GROUP 2014	GROUP 2013
Statement of financial position		
Assets		
Assets arising from insurance contracts	**17 999**	14 398
Property and equipment	**666**	533
Intangible assets and deferred acquisition costs	**2 344**	1 828
Goodwill	**2 239**	1 859
Investment in associates	**551**	402
Financial assets	**44 029**	33 348
Deferred taxation	**406**	370
Current income tax asset	**46**	32
Reinsurance contracts	**266**	226
Cash and cash equivalents	**3 650**	2 103
TOTAL ASSETS	**72 196**	55 099
Shareholders' equity and liabilities		
Total equity	**17 411**	13 708
Liabilities arising from insurance contracts	**25 797**	19 075
Liabilities arising from reinsurance contracts	**2 247**	1 499
Financial liabilities	**18 024**	13 693
Deferred taxation	**4 647**	3 784
Deferred revenue	**157**	151
Employee benefits	**154**	138
Trade and other payables	**3 752**	3 004
Current income tax liability	**7**	47
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**72 196**	55 099
Income statement		
Profit for the year	**3 314**	2 131
Other comprehensive income for the year	**248**	583
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3 562**	2 714
Contingencies and commitments	**6 812**	1 013
MMI Holdings Limited		
Financial year	**30 June**	30 June
Year used for equity accounting	**30 June**	30 June
Country of incorporation	**RSA**	RSA
Number of shares held ('000)	**392 465**	392 465
Interest held (%) (after consolidation of share trust)	**25.2%**	25.2%
Carrying value of investment in associate	**6 212**	5 935
Total share of post-acquisition reserves of associate	**127**	(150)
Income attributable to RMI Holdings for the year	**793**	628
Less dividends received	**(522)**	(725)
SHARE OF RETAINED INCOME FOR THE YEAR	**271**	(97)
MARKET VALUE	**10 302**	8 701

R million	GROUP 2014	GROUP 2013

43. ASSOCIATES continued

Statement of financial position

R million	2014	2013
Assets		
Intangible assets	**12 819**	11 769
Owner-occupied properties	**1 714**	1 488
Property and equipment	**315**	348
Investment properties	**7 675**	6 433
Investment in associates	**179**	121
Employee benefits assets	**405**	327
Financial instrument assets	**355 073**	312 424
Insurance and other receivables	**3 813**	2 828
Deferred taxation	**263**	124
Properties under development	**252**	98
Reinsurance contracts	**2 576**	1 345
Current tax asset	**330**	108
Cash and cash equivalents	**28 875**	22 275
Non-current assets held for sale	**17**	680
TOTAL ASSETS	**414 306**	360 368
Shareholders' equity and liabilities		
Total equity	**25 214**	23 864
Insurance contract liabilities	**111 543**	96 973
Financial instrument liabilities	**261 173**	222 677
Deferred taxation	**4 281**	3 917
Employee benefits obligations	**1 246**	1 328
Other payables	**10 437**	11 162
Provisions	**157**	180
Current tax liability	**255**	267
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**414 306**	360 368
Income statement		
Profit for the year	**3 300**	2 651
Other comprehensive income for the year	**165**	88
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3 465**	2 739
CONTINGENCIES AND COMMITMENTS	**831**	951

R million	GROUP 2014	GROUP 2013
44. SUBSIDIARIES		
Unlisted subsidiaries		
OUTsurance Holdings Limited[1]		
Financial year	**30 June**	30 June
Year used for consolidation	**30 June**	30 June
Country of incorporation	**RSA**	RSA
Number of shares held ('000)	**2 935 477**	2 933 322
Interest held (%) (after consolidation of share trust)	**84.7%**	85.3%
Equity shares at cost	**4 413**	4 405
Preference shares at cost	**–**	201
Indebtedness		
– to subsidiaries	**–**	–
– by subsidiaries	**–**	–
Net profit for the year	**1 466**	1 288
Valuation of RMI Holdings' investment	**16 357**	11 719
Results for the year ended 30 June		
Income statement		
Gross insurance premiums	**10 352**	8 288
Less: Reinsurance premiums	**(336)**	(234)
Net insurance premiums	**10 016**	8 054
Change in provision for unearned premiums net of reinsurance	**(774)**	(501)
Net insurance premiums earned	**9 242**	7 553
Fee income	**7**	1
Investment income	**327**	307
Realised gains	**–**	51
Net fair value gains on financial assets	**2**	1
Net income	**9 578**	7 913
Gross claims paid	**(4 748)**	(3 778)
Reinsurance recoveries received	**277**	187
Transfer to policyholder liabilities under insurance contracts	**(22)**	(12)
Provision for cash bonuses	**(300)**	(271)
Acquisition expenses	**(29)**	(33)
Fair value adjustment to financial liabilities	**(191)**	(201)
Marketing and administration expenses	**(2 485)**	(1 991)
Result of operating activities	**2 080**	1 814
Finance costs	**(1)**	(1)
Share of after tax results of associates	**10**	10
Profit before taxation	**2 089**	1 823
Taxation	**(623)**	(535)
PROFIT FOR THE YEAR	**1 466**	1 288

(1) 38.41% (2013: 38.35%) held directly by RMI Holdings and 45.03% (2013: 45.03%) held indirectly via Firness International Proprietary Limited.

44. SUBSIDIARIES continued

In addition to Messrs HL Bosman and P Cooper, Messrs H Aron and WT Roos, joint chief executive officers of OUTsurance Holdings Limited, also meet the definition of prescribed officers as defined in the Companies Act, 71 of 2008. Their emoluments are set out below:

R'000	**Total 2014**	**Salary**	**Performance related(1)**
H Aron(2)	**14 635**	**7 349**	**7 286**
WT Roos	**3 267**	**3 267**	**–**

R'000	Total 2013	Salary	Performance related(1)
H Aron(2)	14 036	7 018	7 018
WT Roos	6 534	3 267	3 267

Note:

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

(2) Mr Aron is a resident in Australia and is paid in Australian dollars.

000's	**H Aron**	WT Roos
OUTsurance Holdings share incentive scheme		
Strike price R1.94 with vesting dates from 1 July 2010 to 1 July 2013		
Opening balance – 1 July 2013	**2 188**	2 188
Exercised during the year	**(2 188)**	(2 188)
Closing balance – 30 June 2014	**–**	–
Benefit derived (R'000)	**3 041**	3 041
Strike price R2.22 with vesting dates from 1 July 2011 to 1 July 2014		
Opening balance – 1 July 2013	**1 750**	1 750
Closing balance – 30 June 2014	**1 750**	1 750
Strike price R2.80 with vesting dates from 1 July 2012 to 1 July 2015		
Opening balance – 1 July 2013	**1 500**	1 500
Closing balance – 30 June 2014	**1 500**	1 500
Strike price R3.33 with vesting dates from 1 July 2013 to 1 July 2016		
Opening balance – 1 July 2013	**–**	–
Granted in the current year	**750**	750
Closing balance – 30 June 2014	**750**	750

44. SUBSIDIARIES continued

Dilution of interest in Youi Holdings Proprietary Limited without loss of control

During the 2014 financial year, certain tranches of the Youi Holdings equity-settled share scheme were exercised by scheme participants. This resulted in an increase in non-controlling interests of R137 million and an increase in equity attributable to the group of R137 million. The effect of changes in the ownership interest of Youi Holdings Proprietary Limited on the equity attributable to the group during the year is as follows:

R million	GROUP 2014	GROUP 2013
Profit attributable to non-controlling interests (6.9%)	**15**	–
Capital contributed by non-controlling interests for the 6.9% interest	**122**	–
TOTAL NON-CONTROLLING INTEREST IN RESPECT OF YOUI HOLDINGS PROPRIETARY LIMITED	**137**	–
Non-controlling interest relating to OUTsurance Holdings Limited		
Balance at the beginning of the year	**527**	492
Profit attributable to non-controlling interests (15.3% (2013: 14.7%))	**220**	183
Dividends paid	**(141)**	(173)
Non-controlling interest in other reserves	**23**	12
Shares acquired from non-controlling interests	**(2)**	–
Movement in treasury shares	**32**	15
Change from equity-settled to cash-settled scheme	**–**	(2)
TOTAL NON-CONTROLLING INTEREST IN RESPECT OF OUTSURANCE HOLDINGS LIMITED	**659**	527
RMB-SI Investments Proprietary Limited		
Financial year	**30 June**	30 June
Year used for consolidation	**30 June**	30 June
Country of incorporation	**RSA**	RSA
Number of shares held ('000)	**200 000**	200 000
Interest held (%) (after consolidation of share trust)	**78.6%**	79.1%
Equity shares at cost	**220**	220
Indebtedness		
– to subsidiaries	**–**	–
– by subsidiaries	**–**	–
Net profit for the year	**101**	89
Valuation of RMI Holdings' investment	**368**	320

44. SUBSIDIARIES continued

R million	GROUP 2014	GROUP 2013
Results for the year ended 30 June		
Income statement		
Gross insurance premiums	**1 157**	636
Less: Reinsurance premiums	**(423)**	(320)
Net insurance premiums	**734**	316
Change in provision for unearned premiums net of reinsurance	**45**	(1)
Net insurance premiums earned	**779**	315
Fee income	**130**	144
Investment income	**229**	238
Net fair value gains on financial assets	**784**	590
Net income	**1 922**	1 287
Gross claims paid	**(726)**	(447)
Reinsurance recoveries received	**260**	164
Investment contract benefits	**(287)**	(237)
Transfer to policyholders' interest	**(272)**	(491)
Acquisition expenses	**(232)**	(133)
Marketing and administration expenses	**(307)**	(179)
Result of operating activities	**358**	(36)
Finance costs	**(15)**	(20)
Share of after tax results of associates	**2**	(1)
Profit before taxation	**345**	(57)
Taxation	**(244)**	146
PROFIT FOR THE YEAR	**101**	89
Non-controlling interest relating to RMB-SI Investments Proprietary Limited		
Balance at the beginning of the year	**87**	78
Profit attributable to non-controlling interests (21.4% (2013: 18.9%))	**21**	18
Dividends paid	**(8)**	(16)
Movement in treasury shares	**3**	7
TOTAL NON-CONTROLLING INTEREST IN RESPECT OF RMB-SI INVESTMENTS PROPRIETARY LIMITED	**103**	87
Total non-controlling interests		
Youi Holdings Proprietary Limited	**137**	–
OUTsurance Holdings Limited	**659**	527
RMB-SI Investments Proprietary Limited	**103**	87
TOTAL NON-CONTROLLING INTERESTS	**899**	614

45. SEGMENT REPORT

The chief operating decision maker regards normalised earnings as the appropriate basis to evaluate business performance as it eliminates the impact of non-recurring items and accounting anomalies. The segmental analysis is based on the management accounts prepared for the group.

	GROUP					
R million	Discovery	MMI	OUTsurance	RMBSI	Other[1]	RMI Holdings group
30 June 2014						
Operating profit	**–**	**–**	**2 080**	**358**	**44**	**2 482**
Finance costs	**–**	**–**	**(1)**	**(15)**	**(63)**	**(79)**
Share of after tax results of associates	**971**	**793**	**10**	**2**	**–**	**1 776**
Profit/(loss) before taxation	**971**	**793**	**2 089**	**345**	**(19)**	**4 179**
Taxation	**–**	**–**	**(623)**	**(244)**	**(3)**	**(870)**
PROFIT/(LOSS) FOR THE YEAR	**971**	**793**	**1 466**	**101**	**(22)**	**3 309**
Normalised earnings	**866**	**899**	**1 448**	**101**	**(292)**	**3 022**
Assets	**–**	**–**	**9 765**	**5 667**	**642**	**16 074**
Associates	**5 291**	**6 212**	**26**	**53**	**–**	**11 582**
Intangible assets	**–**	**–**	**107**	**1**	**2**	**110**
TOTAL ASSETS	**5 291**	**6 212**	**9 898**	**5 721**	**644**	**27 766**
TOTAL LIABILITIES	**–**	**–**	**5 445**	**5 239**	**705**	**11 389**
30 June 2013 – Restated						
Operating profit	–	–	1 814	(36)	15	1 793
Finance costs	–	–	(1)	(20)	(104)	(125)
Share of after tax results of associates	542	628	10	(1)	–	1 179
Profit/(loss) before taxation	542	628	1 823	(57)	(89)	2 847
Taxation	–	–	(535)	146	(2)	(391)
PROFIT/(LOSS) FOR THE YEAR	542	628	1 288	89	(91)	2 456
Normalised earnings	699	803	1 209	89	(234)	2 566
Assets	–	–	7 686	5 111	635	13 432
Associates	4 456	5 935	23	28	–	10 442
Intangible assets	–	–	39	1	3	43
TOTAL ASSETS	4 456	5 935	7 748	5 140	638	23 917
TOTAL LIABILITIES	–	–	3 965	4 722	889	9 576

(1) "Other" includes RMI Holdings, consolidation of treasury shares and other consolidation entries.

45. SEGMENT REPORT continued

Reconciliation of normalised earnings to headline earnings attributable to ordinary shareholders as per note 38

R million	GROUP 2014	GROUP 2013
Normalised earnings as per segment report	**3 022**	2 566
RMI Holdings' share of normalised adjustments made by associates:	**(189)**	(341)
Amortisation of intangible assets relating to business combinations	**(173)**	(171)
Net realised and fair value gains on shareholders' assets	**136**	85
Fair value adjustment to puttable non-controlling interest financial liability	**(50)**	(33)
Corporate restructuring expenses	**(43)**	(15)
Basis and other changes and investment variances	**(40)**	(92)
Finance costs raised on puttable non-controlling interest financial liability	**(39)**	(41)
Non-controlling interest adjustment if no put options	**20**	10
Recapture of reinsurance	**–**	(84)
Group treasury shares	**46**	17
HEADLINE EARNINGS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS AS PER NOTE 38	**2 879**	2 242

Geographical segments

	GROUP				
R million	South Africa	Australia	New Zealand	UK	Total
30 June 2014					
Profit/(loss)	**2 068**	**357**	**(22)**	**–**	**2 403**
Share of after tax results of associates	**1 656**	**–**	**–**	**120**	**1 776**
Profit/(loss) before taxation	**3 724**	**357**	**(22)**	**120**	**4 179**
Taxation	**(766)**	**(104)**	**–**	**–**	**(870)**
PROFIT/(LOSS) FOR THE YEAR	**2 958**	**253**	**(22)**	**120**	**3 309**
TOTAL ASSETS	**22 509**	**4 672**	**585**	**–**	**27 766**
TOTAL LIABILITIES	**7 760**	**3 608**	**21**	**–**	**11 389**
30 June 2013 – Restated					
Profit	1 663	5	–	–	1 668
Share of after tax results of associates	1 172	–	–	7	1 179
Profit before taxation	2 835	5	–	7	2 847
Taxation	(389)	(2)	–	–	(391)
PROFIT FOR THE YEAR	2 446	3	–	7	2 456
TOTAL ASSETS	20 929	2 988	–	–	23 917
TOTAL LIABILITIES	7 566	2 010	–	–	9 576

45. SEGMENT REPORT continued

The group's various operating segments and the details of products and services provided by each of the reportable segments are as follows:

Discovery

Discovery services the healthcare funding and insurance markets in South Africa, the United Kingdom, United States and China. It is a pre-eminent developer of integrated financial services products and operates under the Discovery Health, Discovery Life, Discovery Invest, Discovery Insure, DiscoveryCard, Vitality, PruHealth, PruProtect and Ping An brand names.

MMI

MMI is a South African financial services group that provides life insurance, employee benefits, investments and savings, healthcare solutions and short-term insurance to individual clients, small and medium business, large companies, organisations and government in South Africa, the rest of Africa and selected international countries. It operates through six client-facing divisions, using two established insurance brands – Momentum and Metropolitan.

OUTsurance

OUTsurance is a direct personal lines and small business short-term insurer. Pioneers of the OUTbonus concept, it has grown rapidly by applying a scientific approach to risk selection, product design and claims management. Its South African direct life insurance business continues to gain traction. Youi, the group's direct personal lines initiative in Australia, has achieved scale and is trading profitably.

RMBSI

RMBSI holds both short-term and life insurance licenses. It creates bespoke insurance and financial risk solutions for South Africa's large corporations by using sophisticated risk techniques and innovative financial structures. In addition, it partly owns a portfolio of underwriting management agencies.

46. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The table below analyses financial instruments carried at fair value by level in the fair value hierarchy. The different levels are based on the extent that 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.

	GROUP			
R million	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**
30 June 2014				
Financial assets				
Equity securities				
– available-for-sale	**725**	**–**	**–**	**725**
– at fair value through profit or loss	**2 070**	**34**	**–**	**2 104**
Debt securities				
– available-for-sale	**–**	**540**	**–**	**540**
– at fair value through profit or loss	**126**	**2 855**	**415**	**3 396**
Derivative asset	**–**	**17**	**–**	**17**
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	**2 921**	**3 446**	**415**	**6 782**
Financial liabilities				
Convertible debentures	**–**	**15**	**–**	**15**
Financial liabilities at fair value through profit or loss	**–**	**–**	**105**	**105**
Derivative liability	**–**	**20**	**–**	**20**
Investment contracts	**979**	**402**	**–**	**1 381**
TOTAL FINANCIAL LIABILITIES RECOGNISED AT FAIR VALUE	**979**	**437**	**105**	**1 521**

R million	GROUP 2014	GROUP 2013

46. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

	2014	2013
Reconciliation of movement in level 3 assets		
Balance at the beginning of the year	**441**	477
Redemptions in the current year	**(5)**	–
Investment income accrued	**33**	34
Dividends received from the OUTsurance Investment Trust	**(54)**	(70)
BALANCE AT THE END OF THE YEAR	**415**	441

The level 3 financial asset at fair value through profit or loss represents a loan provided to the OUTsurance Investment Trust, 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.

	2014	2013
Reconciliation of movement in level 3 liabilities		
Balance at the beginning of the year	**110**	115
Preference dividends charged to the income statement in respect of profit sharing arrangements on ring-fenced insurance business	**191**	201
Preference dividends paid	**(196)**	(206)
BALANCE AT THE END OF THE YEAR	**105**	110

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.

46. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

	GROUP			
R million	Level 1	Level 2	Level 3	Total carrying amount
30 June 2013				
Financial assets				
Equity securities				
– available-for-sale	676	–	–	676
– at fair value through profit or loss	2 159	74	–	2 233
Debt securities				
– available-for-sale	–	453	–	453
– at fair value through profit or loss	851	3 039	441	4 331
Derivative asset	–	9	–	9
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	3 686	3 575	441	7 702
Financial liabilities				
Convertible debentures	–	15	–	15
Financial liabilities at fair value through profit or loss	–	–	110	110
Derivative liability	–	11	–	11
Investment contracts	951	407	–	1 358
TOTAL FINANCIAL LIABILITIES RECOGNISED AT FAIR VALUE	951	433	110	1 494

47. CHANGE IN ACCOUNTING POLICY

During the year, the group changed its policy in respect of acquisition costs to allow for the deferral thereof on short-term policies with a term greater than a month and long-term policies. The rationale behind the change in accounting policy is explained in the accounting policies on pages 65 and 66.

This change in accounting policy has been accounted for retrospectively and the comparatives have been restated. The effect of the change is as follows:

Restatements for the year ended 30 June 2013

	GROUP		
R million	Original amount 2013	Restated amount 2013	Difference 2013
Statement of financial position			
Assets			
Deferred acquisition costs	38	250	212
Deferred taxation	414	334	(80)
INCREASE IN ASSETS	452	584	132
Equity and liabilities			
Retained earnings	907	1 059	152
Currency translation reserve	124	134	10
Non-controlling interests	586	614	28
Insurance contracts	4 855	4 797	(58)
INCREASE IN EQUITY AND LIABILITIES	6 472	6 604	132
Income statement			
Marketing and administration expenses	(2 252)	(2 201)	51
Transfer to policyholder liabilities under insurance contracts	(28)	(11)	17
Deferred taxation	93	73	(20)
INCREASE IN PROFIT FOR THE YEAR	(2 187)	(2 139)	48
Attributable to:			
Equity holders of RMI Holdings			41
Non-controlling interests			7
INCREASE IN PROFIT FOR THE YEAR			48

47. CHANGE IN ACCOUNTING POLICY continued

Restatements for the year ended 30 June 2012

	GROUP		
R million	Original amount 2012	Restated amount 2012	Difference 2012
Statement of financial position			
Assets			
Deferred acquisition costs	32	180	148
Deferred taxation	441	385	(56)
INCREASE IN ASSETS	473	565	92
Equity and liabilities			
Retained earnings	1 133	1 244	111
Currency translation reserve	70	73	3
Non-controlling interests	626	645	19
Insurance contracts	3 710	3 669	(41)
INCREASE IN EQUITY AND LIABILITIES	5 539	5 631	92
Income statement			
Marketing and administration expenses	(1 799)	(1 668)	131
Transfer to policyholder liabilities under insurance contracts	(12)	7	19
Deferred taxation	159	109	(50)
INCREASE IN PROFIT FOR THE YEAR	(1 652)	(1 552)	100
Attributable to:			
Equity holders of RMI Holdings			85
Non-controlling interests			15
INCREASE IN PROFIT FOR THE YEAR			100

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OF THE SEPARATE ANNUAL **FINANCIAL STATEMENTS**

2

The basis of preparation of this separate set of financial statements is outlined on page 65.

Statement of financial position
as at 30 June

R million	*Notes*	COMPANY 2014	COMPANY 2013
Assets			
Investment in subsidiaries	1	**4 633**	4 826
Investment in associates	2	**9 486**	9 486
Financial assets			
Equity securities			
– fair value through profit or loss	3	**115**	60
Debt securities			
– fair value through profit or loss	3	**415**	441
– available-for-sale	3	**–**	5
Derivative asset	4	**17**	9
Loans and receivables		**1**	1
Taxation		**2**	–
Cash and cash equivalents	5	**97**	130
TOTAL ASSETS		**14 766**	14 958
Equity			
Share capital and premium	6	**13 657**	13 657
Reserves	7	**403**	410
TOTAL SHAREHOLDERS' EQUITY		**14 060**	14 067
Liabilities			
Share-based payment liability		**14**	4
Financial liabilities			
Preference shares	8	**648**	849
Derivative liability	9	**20**	11
Provisions	10	**1**	–
Trade and other payables	11	**23**	27
TOTAL LIABILITIES		**706**	891
TOTAL EQUITY AND LIABILITIES		**14 766**	14 958

Income statement
for the year ended 30 June

R million	*Notes*	COMPANY 2014	COMPANY 2013
Investment income	12	**1 608**	2 076
Fair value loss		**(6)**	(23)
Other income	13	**6**	5
Net income		**1 608**	2 058
Marketing and administration expenses	14	**(43)**	(31)
Result of operating activities of the company		**1 565**	2 027
Finance costs	15	**(68)**	(109)
Profit before taxation		**1 497**	1 918
Taxation	16	**(3)**	(5)
PROFIT FOR THE YEAR		**1 494**	1 913
Attributable to:			
Equity holders of the company		**1 494**	1 913

Statement of comprehensive income
for the year ended 30 June

R million	COMPANY 2014	COMPANY 2013
Profit for the year	1 494	1 913
Other comprehensive income for the year	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1 494	1 913
Attributable to:		
Equity holders of the company	1 494	1 913

Statement of changes in equity
for the year ended 30 June

R million	COMPANY Share capital (note 6)	Share premium (note 6)	Other reserves (note 7)	Retained earnings (note 7)	Total equity
Balance as at 1 July 2012	–	13 657	–	650	14 307
Total comprehensive income for the year	–	–	–	1 913	1 913
Share option expense reserve	–	–	1	–	1
Dividends paid	–	–	–	(2 154)	(2 154)
Balance as at 30 June 2013	**–**	**13 657**	**1**	**409**	**14 067**
Total comprehensive income for the year	**–**	**–**	**–**	**1 494**	**1 494**
Dividends paid	**–**	**–**	**–**	**(1 501)**	**(1 501)**
BALANCE AS AT 30 JUNE 2014	**–**	**13 657**	**1**	**402**	**14 060**

Statement of cash flows
for the year ended 30 June

		COMPANY	
R million	*Note*	**2014**	2013
Cash flows from operating activities			
Cash generated from operations	17	**1 579**	2 057
Taxation paid		**(5)**	(7)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**1 574**	2 050
Cash flows from investing activities			
Proceeds from repurchase of preference shares by subsidiaries		**206**	609
Acquisition of listed equities		**(37)**	(41)
Proceeds from disposal of debt instrument		**5**	–
Acquisition of shares in subsidiary		**(7)**	–
Acquisition of shares in associate		**–**	(18)
NET CASH GENERATED BY INVESTING ACTIVITIES		**167**	550
Cash flows from financing activities			
Dividends paid to shareholders		**(1 501)**	(2 154)
Redemption of preference shares		**(201)**	(601)
Cost of funding		**(72)**	(120)
NET CASH OUTFLOWS FROM FINANCING ACTIVITIES		**(1 774)**	(2 875)
Net decrease in cash and cash equivalents for the year		**(33)**	(275)
Cash and cash equivalents at the beginning of the year		**130**	405
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**97**	130

Notes to the annual financial statements

R million	COMPANY 2014	COMPANY 2013
1. INVESTMENT IN SUBSIDIARIES		
Unlisted subsidiaries		
Ordinary shares at cost		
OUTsurance Holdings Limited	**4 413**	4 405
RMB-SI Investments Proprietary Limited	**220**	220
Non-cumulative, non-redeemable preference shares at cost		
OUTsurance Holdings Limited	**–**	201
TOTAL INVESTMENT IN SUBSIDIARIES	**4 633**	4 826
The non-cumulative, non-redeemable preference shares paid dividends at a rate of 83.3% (2013: 83.3%) of the prime interest rate.		
OUTsurance Holdings Limited		
Number of shares(1)	**2 935 477 145**	2 933 321 973
% of equity(2)	**84.7**	85.3
RMB-SI Investments Proprietary Limited		
Number of shares	**200 000 000**	200 000 000
% of equity(2)	**78.6**	79.1

(1) 1 584 225 400 shares held indirectly via Firness International Proprietary Limited (2013: 1 584 225 400) and 1 351 251 745 shares held directly (2013: 1349 096 573).

(2) After consolidation of share trust.

R million	COMPANY 2014	COMPANY 2013
2. INVESTMENT IN ASSOCIATES		
Listed associates		
Ordinary shares at cost		
Discovery Limited	**3 400**	3 400
MMI Holdings Limited	**6 086**	6 086
TOTAL INVESTMENT IN ASSOCIATES	**9 486**	9 486
Market value		
Discovery Limited	**14 383**	12 445
MMI Holdings Limited	**10 302**	8 701
	24 685	21 146
Discovery Limited		
Number of shares	**148 048 168**	148 048 168
% of equity(1)	**25.8**	26.7
MMI Holdings Limited		
Number of shares	**392 465 075**	392 465 075
% of equity(1)	**25.2**	25.2

(1) After consolidation of share trust.

	COMPANY	
R million	**2014**	2013
3. EQUITY AND DEBT SECURITIES		
Equity securities		
Listed investments		
– fair value through profit or loss	**115**	60
Debt securities		
Unlisted investments		
– fair value through profit or loss	**415**	441
Unlisted preference shares		
– available-for-sale	**–**	5
TOTAL EQUITY AND DEBT SECURITIES	**530**	506
The current portion of the equity and debt securities is Rnil (2013: Rnil).		
Listed equity securities carried at fair value through profit or loss		
Balance at the beginning for the year	**60**	–
Additions	**37**	46
Disposals	**(1)**	–
Fair value movement	**19**	14
BALANCE AT THE END OF THE YEAR	**115**	60
The unlisted debt security carried at fair value through profit or loss relates to an investment in the OUTsurance Investment Trust.		
Balance at the beginning for the year	**441**	477
Disposals	**(5)**	–
Investment income accrued	**33**	34
Dividends received from the OUTsurance Investment Trust	**(54)**	(70)
BALANCE AT THE END OF THE YEAR	**415**	441
The unlisted preference shares are held to redemption and are carried at cost, which equals redemption value and approximates fair value. They were redeemed in full during the 2014 financial year. Accrued dividends are disclosed as investment income. The dividend yield is 13.7% (2013: 13.7%).		
Balance at the beginning for the year	**5**	15
Amount redeemed	**(5)**	(8)
Dividends received	**–**	(3)
Dividends accrued	**–**	1
BALANCE AT THE END OF THE YEAR	**–**	5

R million	COMPANY 2014	2013
4. DERIVATIVE ASSET		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	**17**	9
NOTIONAL VALUE	**153**	32

The derivative is an economic hedge but does not meet the qualifying criteria for hedge accounting and is managed in conjunction with the liability which is fair valued. The notional amount of the derivative does not necessarily indicate the future cash flow involved or the current fair value of the instrument and therefore does not represent RMI Holdings' exposure to credit or market risk. The derivative instrument becomes favourable (asset) or unfavourable (liability) based on changes in share prices and counterparty credit risk. The aggregate notional amount and fair value of derivative financial instruments can fluctuate over time.

	COMPANY 2014	2013
5. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	**97**	130

Cash and cash equivalents represent current accounts and call deposits.

R million	COMPANY Number of shares million	Ordinary shares*	Share premium	Total
6. SHARE CAPITAL AND SHARE PREMIUM				
Share capital and share premium as at 1 July 2012	1 486	–	13 657	13 657
Movement for the year ended 30 June 2013	–	–	–	–
Share capital and share premium as at 30 June 2013	**1 486**	**–**	**13 657**	**13 657**
Movement for the year ended 30 June 2014	**–**	**–**	**–**	**–**
SHARE CAPITAL AND SHARE PREMIUM AS AT 30 JUNE 2014	**1 486**	**–**	**13 657**	**13 657**

* *Amount less than R500 000.*

The total authorised number of ordinary shares is 2 000 000 000 with a par value of R0.0001 per share. The issued number of ordinary shares is 1 485 688 346 shares, issued at a premium of R9.1926 per share. The unissued share capital is under the control of the board of directors until the forthcoming annual general meeting.

The total authorised number of redeemable cumulative preference shares is 100 000 000 with a par value of R0.0001 per share. The issued number of preference shares was 848 501 preference shares as at 1 July 2013. During the year 200 500 of these preference shares were redeemed, resulting in 648 001 preference shares being issued at a premium or R999.9999 per share as at 30 June 2014. As these preference shares are redeemable they are classified as financial liabilities at amortised cost (note 8).

R million	COMPANY **2014**	2013
7. RESERVES		
Retained earnings	**402**	409
Share option reserve	**1**	1
TOTAL RESERVES	**403**	410

R million	COMPANY 2014	COMPANY 2013

8. PREFERENCE SHARES

Unlisted		
Fixed rate cumulative, redeemable preference shares issued by the company	**349**	550
Variable rate cumulative, redeemable preference shares issued by the company	**299**	299
TOTAL CUMULATIVE, REDEEMABLE PREFERENCE SHARES	**648**	849

The fair value of the unlisted preference share liability is R663 million (2013: R866 million).

Fixed rate cumulative, redeemable preference shares issued by the company

The company's issued number of fixed rate, cumulative redeemable preference shares is 349 000 (2013: 549 500), with a par value of R0.0001 each. The share premium is R999.9999 per share. The preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 15 June 2016. The preference shares pay dividends at a fixed rate of 9.14% (2013: 9.14%) six monthly.

Balance at the beginning of the year	**550**	750
Amount redeemed during the year	**(201)**	(200)
BALANCE AT THE END OF THE YEAR	**349**	550

On 13 December 2013 the company redeemed 200 500 fixed rate, cumulative, redeemable preference shares at a redemption price of R201 million.

Variable rate cumulative, redeemable preference shares issued by the company

The company's issued number of variable rate cumulative redeemable preference shares is 299 001 (2013: 299 001), with a par value of R0.0001 each. The share premium is R999.9999 per share. The preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 15 June 2016. The preference shares pay dividends at a rate of 80.85% (2013: 80.85%) of the prime interest rate six monthly.

Balance at the beginning of the year	**299**	700
Amount redeemed during the year	**–**	(401)
BALANCE AT THE END OF THE YEAR	**299**	299

R million	COMPANY 2014	2013
9. DERIVATIVE LIABILITY		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	**20**	11
NOTIONAL VALUE	**86**	46

The derivative is an economic hedge but does not meet the qualifying criteria for hedge accounting and is managed in conjunction with the asset which is fair valued. The notional amount of the derivative does not necessarily indicate the future cash flow involved or the current fair value of the instrument and therefore does not represent RMI Holdings' exposure to credit or market risk. The derivative instrument becomes favourable (asset) or unfavourable (liability) based on changes in share prices and counterparty credit risk. The aggregate notional amount and fair value of derivative financial instruments can fluctuate over time.

R million	2014	2013
10. PROVISIONS		
Staff incentive bonus		
Balance at the beginning of the year	**–**	3
Provision	**1**	–
Utilised during the year	**–**	(2)
Unutilised amount reversed	**–**	(1)
TOTAL PROVISIONS	**1**	–
11. TRADE AND OTHER PAYABLES		
Trade payables and accrued expenses	**9**	9
Accrued redeemable preference share dividends	**14**	18
TOTAL TRADE AND OTHER PAYABLES	**23**	27
12. INVESTMENT INCOME		
Dividend income from subsidiaries and associates	**1 540**	1 987
Dividend income from investment in OUTsurance Investment Trust	**54**	70
Dividend income from listed fair value through profit or loss equity securities	**3**	–
Dividend income on unlisted available-for-sale investments	**–**	3
Interest income on cash and cash equivalents	**11**	16
TOTAL INVESTMENT INCOME	**1 608**	2 076

R million	COMPANY 2014	2013

13. OTHER INCOME

Fee income	**6**	5

14. MARKETING AND ADMINISTRATION EXPENSES

Expenses by nature:		
Professional fees and regulatory compliance cost	**(2)**	(2)
Management fees	**(15)**	(13)
Directors' remuneration	**(15)**	(5)
Printing costs	**(2)**	(3)
Audit fees	**(1)**	(1)
Operating lease rentals	**(1)**	–
Other expenses	**(7)**	(7)
TOTAL MARKETING AND ADMINISTRATION EXPENSES	**(43)**	(31)
Audit fees		
Statutory audit – current period	**(1)**	(1)

The company has an operating lease commitment for the office space it occupies. The company's operating lease commitment under non-cancellable operating lease agreements is as follows:

Up to 1 year	**(2)**	(1)
Between 1 and 5 years	**(3)**	(1)
TOTAL LEASE COMMITMENT UNDER NON-CANCELLABLE OPERATING LEASE AGREEMENTS	**(5)**	(2)

15. FINANCE COSTS

Cumulative, redeemable preference share dividends	**(68)**	(109)

16. TAXATION

SA normal taxation		
Current taxation		
– Current period	**(3)**	(5)

The taxation on the company's profit before taxation differs from the theoretical amount that would arise using the standard rate of taxation in South Africa as follows:

Profit before taxation	**1 497**	1 918
Effective tax rate	**0.20**	0.26
Net income and expenses not subject to taxation	**27.80**	27.74
STANDARD INCOME TAXATION RATE IN SOUTH AFRICA	**28.00**	28.00

R million	COMPANY 2014	COMPANY 2013
17. CASH FLOWS FROM OPERATING ACTIVITIES		
Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation	**1 497**	1 918
Adjusted for:		
Finance costs	**68**	109
Fair value loss	**6**	23
Non-cash expenses included in the income statement	**11**	–
Changes in working capital		
Current receivables and prepayments	**–**	1
Current payables and provisions	**(3)**	6
CASH GENERATED FROM OPERATIONS	**1 579**	2 057
18. DIVIDEND PER SHARE		
Total dividends paid during the year	**1 501**	2 154
Total dividends declared relating to the earnings for the year	**1 605**	1 411
Number of ordinary shares in issue (full amount)	**1 485 688 346**	1 485 688 346
Dividend declared per share (cents)		
– Interim	**46.0**	40.0
– Final	**62.0**	55.0
TOTAL DIVIDEND PER SHARE DECLARED	**108.0**	95.0

19. RELATED PARTIES

Principal shareholders

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

Key management personnel

Only RMI Holdings' directors are key management personnel. Information on directors' emoluments and their shareholding in the company appears on pages 44 to 48.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 1.

The following companies are subsidiaries of RMI Holdings:
- OUTsurance Holdings Limited
- OUTsurance Insurance Company Limited
- OUTsurance Life Insurance Company Limited
- OUTsurance International Holdings Proprietary Limited
- OUTsurance Shared Services Proprietary Limited
- Youi Proprietary Limited (South Africa)
- Youi Holdings Proprietary Limited
- Youi Proprietary Limited (Australia)
- Youi New Zealand Proprietary Limited
- Micawber 296 Proprietary Limited
- RMB-SI Investments Proprietary Limited
- RMB Structured Insurance Limited
- RMB Structured Insurance Limited PCC
- RMB Structured Life Limited
- RMB Financial Services Limited
- RMB-SI Investments (Mauritius) Limited
- Firness International Proprietary Limited

Associates

Details of investments in associates are disclosed in note 2.

The following companies are associates of RMI Holdings:
- Discovery Limited
- MMI Holdings Limited
- OUTsurance Insurance Company of Namibia Limited
- Truffle Capital Proprietary Limited
- RTS Construction an Engineering Underwriters Proprietary Limited
- Risk Guard Alliance Proprietary Limited
- HCV Underwriting Managers Proprietary Limited
- CIB Insurance Administrators Proprietary Limited
- Cyan Capital Proprietary Limited

Other

RMI Holdings invested in preference shares issued by New Seasons Financial Services Proprietary Limited ("NSFS"). NSFS is a shareholder of RMB-SI Investments Proprietary Limited.

	COMPANY	
R million	**2014**	2013
19. RELATED PARTIES continued		
Related party transactions		
Transactions of RMI Holdings and its subsidiary companies with:		
Principal shareholders		
Dividends paid	**679**	975
Key management personnel		
Salaries and other benefits	**21**	10
Subsidiaries		
Income statement effect:		
– Dividends received	**808**	1 058
– Preference share dividends received	**6**	36
– Fees received	**6**	5
Associates		
Income statement effect:		
– Dividends received	**726**	893
Other		
Income statement effect:		
– Investment income	**–**	3
Effect on the statement of financial position:		
– Financial assets – Available-for-sale	**–**	5

20. CONTINGENT LIABILITIES

The following contingencies and guarantees existed at 30 June 2014:

A subsidiary has the right to call on additional funding from the company, subject to approval from the board. A subsidiary obtained a credit facility of R500 million from FirstRand Bank Limited subject to a surety from RMI Holdings of R400 million.

21. FINANCIAL RISK MANAGEMENT

The company is exposed to various financial risks in connection with its current operating activities, such as market risk, credit risk and liquidity risk.

Market risk

The risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that the value of the financial instrument denominated in a currency other than the reporting currency may fluctuate due to changes in the foreign currency exchange rate between the reporting currency and the currency in which such instrument is denominated.

The company had no exposure to currency risk at 30 June 2014 (2013: none).

Interest rate risk

Interest rate risk is when the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The table below reflects the company's exposure to interest rate risk. An increase or decrease in the market interest rate would result in the following changes in the profit before taxation of the company:

	COMPANY	
R million	**2014**	2013
Cash and cash equivalents – 200 bps increase	**2**	3
Cash and cash equivalents – 200 bps decrease	**(2)**	(3)
Financial liabilities – Preference shares – 200 bps increase	**(5)**	(5)
Financial liabilities – Preference shares – 200 bps decrease	**5**	5

Other price risk

Equity risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

21. FINANCIAL RISK MANAGEMENT continued

The table below reflects the company's exposure to equity price risk. A hypothetical 10% increase or decrease in the equity prices would result in the following changes in the profit before taxation of the company:

	COMPANY			
	30 June 2014		30 June 2013	
R million	**10% increase**	**10% decrease**	10% increase	10% decrease
Equity securities at fair value through profit or loss	**12**	**(12)**	6	(6)
Derivative asset	**14**	**(14)**	4	(4)
Derivative liability	**(9)**	**9**	(6)	6
	17	**(17)**	4	(4)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The key areas where the company is exposed to credit risk are:

- Unlisted debt securities;
- Loans and receivables; and
- Cash and cash equivalents.

Significant concentrations of credit risk, if applicable, are disclosed in the financial statements. The credit exposure to any one counterparty is managed by the board of directors and by setting transaction/exposure limits, which are reviewed at each board and audit and risk committee meeting. The creditworthiness of existing and potential clients is monitored by the board.

21. FINANCIAL RISK MANAGEMENT continued

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

	COMPANY		
R million	**BBB**	**Not rated**	**Total**
30 June 2014			
Debt securities			
– fair value through profit or loss – unlisted	**–**	**415**	**415**
Derivative asset	**–**	**17**	**17**
Loans and receivables	**–**	**1**	**1**
Cash and cash equivalents	**97**	**–**	**97**
TOTAL	**97**	**433**	**530**
R million	A	Not rated	Total
30 June 2013			
Debt securities			
– fair value through profit or loss – unlisted	–	441	441
– available-for-sale – unlisted	–	5	5
Derivative asset	–	9	9
Loans and receivables	–	1	1
Cash and cash equivalents	130	–	130
TOTAL	130	456	586

The ratings were obtained from Fitch. The ratings are based on long-term investment horizons. Where long-term ratings are not available, the financial instruments are categorised according to short-term ratings. The ratings are defined as follows:

Long-term investment grade:

A – The financial instrument is considered upper-medium grade and is subject to low credit risk although certain economic situations can more readily affect the issuers' financial soundness adversely than those rated AAA or AA.

BBB – The financial instrument is subject to moderate credit risk and indicates medium class issuers, which are currently satisfactory.

Not rated – The credit exposure for the assets listed above is considered acceptable by the board even though certain assets do not have a formal rating.

Liquidity risk and asset liability matching

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company's liabilities are matched by appropriate assets and it has significant liquid resources to cover its obligations. The company's liquidity and ability to meet such calls are monitored quarterly at the board meetings.

21. FINANCIAL RISK MANAGEMENT continued

R million	COMPANY Call to 6 months	7 – 12 months	1 – 5 years/no contractual maturity	Total
30 June 2014				
Assets				
Investments in subsidiaries	–	–	**4 633**	**4 633**
Investments in associates	–	–	**9 486**	**9 486**
Equity securities – fair value through profit or loss	–	–	**115**	**115**
Debt securities – fair value through profit or loss	–	–	**415**	**415**
Derivative asset	–	–	**17**	**17**
Loans and receivables	**1**	–	–	**1**
Taxation	–	**2**	–	**2**
Cash and cash equivalents	**97**	**–**	**–**	**97**
TOTAL ASSETS	**98**	**2**	**14 666**	**14 766**
Liabilities				
Share-based payment liability	**8**	**–**	**6**	**14**
Financial liabilities				
Preference shares (undiscounted)	**27**	**27**	**700**	**754**
Derivative liability	**–**	**–**	**20**	**20**
Provisions	**1**	**–**	**–**	**1**
Trade and other payables	**23**	**–**	**–**	**23**
TOTAL LIABILITIES	**59**	**27**	**726**	**812**

R million	COMPANY Call to 6 months	7 – 12 months	1 – 5 years/no contractual maturity	Total
21. FINANCIAL RISK MANAGEMENT continued				
30 June 2013				
Assets				
Investments in subsidiaries	–	–	4 826	4 826
Investments in associates	–	–	9 486	9 486
Equity securities – fair value through profit or loss	–	–	60	60
Debt securities – fair value through profit or loss	–	–	441	441
Debt securities – available-for-sale	–	–	5	5
Derivative asset	–	–	9	9
Loans and receivables	1	–	–	1
Cash and cash equivalents	130	–	–	130
TOTAL ASSETS	131	–	14 827	14 958
Liabilities				
Share-based payment liability	–	–	4	4
Financial liabilities				
Preference shares (undiscounted)	36	35	987	1 058
Derivative liability	–	–	11	11
Trade and other payables	27	–	–	27
TOTAL LIABILITIES	63	35	1 002	1 100

22. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that quoted prices are used in the calculation of the fair value of the financial instruments. These levels are defined as follows:

- Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments as measured at the reporting date.
- Level 2 – fair value is determined 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.

	COMPANY			
R million	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**
30 June 2014				
Financial assets				
Equity securities				
– fair value through profit or loss	**115**	**–**	**–**	**115**
Debt securities				
– fair value through profit or loss	**–**	**–**	**415**	**415**
Derivative asset	**–**	**17**	**–**	**17**
TOTAL FINANCIAL ASSETS VALUED AT FAIR VALUE	**115**	**17**	**415**	**547**
Financial liabilities				
Derivative liability	**–**	**20**	**–**	**20**

22. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

R million	COMPANY 2014	2013
Reconciliation of movement in level 3 assets		
Balance at the beginning of the year	**441**	477
Disposals in the current year	**(5)**	–
Investment income accrued	**33**	34
Dividends received from the OUTsurance Investment Trust	**(54)**	(70)
BALANCE AT THE END OF THE YEAR	**415**	441

The level 3 financial asset at fair value through profit or loss represents an investment in the OUTsurance Investment Trust, 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.

	COMPANY			
R million	Level 1	Level 2	Level 3	Total carrying amount
30 June 2013				
Financial assets				
Equity securities				
– fair value through profit or loss	60	–	–	60
Debt securities				
– fair value through profit or loss	–	–	441	441
– available-for-sale	–	5	–	5
Derivative asset	–	9	–	9
TOTAL FINANCIAL ASSETS VALUED AT FAIR VALUE	60	14	441	515
Financial liabilities				
Derivative liability	–	11	–	11

23. POST REPORTING DATE EVENT

Final dividend declaration

RMI Holdings declared a final dividend of 62.0 cents per ordinary share (R921 million) on 11 September 2014, payable on 13 October 2014.

African Bank Investments Limited

After year-end there was a credit event reported for African Bank Investments Limited. The impact on RMI Holdings is immaterial.

Preference shares

RMI Holdings has converted its variable rate cumulative, redeemable preference shares to fixed rate cumulative, redeemable preference shares at a fixed rate of 6.89% payable six monthly effective from 21 August 2014. The rate on the existing fixed rate cumulative, redeemable preference shares was also changed to 6.89% payable six monthly effective from 21 August 2014. The compulsorily redeemable date of 15 June 2016 was extended to 22 August 2017. Refer to note 8 of the separate annual financial statements on page 189.

CONTENTS

SHAREHOLDERS' **INFORMATION**

3

Shareholdings
as at 30 June 2014

	Shares held (000's)	%
Analysis of shareholding		
Financial Securities Limited (Remgro)	**449 639**	**30.3**
Royal Bafokeng Holdings Proprietary Limited	**222 853**	**15.0**
Public Investment Corporation	**119 634**	**8.0**
Allan Gray (on behalf of clients)	**87 707**	**5.9**
Total of shareholders holding more than 5%	**879 833**	**59.2**
Other	**605 855**	**40.8**
TOTAL	**1 485 688**	**100.0**
Shareholder type		
Corporates	**672 492**	**45.3**
Pension funds	**184 732**	**12.4**
Unit trusts	**186 336**	**12.6**
Private investors	**50 493**	**3.4**
Insurance companies and banks	**12 195**	**0.8**
Other	**379 440**	**25.5**
TOTAL	**1 485 688**	**100.0**

	Number of shareholders	Shares held (000's)	%
Public and non-public shareholders			
Public	**31 834**	**670 948**	**45.1**
Non-public	**10**	**814 740**	**54.9**
– Corporates	**2**	**672 492**	**45.3**
– Directors and associates	**8**	**142 248**	**9.6**
TOTAL	**31 844**	**1 485 688**	**100.0**

	Shares held (000's)	%
Geographic ownership		
South Africa	**1 329 570**	**89.5**
International	**156 118**	**10.5**
TOTAL	**1 485 688**	**100.0**

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

Performance on the JSE Limited

	2014
Number of shares in issue (000's)	**1 485 688**
Market prices (cents per share)	
– Closing	**3 278**
– High	**3 450**
– Low	**2 333**
– Weighted average	**2 742**
Closing price/net asset value per share	**3.1**
Closing price/headline earnings per share	**16.9**
Volume of shares traded (million)	**273**
Value of shares traded (R million)	**7 473**
Market capitalisation (R million)	**48 701**

Shareholders' diary

REPORTING

Interim results for the 2015 financial year	
Announcement for the six months ending 31 December 2014	Early March 2015
Final results for the 2015 financial year	
Announcement for the year ending 30 June 2015	Mid September 2015
Posting of annual report	End October 2015
Annual general meeting	End November 2015

DIVIDENDS

Interim dividend for the 2015 financial year	
Declare	Early March 2015
Payable	End March 2015
Final dividend for the 2015 financial year	
Declare	Mid September 2015
Payable	Mid October 2015

2014 Notice of annual general meeting

Rand Merchant Insurance Holdings Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2010/005770/06)
JSE ordinary share code: RMI
ISIN code: ZAE000153102
("RMI" or "the company")

Notice is hereby given to the holders of the ordinary shares in RMI ("shareholders"), in terms of section 62(1) of the Companies Act, 71 of 2008, ("the Companies Act"), that the fourth annual general meeting of the shareholders of RMI will be held in the executive boardroom, 4th floor, 4 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton on Friday, 21 November 2014 at 11:00 to consider, and if approved, pass the following resolutions with or without modification.

The record date in terms of section 59 of the Companies Act for shareholders to be recorded in the securities register of the company in order to be able to attend, participate and vote at the annual general meeting, is Friday, 14 November 2014. Accordingly, the last day to trade in order to be able to attend, participate and vote at the annual general meeting, is Friday, 7 November 2014. This notice will be sent to all shareholders who are recorded as such in the company's securities register on 17 October 2014.

AGENDA

1. Presentation of the audited group and separate annual financial statements

The audited group and separate annual financial statements (as approved by the board of directors of the company), including the reports of the external auditor, audit and risk committee and directors for the financial year ended 30 June 2014, all of which are included in the annual integrated report of which this notice forms a part ("annual integrated report") are presented to the meeting. Shareholders are referred to page 36 of the annual integrated report for the report from the social, ethics and transformation committee of RMI.

2. Ordinary resolution number 1

Re-election of directors

To re-elect, by way of separate resolutions, the following directors who retire in terms of the company's memorandum of incorporation ("MOI") and who, being eligible, offer themselves for re-election.

2.1 Gerrit Thomas Ferreira (66)

Non-executive director

Date of appointment: 8 December 2010
Educational qualifications: BCom, Hons B(B&A), MBA
Listed directorships: Remgro Limited and RMB Holdings Limited

2.2 Patrick Maguire Goss (66)
Independent non-executive director

Date of appointment: 8 December 2010
Educational qualifications: BEcon (Hons), BAccSc (Hons), CA(SA)
Listed directorships: FirstRand Limited and RMB Holdings Limited

2.3 Sonja Emilia Ncumisa Sebotsa (42)
Independent non-executive director

Date of appointment: 8 December 2010
Educational qualifications: LLB (Hons), LSE, MA (McGill), SFA (UK), Executive Leadership Programme (Harvard University)
Listed directorships: Aquarius Platinum Limited, Discovery Limited and RMB Holdings Limited

2.4 Khehla Cleopas Shubane (58)
Independent non-executive director

Date of appointment: 8 December 2010
Educational qualifications: BA (Hons), MBA
Listed directorships: MMI Holdings Limited and RMB Holdings Limited

Additional information in respect of ordinary resolution number 1
A brief CV of each of the persons mentioned above appears on pages 40, 41 and 43 of the annual integrated report.

3. Ordinary resolution number 2

Election of directors
To elect the following directors, appointed by the board of directors since the previous annual general meeting, who retire in terms of the MOI and who, being eligible, offer themselves for election:

3.1 Johan Petrus Burger (55)
Independent non-executive director

Date of appointment: 30 June 2014
Educational qualifications: BCom (Hons), CA(SA)
Listed directorships: FirstRand Limited, MMI Holdings Limited and RMB Holdings Limited

3.2 Peter Cooper (58)
Non-executive director

Date of appointment as non-executive director: 11 September 2014
Educational qualifications: BCom (Hons), CA(SA), HDipTax
Listed directorships: FirstRand Limited (alternate) and RMB Holdings Limited

3.3 Per-Erik Lagerström (50)
Independent non-executive director

Date of appointment: 30 June 2014
Educational qualifications: BSc (Accounting), MSc (Economics) (London School of Economics)
Listed directorships: RMB Holdings Limited

3.4 Mafison Murphy Morobe (57)
Independent non-executive director

Date of appointment: 1 August 2014
Educational qualifications: Diploma in Project Management, MCEF – Princeton '91
Listed directorships: Remgro Limited and RMB Holdings Limited

Additional information in respect of ordinary resolution number 2
A brief CV of each of the persons mentioned above appears on pages 40 and 42 of the annual integrated report.

4. Ordinary resolution number 3

Approval of remuneration policy
Resolved that shareholders endorse the company's remuneration policy and its implementation. The company's remuneration policy is set out on pages 33 and 34 of the annual integrated report.

Additional information in respect of ordinary resolution number 3
In terms of King III: Report of governance for South Africa 2009, the company's remuneration policy should be tabled for a non-binding advisory vote at the annual general meeting. The essence of this vote is to enable the ordinary shareholders to express their views on the remuneration policy adopted and on its implementation. Shareholders are accordingly requested to endorse the company's remuneration policy.

5. Ordinary resolution number 4

Place 15% of the authorised but unissued ordinary shares under the control of the directors
Resolved that 15% of the authorised but unissued ordinary shares in the company be and are hereby placed under the control of the directors as a general authority until the forthcoming annual general meeting and that the directors be and are hereby authorised to allot, issue and otherwise dispose of such shares to such person or persons upon such terms and conditions as the directors in their discretion deem fit, subject to the Companies Act, the MOI and the JSE Listings Requirements, where applicable.

Additional information in respect of ordinary resolution number 4
Shareholders should note that 15% or 77 146 748 of the company's authorised but unissued ordinary shares represents approximately 5% of the issued ordinary shares. At 30 June 2014 this was valued at approximately R2.5 billion.

6. Ordinary resolution number 5

General authority to issue ordinary shares for cash
Resolved that, subject to the passing of ordinary resolution number 4, the board of directors of the company be and are hereby authorised, by way of a renewable general authority, to issue those ordinary shares in the share capital of the company under the control of the directors for cash as and when they in their discretion deem fit, subject to the Companies Act, the MOI and the JSE Listings Requirements, when applicable, and provided that:

- this authority shall be valid until the company's next annual general meeting or for fifteen (15) months from the date of this resolution, whichever period is shorter;

- the ordinary shares must be issued to public shareholders as defined by the JSE Listings Requirements and not to related parties;
  - in respect of securities which are the subject of the general issue of shares for cash in the aggregate in any one financial year may not exceed 148 568 835 shares, being 10% (ten percent) of the number of listed equity securities of the company as at the date of this notice of annual general meeting, provided that:
    - any equity securities issued under this authority during the period must be deducted from the number above;
    - in the event of a sub-division or consolidation of issued equity securities during the period contemplated above, the existing authority must be adjusted accordingly to represent the same allocation ratio; and
    - the calculation of the listed equity securities is a factual assessment of the listed equity securities as at the date of the notice of annual general meeting, excluding treasury shares;
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount at which the ordinary shares may be issued is 10% (ten percent) of the weighted average traded price of the company's ordinary shares measured over 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors of the company and the party subscribing for the securities;
- a paid press announcement giving full details will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% (five percent) or more of the number of ordinary shares in issue prior to that issue, in terms of the JSE Listings Requirements; and
- any such general issue is subject to exchange control regulations and approval at that time.

Additional information in respect of ordinary resolution number 5

Approval for this ordinary resolution is obtained by achieving a 75% majority of the votes cast in favour of this resolution at the annual general meeting by all equity security holders entitled to vote thereon and present or represented by proxy.

7 Ordinary resolution number 6

Approval of re-appointment of auditors

Resolved that, as nominated by the audit and risk committee, PricewaterhouseCoopers Inc. be re-appointed as auditors of the company until the next annual general meeting.

8. Ordinary resolution number 7

Appointment of the company's audit and risk committee members

Resolved by way of separate resolutions that the following persons, who are independent non-executive directors of the company, be and are hereby elected as members of the audit and risk committee with effect from the end of this annual general meeting:

8.1 Johan Petrus Burger (55)
Independent non-executive director

Date of appointment: 21 August 2014
Educational qualifications: BCom (Hons), CA(SA)
Listed directorships: FirstRand Limited, MMI Holdings Limited and RMB Holdings Limited

8.2 Jan Willem Dreyer (63)
Independent non-executive director

Date of appointment: 8 December 2010
Educational qualifications: BCom, LLB, HDip Co Law, HDip Tax
Listed directorships: RMB Holdings Limited

8.3 Sonja Emilia Ncumisa Sebotsa (42)
Independent non-executive director

Date of appointment: 8 December 2010
Educational qualifications: LLB (Hons), LSE, MA (McGill), SFA (UK), Executive Leadership Programme (Harvard University)
Listed directorships: Aquarius Platinum Limited, Discovery Limited and RMB Holdings Limited

Additional information in respect of ordinary resolution number 7
A brief CV of each of the persons mentioned above appears on pages 40, 41 and 43 of the annual integrated report.

9. Special resolution number 1

Approval of non-executive directors' remuneration with effect from 1 December 2014
Resolved, as a special resolution in terms of section 66(9) of the Companies Act, that the following remuneration of the non-executive directors for their services as directors of the company from 1 December 2014 as set out below be and is hereby approved:

	Per annum
Board (4 meetings per annum)	
– Chairman	**R400 000**
– Director	**R200 000**
Audit and risk committee (2 meetings per annum)	
– Chairman	**R100 000**
– Member	**R50 000**
Ad hoc meetings (per hour)	**R3 450**

Additional information in respect of special resolution number 1
The reason for special resolution number 1 is to approve the remuneration of the non-executive directors effective from 1 December 2014. The increase compared to the prior year is attributable to the adoption of a new investment strategy as explained in the executive review on page 10.

10. Special resolution number 2

General authority to repurchase company shares

Resolved that the acquisition by the company, and/or any subsidiary of the company, from time to time of the issued ordinary shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, be and is hereby authorised, but subject to the MOI, the Companies Act and JSE Listings Requirements, when applicable, and provided that:

- this authority shall be valid until the company's next annual general meeting provided that it shall not extend beyond fifteen (15) months from the date of passing this special resolution;
- any such repurchase be effected through the order book operated by the JSE trading system and done without any prior understanding or agreement between the company and the counterparty (reported trades are prohibited);
- a paid press release giving such details as may be required in terms of the JSE Listings Requirements be published when the company or its subsidiaries have cumulatively repurchased 3% (three percent) of the initial number of the relevant class of shares, and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter;
- a general repurchase may not in the aggregate in any one financial year exceed 10% (ten percent) of the number of shares in the company's issued share capital at the time this authority is given provided that subsidiaries of the company may not at any one time hold more than 10% (ten percent) in aggregate of the number of issued shares of the company;
- no repurchases will be effected during a prohibited period unless there is in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and details thereof have been submitted to the JSE in writing. In this regard, the company will instruct an independent third party, which makes its investment decisions in relation to the company's securities independently of, and uninfluenced by, the company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE;
- at any point in time the company may only appoint one agent to effect repurchases on the company's behalf;
- a resolution has been passed by the board of directors of the company authorising the repurchase, and the company and its subsidiaries have passed the solvency and liquidity test as set out in section 4 of the Companies Act and that since the application of the solvency and liquidity test, there have been no material changes to the financial position of the company and the group;
- in determining the price at which shares may be repurchased in terms of this authority, the maximum premium permitted will be 10% (ten percent) above the weighted average traded price of the ordinary shares as determined over the five (5) days prior to the date of repurchase; and
- any such general repurchase is subject to exchange control regulations and approvals at the point in time, where relevant.

Additional information in respect of special resolution number 2

The board has no immediate intention to use this authority to repurchase company shares. However, the board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

After having considered the effect on the company of the repurchase contemplated under this general authority, the directors are of the opinion that, and undertake that they will not commence a general repurchase of shares as contemplated above, unless the following can be met:

- the company and the group will, in the ordinary course of business, be able to pay its debts for a period of 12 months after the date of the repurchase;
- the assets of the company and the group will be in excess of the liabilities of the company and group for a period of 12 months after the date of the repurchase. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the audited annual group financial statements for the year ended 30 June 2014;
- the company's and group's ordinary share capital and reserves will be adequate for ordinary business purposes for a period of 12 months following the date of the repurchase; and
- the company and group will, after such repurchase, have sufficient working capital for ordinary business purposes for a period of 12 months following the date of the repurchase.

For purposes of considering this special resolution and in compliance with section 11.26 of the JSE Listings Requirements, the information listed below has been included in the annual integrated report at the places indicated:

1. Major shareholders – refer page 56;
2. There have been no material changes in the financial or trading position of the company and its subsidiaries that have occurred since the end of the last financial period for which audited financial statements have been published, as set out in the annual integrated report of which this notice forms part;
3. Share capital of the company – refer page 55;
4. The directors, whose names are given on page 57 of this annual integrated report collectively and individually accept full responsibility for the accuracy of the information given in these notes 1 to 3 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement in these notes 1 to 3 false or misleading and that all reasonable enquiries to ascertain such facts have been made and that the notice contains all information required by law and the JSE Listings Requirements.

11. To transact any other business that may be transacted at an annual general meeting

Approvals required for resolutions

Ordinary resolutions number 1, 2, 3, 4, 6 and 7 contained in this notice of annual general meeting require the approval of more than 50% of the votes exercised on each resolution by shareholders present, or represented by proxy, at the annual general meeting.

Ordinary resolution number 5 (general authority to issue ordinary shares for cash) and special resolutions number 1 and 2 contained in this notice of annual general meeting require the approval of at least 75% of the votes exercised on each resolution by shareholders present, or represented by proxy, at the annual general meeting.

Important notice regarding attendance at the annual general meeting

General

Shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the company that their shares are in fact registered in their name.

Certificated members

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a shareholder. Proxy forms should be forwarded to reach the company's transfer secretaries, Computershare Investor Services Proprietary Limited at 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) or at fax number 011 688 5238 and be received by them no later than 11:00 on Wednesday, 19 November 2014. Before a proxy exercises any rights of a shareholder at the annual general meeting, such form of proxy must be so delivered.

Dematerialised shareholders

Shareholders who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their Central Securities Depository Participant ("CSDP") or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Voting will be by way of a poll and every shareholder of the company present, whether in person or represented by proxy, shall have one vote for every share held in the company by such shareholder.

Shares held by a share trust or scheme, treasury shares and unlisted shares will not have their votes at the annual general meeting taken into account for the purposes of resolutions proposed in terms of the JSE Listings Requirements.

Electronic participation

Shareholders or their proxies may participate in the annual general meeting by way of a teleconference call, provided that if they wish to do so they must contact the company secretary by email at schalk.human@rmbh.co.za by no later than 17:00 on 19 November 2014 in order to obtain a pin number and dial-in details for that conference call.

Voting by way of teleconference call will only be permitted if the applicable shareholder is represented by a proxy who is physically present at the meeting and in respect of whom a proxy form has been duly submitted in accordance with the provisions contained in this notice of annual general meeting.

Shareholders wishing to participate in this manner are reminded that they will be separately billed by their respective telephone service providers.

Proof of identification required

Kindly note that, in terms of section 63(1) of the Companies Act, participants at the meeting (including shareholders and proxies) will be required to provide reasonably satisfactory identification and the person presiding at the annual general meeting must be reasonably satisfied that the right of any person to participate in and vote (whether as a shareholder or as proxy for a shareholder) has been reasonably verified, before being entitled to attend or participate in a shareholders' meeting.

Acceptable forms of identification include valid identity documents, driver's licences and passports.

SUMMARY OF SHAREHOLDER RIGHTS

In compliance with the provisions of section 58(8)(b)(i) of the Companies Act, a summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Companies Act, is set out below:

- A shareholder entitled to attend and vote at the annual general meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the annual general meeting in the place of the shareholder. A proxy need not be a shareholder of the company.
- A proxy appointment must be in writing, dated and signed by the shareholder appointing the proxy and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid only until the end of the annual general meeting.
- A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointing the proxy.
- The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.
- The appointment of a proxy is revocable by the shareholder in question by cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the company as required in the first sentence of this paragraph.
- If the instrument appointing the proxy or proxies has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the MOI to be delivered by the company to the shareholder, must be delivered by the company to (a) the shareholder, or (b) the proxy or proxies, if the shareholder has (i) directed the company to do so in writing; and (ii) paid any reasonable fee charged by the company for doing so.

Attention is also drawn to the "Notes to the form of proxy".

By order of the board of directors.

JS Human
MCom (Accounting), CA(SA)
Company secretary

24 October 2014

Form of proxy

Only for use by shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

RAND MERCHANT INSURANCE HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 2010/005770/06)
JSE ordinary share code: RMI
ISIN code: ZAE000153102
("RMI" or "the company")

For use by shareholders who have not dematerialised their shares or who have dematerialised their shares but with "own name" registration, at the annual general meeting to be held at 11:00 on Friday, 21 November 2014, in the executive boardroom, 4th floor, 4 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton and at any adjournment thereof.

Shareholders who have dematerialised their shares other than with "own name" registration, must inform their Central Securities Depository Participant ("CSDP") or broker of their intention to attend the annual general meeting and request their CSDP or broker to issue them with the necessary authorisation to attend or they must provide their CSDP or broker with their voting instructions should they not wish to attend the annual general meeting in person.

I/We, the undersigned (name) ______________________________

of (address) ______________________________

the registered holder of ______________________________

ordinary shares in Rand Merchant Insurance Holdings Limited (Reg No 2010/005770/06), hereby appoint

1. ______________________________, of ______________________________ or failing him

2. ______________________________, of ______________________________ or failing him

3. the chairperson of the annual general meeting, as my/our proxy to be present and act on my/our behalf, speak and on a poll, vote on my/our behalf as indicated below at the annual general meeting of shareholders of the company to be held at 11:00 on Friday, 21 November 2014 and at any adjournment thereof as follows: (see note 2)

	Insert an "X" or the number of votes exercisable (one vote per ordinary share)		
	In favour of	Against	Abstain
Ordinary resolution number 1 Re-election of directors:			
1.1 Gerrit Thomas Ferreira			
1.2 Patrick Maguire Goss			
1.3 Sonja Emilia Ncumisa Sebotsa			
1.4 Khehla Cleopas Shubane			
Ordinary resolution number 2 Election of directors			
2.1 Johan Petrus Burger			
2.2 Peter Cooper			
2.3 Per-Erik Lagerström			
2.4 Mafison Murphy Morobe			
Ordinary resolution number 3 Approval of remuneration policy			
Ordinary resolution number 4 Place 15% of the authorised but unissued ordinary shares under the control of the directors			
Ordinary resolution number 5 General authority to issue ordinary shares for cash			
Ordinary resolution number 6 Approval of re-appointment of auditors			
Ordinary resolution number 7 Appointment of the company's audit and risk committee members			
7.1 Johan Petrus Burger			
7.2 Jan Willem Dreyer			
7.3 Sonja Emilia Ncumisa Sebotsa			
Special resolution number 1 Approval of non-executive directors' remuneration with effect from 1 December 2014			
Special resolution number 2 General authority to repurchase company shares			

Instructions to my/our proxy are indicated by a cross in the space provided above or by the number of shares in the appropriate boxes where all shares held are not being voted.

2014

Signature of registered shareholder (assisted by me as applicable) Date

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

Explanatory notes to the notice of annual general meeting

NOTES:

1. A shareholder, who is entitled to attend and vote at the annual general meeting, may appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company.
2. Every shareholder present in person or by proxy and entitled to vote at the annual general meeting of the company shall, on a show of hands, have one vote only, irrespective of the number of shares such shareholder holds, but in the event of a poll, every ordinary share in the company shall have one vote.
3. Dematerialised shareholders with "own names" registration are shareholders who appointed Computershare Custodial Services as their Central Securities Depository Participant (CSDP) with the express instruction that their uncertificated shares are to be registered in the electronic sub-register of members in their own names.

INSTRUCTIONS ON SIGNING AND LODGING THE PROXY FORM:

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided overleaf, with or without deleting "the chairperson of the annual general meeting", but any such deletion must be initialled by the shareholder. Should this space be left blank, the chairperson of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that shareholder in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the shareholder's exercisable votes. A shareholder or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the shareholder or by his/her proxy.
3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. To be valid the completed proxy forms must be forwarded to reach the company's transfer secretaries, Computershare Investor Services Proprietary Limited at 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) or at fax number 011 688 5238 to be received by no later than 11:00 on Wednesday 19 November 2014. Proxy forms may only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.
5. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the transfer secretaries or waived by the chairperson of the annual general meeting.
6. The completion and lodging of this proxy form shall not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.
8. The chairperson of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a shareholder wishes to vote.

Administration

RAND MERCHANT INSURANCE HOLDINGS LIMITED

Registration number: 2010/005770/06
JSE ordinary share code: RMI
ISIN code: ZAE000153102

COMPANY SECRETARY

JS Human
MCom (Accounting), CA(SA)

Registered office
3rd floor, 2 Merchant Place
Corner of Fredman Drive and Rivonia Road
Sandton, 2196

Postal address
PO Box 786273
Sandton
2146

Telephone

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International	+27 11 282 8166

Telefax

National	011 282 4210
International	+27 11 282 4210

Website
www.rminsurance.co.za

AUDITORS

PricewaterhouseCoopers Incorporated
2 Eglin Road
Sunninghill
2157

SPONSOR

(In terms of the JSE Listings Requirements)
Rand Merchant Bank (a division of
FirstRand Bank Limited)
1 Merchant Place
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Telephone

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TRANSFER SECRETARIES

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Proprietary Limited
Ground floor, 70 Marshall Street
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Postal address
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Marshalltown, 2107

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Contact details

DISCOVERY

155 West Street, Sandton
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Contact: Thys Botha

MMI HOLDINGS

268 West Avenue, Centurion
PO Box 7400, Centurion, 0046
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Telefax: (021) 940 5370
www.mmiholdings.com
Contact: Tyrrel Murray

OUTSURANCE

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Zwartkop Ext 7, Centurion
PO Box 8443, Centurion, 0046
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Contact: Jan Hofmeyr

RMB-SI INVESTMENTS

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PO Box 652659, Benmore, 2010
Telephone: (011) 685 7600
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