ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

RMI
OPTIMISE
DIVERSIFY
MODERNISE

Contents

Schalk Human MCom(Acc) CA(SA) prepared these consolidated and separate annual financial statements under the supervision of Herman Bosman LLM CFA.

About the artist in this report

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

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

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

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

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

Directors' responsibility statement

To the shareholders of Rand Merchant Investment Holdings Limited

The directors of Rand Merchant Investment Holdings Limited (RMI) are required by the Companies Act, 71 of 2008 (Companies Act), 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 consolidated and separate annual financial statements include amounts based on judgements and estimates made by management.

In preparing the consolidated and separate 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 consolidated and separate annual financial statements incorporate full and appropriate disclosure in line with the group's philosophy on corporate governance.

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

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

The directors have reviewed the group and company's budget and flow of funds forecast and considered the group 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 and company have 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 consolidated and separate annual financial statements.

It is the responsibility of the group's independent external auditor, PricewaterhouseCoopers Inc, to report on the fair presentation of the consolidated and separate annual financial statements. Their unmodified report appears on pages 9 to 15.

The consolidated annual financial statements of the group, which appear on pages 16 to 100 and the separate annual financial statements of the company, which appear on pages 101 to 119, were approved by the board of directors on 10 September 2019 and signed on its behalf by:

JJ Durand
Chairman

HL Bosman
Chief executive officer

Declaration by the company secretary

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

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

JS Human
Company secretary

10 September 2019

Audit and risk committee report

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

AUDIT AND RISK COMMITTEE MEMBERSHIP AND MEETINGS

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

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

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

	March 2019	September 2018
Sonja de Bruyn LLB (Hons) LSE MA (McGill) SFA (UK) Executive Leadership Programme (Harvard) (chairperson)	✔	✔
Johan Burger BCom (Hons) CA (SA)	✔	✔
Per Lagerström BSc (Accounting) MSc (Economics) (London School of Economics)	✔	✔
James Teeger BCom BAcc CA (SA) HDip Tax	✔	✔

✔ Attended meeting

ROLES AND RESPONSIBILITIES

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

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

KING IV

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

THE FINANCE FUNCTION

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

EFFECTIVENESS OF COMPANY'S INTERNAL FINANCIAL CONTROLS

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

INDEPENDENCE OF THE EXTERNAL AUDITOR

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

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

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

Details of fees paid to the external auditor are disclosed in note 25 to the consolidated annual financial statements.

The partner responsible for the audit is required to rotate every five years. Corlia Volschenk succeeded Francois Prinsloo as the designated auditor for the 2019 financial year in terms of the rotation policy.

The committee meets with the auditor independently from senior management.

COMBINED ASSURANCE

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

The various assurance providers to the board are:

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

INTERNAL AUDIT

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

EXTERNAL AUDIT

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

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

Sonja de Bruyn
Chairperson of the audit and risk committee

10 September 2019

Directors' report

NATURE OF BUSINESS

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

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

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

During the 2019 financial year, the following corporate activity took place:

- RMI Investment Managers Group Proprietary Limited (RMI Investment Managers) was capitalised with a further R198.1 million;
- RMI Investment Managers Affiliates 2 Proprietary Limited (Affiliates 2) acquired the following in the financial year ended 30 June 2019:
  - An additional 4% equity stake in Sentio Capital Management Proprietary Limited in August 2018;
  - A further 2.1% equity investment in CoreShares Proprietary Limited in December 2018;
  - A 15% equity stake in Perpetua Investment Managers Proprietary Limited in March 2019;
  - An additional 4.9% equity stake in Ethos Private Equity Proprietary Limited in May 2019; and
  - A further R2 million equity investment in its 100%-owned subsidiary, Granate Asset Management Proprietary Limited;
- Royal Investment Managers Proprietary Limited acquired the following in the financial year ended 30 June 2019:
  - A 31% equity stake in Visio Capital Management Proprietary Limited in April 2019; and
  - An additional 2.5% equity stake in Ethos Private Equity Proprietary Limited in May 2019;
- RMI, via RMI Asset Holdings Proprietary Limited, acquired an additional 0.5% equity stake in OUTsurance during the first half of the 2019 financial year; and
- RMI acquired an additional 0.7% equity stake in Merchant Capital Advisory Services Proprietary Limited in August 2018.

The table below summarises the RMI group's actual interest in its investee companies as at 30 June 2019 compared to 30 June 2018:

	As at 30 June	
%	2019	2018
Discovery	25.0*	25.0*
Momentum Metropolitan	27.3*	26.2*
OUTsurance Holdings Limited (OUTsurance)	89.1*	88.6*
Hastings	29.9	29.9
RMI Investment Managers	100.0	100.0
RMI Investment Holdings Proprietary Limited	100.0	100.0
RMI Asset Holdings Proprietary Limited	100.0	100.0
RMI Treasury Company Limited	100.0	100.0

* Actual interest differs from the effective interest used for financial reporting due to the consolidation of treasury shares and "deemed" treasury shares held by group companies (see note 35).

Further details regarding the investments are provided in notes 36 and 37 to the consolidated annual financial statements.

SHARE CAPITAL

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

Ordinary shares

The total authorised number of ordinary shares is 2 000 000 000, with a par value of R0.0001 per share. The total issued number of ordinary shares at the beginning of the 2019 financial year was 1 522 719 206. RMI issued the following ordinary shares during the financial year ended 30 June 2019 as a result of shareholders electing the scrip distribution alternative or the reinvestment option instead of receiving a cash dividend:

- 9 088 564 shares with a par value of R0.0001 per share and a premium of R37.9999 per share on 22 October 2018, bringing the total number of issued ordinary shares as at 30 June 2019 to 1 531 807 770.

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

Cumulative, redeemable par value preference shares

The total authorised number of cumulative, redeemable par value preference shares is 100 000 000, with a par value of R0.0001 per share. There are no issued cumulative, redeemable par value preference shares.

Cumulative, redeemable no par value preference shares

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

Cumulative, redeemable no par value preference shares in terms of clause 7.1 of the MOI

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

SHAREHOLDER ANALYSIS

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

	As at 30 June	
%	2019	2018
Financial Securities Limited (Remgro)	30.6	30.3
Royal Bafokeng Holdings Proprietary Limited	14.5	14.6
Public Investment Corporation	6.9	6.8
Allan Gray (on behalf of clients)	6.7	6.0

EARNINGS

Earnings attributable to ordinary shareholders for the year ended 30 June 2019 amounted to R4 047 million or 265.1 cents per share (2018: R3 897 million or 257.6 cents per share). Headline earnings amounted to R3 801 million or 249.0 cents per share (2018: R4 081 million or 269.7 cents per share).

DIVIDENDS

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

- An interim dividend for the six months ended 31 December 2018 of 45.0 cents per ordinary share, declared on 11 March 2019 and paid on 8 April 2019 (31 December 2017: 39.0 cents per ordinary share, declared on 12 March 2018 and paid on 9 April 2018 with an option of a scrip dividend or to reinvest the cash dividend).
- A final dividend for the year ended 30 June 2019 of 65.0 cents per ordinary share, declared on 10 September 2019 and payable on 4 November 2019 (2018: 65.0 cents per ordinary share, declared on 11 September 2018 and paid on 22 October 2018, with an option for a scrip dividend or to reinvest the cash dividend).

The last day to trade in RMI shares on a cum-dividend basis in respect of the final dividend will be Tuesday, 29 October 2019, while the first day to trade ex-dividend will be Wednesday, 30 October 2019. The record date will be Friday, 1 November 2019 and the payment date Monday, 4 November 2019.

No dematerialisation or rematerialisation of shares may be done during the period Wednesday, 30 October 2019 to Friday, 1 November 2019, both days inclusive.

DIRECTORATE

The directorate comprises:

Non-executive directors

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

Independent non-executive directors

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

Executive director

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

Alternate directors

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

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

DIRECTORS' INTERESTS IN RMI

Details of individual directors' interests in the company are disclosed on page 8.

INTERESTS OF DIRECTORS AND OFFICERS

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the group. The directors had no interest in any third party or company responsible for managing any of the business activities of the group except to the extent that they are shareholders in RMI as disclosed in this report. Arm's length insurance transactions entered into by the company's directors with the group's associates are disclosed in note 33.

DIRECTORS' EMOLUMENTS AND SERVICE CONTRACTS

Directors' and prescribed officers' emoluments are disclosed in note 43 to the consolidated annual financial statements.

At each annual general meeting, one third of the non-executive directors have to retire from office. If, at the date of any annual general meeting, any non-executive director has held office for a period of three years since his 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 advisory resolution at the annual general meeting.

Directors' participation in group share incentive schemes

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

INSURANCE

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

COMPANY SECRETARY AND REGISTERED OFFICES

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

MANAGEMENT CONTRACT

RMI and RMB Holdings Limited (RMH) rendered management services to each other during the 2019 financial year. Mr HL Bosman's executive remuneration was paid for by RMI. RMI charged management fees to RMH according to the time spent by him on the affairs of each company.

SPECIAL RESOLUTIONS

The following special resolutions were passed at the annual general meeting of RMI held on 21 November 2018:

- Approval of non-executive directors' remuneration with effect from 1 December 2018;
- General authority to repurchase company shares;
- Issue of shares, convertible securities and/or options to persons listed in section 41(1) of the Companies Act for the purposes of their participation in a reinvestment option;
- Financial assistance to directors, prescribed officers, employee share scheme beneficiaries; and
- Financial assistance to related or inter-related companies.

OUTsurance passed the following special resolutions at its annual general meeting held on 7 November 2018:

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

EVENTS SUBSEQUENT TO REPORTING DATE

Refer to note 34 to the consolidated annual financial statements.

DIRECTORS' INTERESTS IN ORDINARY SHARES OF RMI (AUDITED)

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

000's	Direct beneficial	Indirect beneficial	Held by related persons	Total 2019
HL Bosman	–	800	–	800
JP Burger	–	1 184	–	1 184
P Cooper	795	–	3 061	3 856
SEN de Bruyn	–	–	–	–
LL Dippenaar	–	73 387	233	73 620
JJ Durand	–	–	–	–
DA Frankel (alternate)	–	–	–	–
PK Harris	–	12 000	–	12 000
A Kekana	–	–	–	–
F Knoetze (alternate)	–	–	–	–
P Lagerström	–	–	–	–
MM Mahlare	–	–	–	–
MM Morobe	–	–	–	–
RT Mupita	–	–	–	–
O Phetwe	–	–	–	–
JA Teeger	42	54	–	96
DR Wilson (alternate)	–	–	–	–
Total interest	837	87 425	3 294	91 556

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

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

Since 30 June 2019 to the date of this report, the interests of directors remained unchanged.

Independent auditor's report

To the shareholders of Rand Merchant Investment Holdings Limited

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

Our opinion

In our opinion, the consolidated and separate annual financial statements present fairly, in all material respects, the consolidated and separate financial position of Rand Merchant Investment Holdings Limited (the company) and its subsidiaries (together the group) as at 30 June 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act.

What we have audited

The group and company's consolidated and separate annual financial statements set out on pages 16 to 119 comprise:

- The consolidated and separate statements of financial position as at 30 June 2019;
- The consolidated and separate income statements for the year then ended;
- The consolidated and separate statements of comprehensive income for the year then ended;
- The consolidated and separate statements of changes in equity for the year then ended;
- The consolidated and separate statements of cash flow for the year then ended;
- The accounting policies; and
- The notes to the consolidated and separate annual financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the **Auditor's responsibilities for the audit of the consolidated and separate annual financial statements** section of our report.

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

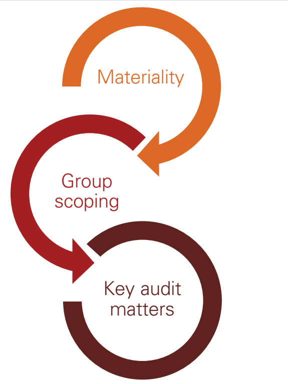
Independence

We are independent of the group in accordance with sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa.

The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

Our audit approach

Overview



Overall group materiality

- Overall group materiality: R274 million, which represents 5% of consolidated profit before tax.

Group audit scope

The components that are in scope include the financially significant components of the group. Financially significant components were identified based on the component's contribution to consolidated profit before tax.

Key audit matters

- Valuation of insurance contract liabilities relating to short-term insurance contracts – OUTsurance;
- Accounting for equity accounted investments; and
- Impairment assessment of the investment in Hastings Group Holdings plc (Hastings).

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

Materiality

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

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

Overall group materiality	R274 million
How we determined it	5% of consolidated profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users and is a generally accepted benchmark. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

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

Full scope audits were performed on components which are financially significant to the group. Financially significant components represent more than 93% of the results of operations of the group. In addition, full scope audits or independent reviews were performed for components that are not individually financially significant, but significant in aggregate with other components. The remainder of the components were considered to be non-significant, individually and in aggregate. We performed high-level analytical procedures on these remaining non-significant components.

For the work performed by component auditors from other PwC network firms in South Africa and, for in-scope subsidiaries and associates, by auditors not part of the PwC network operating under our instruction, we issued group instructions which covered those areas that we required the component auditors to focus on, as well as information that we required them to report to us.

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

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

Key audit matters

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

<table>
<tr><th>Key audit matters relevant to the consolidated annual financial statements</th><th>How our audit addressed the key audit matters</th></tr>
<tr><td colspan="2">VALUATION OF INSURANCE CONTRACT LIABILITIES RELATING TO SHORT-TERM INSURANCE CONTRACTS – OUTSURANCE</td></tr>
<tr><td>Refer to the following accounting policies and notes to the consolidated annual financial statements for detail:

This key audit matter relates to the audit of the consolidated annual financial statements.
• Accounting policies note 24, Critical accounting assumptions;
• Accounting policies note 18, Insurance contracts; and
• Note 8, Insurance contracts and reinsurance contracts.

Insurance contract liabilities relating to short-term insurance contracts include an outstanding claims provision of R1 817 million and an insurance contract non-claims bonuses provision of R470 million.

Each reported claim is assessed separately on a case-by-case basis, by either a computer algorithm based on past experience or a claims assessor with the relevant experience, taking into account information available from the insured. The estimates are updated as and when new information becomes available. The claims provision includes an estimate for claims incurred but not reported.

The claims reserve raised requires significant judgement and is sensitive to the assumptions made. Given the above, an explicit margin for prudence is held over and above the best-estimate reserve. The margins held ensure that the claims reserve held is, at the least, sufficient at the 75th percentile i.e. adequate at least three out of every four years.

The provision for non-claims cash bonuses is determined with reference to the contractual obligation per the contract of insurance, adjusted for expected future claims and client cancellations based on historical experience.

A risk margin is added to the best estimate of the future liability to allow for the uncertainty relating to future claims and cancellation experience. The risk margin is calibrated to ensure that the provision is at least sufficient with a 75% confidence level i.e. three out of every four years.

We considered the determination of these insurance contract liabilities to be a matter of most significance to the current year audit due to the following:
• The calculation is subject to inherent uncertainty;
• Significant judgement and estimation are applied by management; and
• The magnitude of the liabilities.</td><td>Our audit procedures included evaluating and testing the design and operating effectiveness of the controls over the data used in the calculation of the outstanding claims provision and insurance contract non-claims bonuses provision relating to short-term insurance contracts. The procedures included tests over both manual controls as well as automated controls.

To assess the validity of the population of claims information recorded on the system (e.g. loss event, claim estimate, items insured) and the valuation of the claims, on a sample basis, we performed the following procedures:
• We assessed the claim values against assessor reports and traced to claim documentation which detailed the loss event. We found no exceptions; and
• We compared the claims to information for the underlying policy recorded on the system in order to test whether the claims were valid claims (e.g. if the insured was covered for the loss event in the original policy and if the premium has been paid up). We found the claims to be supported by the relevant supporting documents.

We made use of our actuarial expertise to test the analysis underlying the actuarial estimates for reasonability and appropriateness and taking into consideration the OUTsurance group accounting policy in respect of the claims provisions. The audit procedures performed involved:
• We assessed the methodology and assumptions applied by management for reasonability and appropriateness, taking into consideration historic experience, actuarial guidance and industry practice. We found the methodologies applied by management to be in line with industry practice, actuarial guidance and consistent with historical experience; and
• We performed independent calculations of the claims provisions for all material classes of business segments. We found the recommended claims provision, for these classes, to be within a reasonable range of our independent calculations.

With regard to the provision for non-claims cash bonuses, our audit procedures included the following:
• We assessed the reasonability and appropriateness of the methodology and assumptions applied by management with reference to the nature of the business and our understanding of industry practice. We found the methodology applied by management to be appropriate. We also found the assumptions used by management to be reasonable, considering historical experience and the nature of the business;
• We assessed whether the methodology and assumptions applied as at 30 June 2019 were consistent with OUTsurance's accounting policy and unchanged from the previous year-end. We found the methodology and assumptions to be consistent with the OUTsurance accounting policy and consistently applied from the prior year; and
• We re-performed the calculation of the provision for non-claims cash bonuses. No material differences were noted.</td></tr>
</table>

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

ACCOUNTING FOR EQUITY ACCOUNTED INVESTMENTS

This key audit matter relates to the audit of the consolidated annual financial statements.

Refer to the following accounting policies and notes to the consolidated annual financial statements for detail:

- Accounting policies note 2, Principles of consolidation and equity accounting;
- Note 3, Investments in associates; and
- Note 36, Associates.

The group holds investments which are equity accounted for in terms of *IAS 28: Investments in Associates and Joint Ventures*. The group's share of the after-tax profits of its equity accounted investments for the year ended 30 June 2019 was R2 612 million and the carrying value of the group's equity accounted investments was R28 337 million as at 30 June 2019.

The equity accounting of these investments was considered a matter of most significance to our current year audit due to the inherent risk of material misstatement arising from the manual nature of the calculations supporting equity accounting entries and the magnitude of the equity accounted amounts recognised in relation to the reported results of the group.

In addition, one of the group's significant equity accounted investments, Hastings Group Holdings plc (Hastings), has a financial year-end which is non-coterminous with that of the group. This investment was equity accounted using published interim results for the financial period ended 30 June 2019, which was subject to an independent review by the external auditor of Hastings, but not a full-scope audit.

Due to the significance of the group's share of the after-tax profits in its equity accounted investments, we maintained continual interaction with the audit teams of significant components and involvement in their work. We held discussions with the component auditors and issued them with group instructions as described in the section **How we tailored our group audit scope** and we assessed the competence, knowledge and experience of the component auditors. Furthermore, we evaluated the identified audit risks at the significant component level and the audit approach throughout all phases of the audit process, examined working papers and performed cross-review procedures in evaluating the results of the work of the component auditors.

We obtained the equity analysis of associates prepared by management and performed the following procedures:

- We obtained the audited financial results of the financially significant components, evaluated the consistency of accounting policies with those of the group and compared them to the equity accounted results and movements recorded in the consolidated annual financial statements of the group. No material differences were noted;
- We re-performed management's calculation of the effective interest in its financially significant components. We agreed the inputs in management's calculation to the number of shares held by the group and the issued share capital of the investee companies. We noted no material differences; and
- We tested the mathematical accuracy of the equity analysis by agreeing the group's share in equity accounted earnings, other comprehensive income and equity movements to the financial statements of the financially significant components, and tracing them to the consolidation journals and the consolidation sheets. We noted no material differences.

We recalculated management's consolidation workings to test for mathematical accuracy and assessed the completeness of journal entries with reference to the prior year journal entries. We found no material inconsistencies.

For the group's investment in Hastings, which has a financial year-end that is non-coterminous with that of the group, the following additional procedures were performed:

- We inspected the report received from the component auditor in relation to their independent review for the period ended 30 June 2019 and assessed the impact thereof on the consolidated annual financial statements. No significant transactions relating to the component were identified from these procedures; and
- We inspected minutes of board and sub-committee meetings and discussed with the group's nominated directors in order to identify any significant transactions that occurred in the period from 1 January 2019 to 30 June 2019. No such significant transactions were identified by our procedures.

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

IMPAIRMENT ASSESSMENT OF THE INVESTMENT IN HASTINGS GROUP HOLDINGS PLC (HASTINGS)

This key audit matter relates to the audit of the consolidated and separate annual financial statements.

Refer to the following accounting policies and notes to the consolidated and annual financial statements for detail:

- Accounting policies note 24, Critical accounting assumptions; and
- Note 36, Associates.

In accordance with IFRS, the group's accounting policy requires the measurement of the carrying value of its investment in associates using the historical cost basis in the separate annual financial statements of the entity in which the investment is held, and using the equity accounted method to measure the group carrying value.

Since the acquisition of the group's 29.9% interest in Hastings on 1 March 2017, the Hastings share price has declined by approximately 21% as at 30 June 2019.

As required in terms of *IAS 28: Investments in Associates and Joint Ventures*, management considered whether the decline in the Hastings share price was significant or prolonged, which represents an impairment indicator in terms of *IAS 28*, relative to the group's carrying value.

This impairment indicator also applies to the separate annual financial statements of the company, in which the investment in Hastings is carried at historical cost.

Management determined the recoverable amount of its investment in Hastings as being the greater of the asset's value-in-use and its fair value less costs to sell in terms of *IAS 36: Impairment of Assets*. Value-in-use was calculated using an internally developed discounted cash flow (DCF) model (the valuation model). The valuation model valued the group's investment in Hastings at R9.7 billion, which exceeded its carrying value of R9.3 billion.

The most significant judgements applied by management in the valuation model relate to long-term premium inflation, client retention, loss ratio and expense ratio assumptions, the discount rate applied to forecast cash flows, together with the assumptions supporting the underlying forecast cash flows.

We considered the impairment assessment of the investment in Hastings to be a matter of most significance to our current year audit due to the complexity of the valuation model, estimation uncertainty and significant judgement applied by management in calculating the recoverable amount.

We evaluated management's assessment of the carrying value of its investment in Hastings as at 30 June 2019 to ascertain whether there was any impairment required.

We obtained management's calculation of the recoverable amount of the investment and, using our valuation expertise, we performed the following procedures, among others:

- We assessed the reasonableness of management's projected cash flows by comparing these to historical results and considering industry trends. We found these to be consistent with historical results and industry trends;
- We assessed the reasonableness of the key valuation assumptions with reference to market information and internally developed benchmarks. We found the valuation assumptions to be within reasonable ranges;
- We assessed the projected future cash flows, operating margins, working capital and financing requirements used in the models by understanding the process followed by management to determine these forecasts and agreeing the forecast information to management accounts and supporting documentation. We found these to have been consistently applied and reasonable; and
- We made use of our valuation expertise to assess the discount rate for reasonableness by developing an independent range of acceptable discount rates to our internally developed benchmarks. We found the discount rate used by management to be within a reasonable range.

Using our valuation expertise, we performed a high-level market approach assessment as a reasonability test of the value-in-use result derived from management's valuation model. The reasonable range of the valuation model was found to be within the high and low points of the indicated equity value on a marketable minority basis.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled **Rand Merchant Investment Holdings Limited annual financial statements for the year ended 30 June 2019**, which includes the directors' report, the audit and risk committee report and the declaration by the company secretary as required by the Companies Act, which we obtained prior to the date of this auditor's report, and the other sections of the document titled **RMI Integrated Report 2019**, which is expected to be made available to us after that date. The other information does not include the consolidated or the separate annual financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate annual financial statements

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

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

Auditor's responsibilities for the audit of the consolidated and separate annual financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Rand Merchant Investment Holdings Limited for nine years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Corlia Volschenk

Registered Auditor
Johannesburg

10 September 2019

Consolidated statement of financial position

as at 30 June

R MILLION	Note	2019	2018
ASSETS			
Property and equipment	1	**1 041**	1 109
Intangible assets	2	**101**	124
Investments in associates	3	**28 337**	26 413
Financial assets			
Equity securities			
– Available-for-sale	4	**–**	1 067
– Fair value through profit or loss	4	**1 597**	406
– Fair value through other comprehensive income	4	**186**	–
Debt securities			
– Available-for-sale	4	**–**	102
– Fair value through profit or loss	4	**1 117**	9 687
– Fair value through other comprehensive income	4	**3 027**	–
– Amortised cost	4	**5 496**	–
Derivative asset	5	**36**	–
Insurance and other receivables	6	**2 771**	2 634
Deferred acquisition cost	7	**360**	307
Reinsurance contracts	8	**691**	286
Deferred taxation	9	**220**	220
Taxation		**120**	3
Cash and cash equivalents	10	**1 602**	2 417
Total assets		**46 702**	44 775
EQUITY			
Share capital and premium	11	**15 359**	14 986
Reserves	12	**9 180**	7 386
Total shareholders' equity		**24 539**	22 372
Non-controlling interests	37	**1 602**	1 332
Total equity		**26 141**	23 704
LIABILITIES			
Financial liabilities			
Preference shares	13	**8 580**	9 710
Interest-bearing loans	14	**2 697**	2 730
Financial liabilities at fair value through profit or loss	15	**104**	132
Derivative liability	5	**99**	36
Insurance contracts	8	**7 457**	6 725
Share-based payment liability	16	**103**	134
Provisions	17	**119**	189
Insurance and other payables	18	**1 309**	1 158
Deferred taxation	9	**69**	54
Taxation		**24**	203
Total liabilities		**20 561**	21 071
Total equity and liabilities		**46 702**	44 775

Consolidated income statement

for the year ended 30 June

R MILLION	Note	2019	2018
Gross insurance premiums		**16 135**	15 027
Less: Reinsurance premiums		**(862)**	(847)
Net insurance premiums		**15 273**	14 180
Gross change in provision for unearned premiums		**(214)**	(5)
Reinsurance relating to provision for unearned premiums		**4**	(2)
Net insurance premiums earned	19	**15 063**	14 173
Fee and other income	20	**107**	124
Investment income	21	**211**	760
Interest income on financial assets using the effective interest rate method		**588**	–
Profit on sale of subsidiary and other realised gains		**–**	3
Net fair value gains/(losses) on financial assets	22	**33**	(66)
Net income		**16 002**	14 994
Gross claims paid	23	**(8 014)**	(6 919)
Reinsurance recoveries received	23	**843**	384
Provision for cash bonuses	23	**(451)**	(395)
Transfer to policyholder liabilities under insurance contracts	8.4	**(122)**	(126)
Acquisition expenses	24	**(45)**	(31)
Fair value adjustment to financial liabilities	38	**(169)**	(193)
Marketing and administration expenses	25	**(4 457)**	(3 874)
Profit before finance costs, results of associates and taxation		**3 587**	3 840
Finance costs	27	**(729)**	(765)
Share of after-taxation results of associates	3	**2 612**	2 328
Profit before taxation		**5 470**	5 403
Taxation	28	**(1 096)**	(1 136)
Profit for the year		**4 374**	4 267
Attributable to:			
Equity holders of the company		**4 047**	3 897
Non-controlling interests		**327**	370
Profit for the year		**4 374**	4 267
Earnings per share	30	**265.1**	257.6
Diluted earnings per share	30	**264.0**	252.9

Consolidated statement of comprehensive income

for the year ended 30 June

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

Consolidated statement of changes in equity

for the year ended 30 June

R MILLION	Share capital	Equity accounted reserves	Transactions with non-controlling interests	Other reserves	Retained earnings	Non-controlling interests	Total equity
Balance as at 1 July 2017	14 328	4 300	(2 989)	295	3 341	1 215	20 490
Income statement	–	–	–	–	3 897	370	4 267
Other comprehensive income	–	311	–	102	–	17	430
Dividends paid	–	–	–	–	(1 571)	(189)	(1 760)
Issue of shares	669	–	–	–	–	–	669
Income of associate companies retained	–	1 181	–	–	(1 181)	–	–
B-BBEE cost	–	3	–	–	–	–	3
Movement in treasury shares	(11)	5	–	–	–	–	(6)
Transactions with non-controlling interests	–	58	(356)	–	2	(132)	(428)
Issue of share capital to non-controlling interests by subsidiaries	–	–	–	–	–	54	54
Share-based payment reserve	–	31	–	–	(35)	(4)	(8)
Reserve adjustment of associates	–	(8)	–	–	–	1	(7)
Balance as at 30 June 2018	**14 986**	**5 881**	**(3 345)**	**397**	**4 453**	**1 332**	**23 704**
Change in accounting policy – *IFRS 9*	**–**	**(31)**	**–**	**(101)**	**79**	**(3)**	**(56)**
Change in accounting policy – *IFRS 15*	**–**	**2**	**–**	**–**	**–**	**–**	**2**
Income statement	**–**	**–**	**–**	**–**	**4 047**	**327**	**4 374**
Other comprehensive loss	**–**	**(82)**	**–**	**(16)**	**–**	**(21)**	**(119)**
Dividends paid	**–**	**–**	**–**	**–**	**(1 679)**	**(362)**	**(2 041)**
Issue of shares	**345**	**–**	**–**	**–**	**–**	**–**	**345**
Income of associate companies retained	**–**	**1 602**	**–**	**–**	**(1 602)**	**–**	**–**
Movement in treasury shares	**28**	**–**	**–**	**–**	**–**	**–**	**28**
Transactions with non-controlling interests	**–**	**(282)**	**(292)**	**–**	**(27)**	**33**	**(568)**
Issue of share capital to non-controlling interests by subsidiaries	**–**	**–**	**–**	**–**	**–**	**278**	**278**
Share-based payment reserve	**–**	**–**	**–**	**(5)**	**164**	**18**	**177**
Reserve adjustment of associates	**–**	**17**	**–**	**–**	**–**	**–**	**17**
Balance as at 30 June 2019	**15 359**	**7 107**	**(3 637)**	**275**	**5 435**	**1 602**	**26 141**
Note	11	12	12	12	12		

Consolidated statement of cash flows

for the year ended 30 June

R MILLION	Note	2019	Restated 2018
Cash flows from operating activities			
Cash generated from operations	29	**3 174**	3 287
Interest income		**603**	590
Dividends received		**1 149**	1 285
Cash flows on assets backing policyholder liabilities		**(233)**	(153)
Purchase of financial assets		**(7 867)**	(9 346)
Proceeds on disposal of financial assets		**8 078**	8 163
Income tax paid		**(1 380)**	(1 101)
Net cash generated from operating activities		**3 524**	2 725
Cash flows from investing activities			
Purchase of property and equipment		**(100)**	(255)
Disposal of property and equipment		**1**	5
Purchase of financial assets		**(290)**	(190)
Proceeds on disposal of financial assets		**187**	273
Investments in associates		**(693)**	(216)
Net cash outflow into investing activities		**(895)**	(383)
Cash flows from financing activities			
Proceeds from issue of shares		**304**	493
Redemption of preference share debt		**(1 130)**	–
Borrowings repaid		**(11)**	(50)
Cost of funding		**(89)**	(91)
Dividends paid on preference shares in issue		**(650)**	(677)
Dividends paid by subsidiaries to non-controlling interests		**(362)**	(189)
Additional shares acquired in subsidiary		**(201)**	(360)
Cash dividends paid to shareholders		**(1 638)**	(1 394)
Proceeds on issue of shares to non-controlling interest		**278**	54
Net cash outflow into financing activities		**(3 499)**	(2 214)
Net (decrease)/increase in cash and cash equivalents for the year		**(870)**	128
Unrealised foreign currency translation adjustment of cash and cash equivalents		**55**	(13)
Cash and cash equivalents at the beginning of the year		**2 417**	2 302
Cash and cash equivalents at the end of the year		**1 602**	2 417

Accounting policies

1. BASIS OF PREPARATION

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

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

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

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

The preparation of the consolidated and separate annual financial statements necessitates the use of estimates, assumptions and judgements 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 judgements 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 consolidated and separate annual financial statements.

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

The principal accounting policies applied in the preparation of these consolidated and separate annual financial statements are set out below and are consistent in all material respects with those applied in the previous financial year, unless where stated under the relevant accounting policy.

2. PRINCIPLES OF CONSOLIDATION AND EQUITY ACCOUNTING

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

Accounting policies of subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the group. However, as permitted under *IFRS 4* and stated in accounting policy 18, RMI does not enforce uniform accounting policies across its subsidiaries and associates relating to the measurement of insurance liabilities.

Subsidiaries

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

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

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

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

Non-controlling interest is presented in the 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 acquired entity at the carrying values that are related to the acquired entity in the consolidated annual financial statements of the highest entity that has common control for which consolidated annual financial statements are prepared. If no consolidated annual financial statements are prepared, the values used are those from the financial statements of the acquired entity.

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

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

Associates

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

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

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

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

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

Separate annual financial statements

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

3. BUSINESS COMBINATIONS

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition date fair value of any previous equity interest in the acquired entity

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

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

4. REVENUE AND EXPENDITURE RECOGNITION

Fee and other income

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

Investment income

The group recognises dividends when the group's right to receive payment is established. This is on the last day to trade for listed shares and on the date of declaration for unlisted shares. Dividend income on instruments at fair value through profit or loss is recognised in the income statement as investment income. Interest income on instruments at fair value through profit or loss is recognised separately under investment income and not as part of fair value gains or losses on financial assets.

Interest income on financial assets using the effective interest method

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

Net fair value gains/(losses) on financial assets

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

Insurance contacts

Revenue treatment is detailed in accounting policy 18.

5. FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

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

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

Translation differences on non-monetary items classified at fair value through other comprehensive income, such as equities, are included in other comprehensive income when incurred.

Group companies

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

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

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

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

6. DIRECT TAXES

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

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

7. RECOGNITION OF PROVISIONS AND CONTINGENT LIABILITIES

Provisions

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

Contingent liabilities

The group discloses a contingent liability where:

- It has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group; 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 consolidated and separate annual financial statements include cash and cash equivalents, equity securities, debt securities, derivative instruments, debtors and short-term loans, trade and other payables and borrowings.

Financial instruments are initially recognised at fair value, including transaction costs, when the group becomes a party to the contractual terms of the instruments. The transaction costs relating to the acquisition of financial instruments held at fair value through profit or loss are expensed. Subsequent to initial recognition, these instruments are measured as follows:

Financial instruments measured at amortised cost

Financial assets at amortised cost

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

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

Financial liabilities measured at amortised cost

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

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

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

Debt instruments

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

Equity instruments

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

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

Financial assets measured at FVPL

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

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

Financial liabilities measured at FVPL

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

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

Derivatives

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

Hedge accounting

Derivative instruments are classified as held either for trading or formally designated as hedging instruments as required by *IFRS 9*, which impacts the method of recognising the resulting fair value gains or losses.

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

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

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

Net investment hedge accounting

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

Derecognition of financial assets and liabilities

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

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

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

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

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

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

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

9. PROPERTY AND EQUIPMENT

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

Property and equipment is depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

The periods of depreciation used are as follows:

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

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

10. INTANGIBLE ASSETS

Goodwill

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

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

Other intangible assets

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

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

11. IMPAIRMENT OF ASSETS

Impairment of non-financial assets

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

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

Impairment of financial instruments

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

- Financial assets measured at amortised cost;
- Debt investments measured at FVOCI;
- Loan commitments; and
- Financial guarantee contracts.

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

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

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument. 12-month ECL is the portion of ECL that results from default events that are possible within the 12 months after the reporting date. In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the group is exposed to credit risk.

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

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

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

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

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

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

12. DEFERRED TAXATION

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

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

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

13. EMPLOYEE BENEFITS

Post-employment benefits

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

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

Leave pay

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

Bonuses

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

Intellectual property bonuses

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

14. SHARE CAPITAL

Share issue costs

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

Dividends paid

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

Treasury shares

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

Distribution of non-cash assets

A dividend payable is recognised when the distributions are appropriately authorised and are no longer at the discretion of the group. 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 clients and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

16. SHARE-BASED PAYMENTS

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

Equity-settled

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

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

Cash-settled

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

17. CASH AND CASH EQUIVALENTS

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

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

18. INSURANCE CONTRACTS

Classification of insurance contracts

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

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

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

Recognition and measurement of short-term insurance contracts

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

Premiums

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

Unearned premium provision

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

Insurance contract claims incurred

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

While the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

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

Outstanding insurance contract claims

Provision is made for the estimated final costs of:

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

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

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

Commission and insurance-related fee income

Insurance-related fee income is linked to specific actions such as the inception and renewal of policies and the collection of premiums and is recognised when these actions have been fulfilled in the course of providing and administering insurance products. Commission income relates to commission earned on the placement of reinsurance treaties and is recognised on the placement of these treaties.

Reinsurance

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

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

Adequacy test for unexpired risk liabilities

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

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

Non-claims bonuses on insurance contracts

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

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

Deferred acquisition costs

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

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

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

Recognition and measurement of long-term insurance contracts

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

Policyholder liabilities

Long-term insurance contracts are valued in accordance with the Financial Soundness Valuation (FSV) method as detailed in *SAP 104*.

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.

Premiums

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

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

Reinsurance

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

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

Commission and insurance-related fee income

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

Insurance contract claims incurred

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

Incurred but not reported claims

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

Liability adequacy test

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

Non-claims bonuses on insurance contracts

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

Deferred acquisition costs

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

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

Accounting for profit-sharing arrangements

A profit-sharing arrangement has been entered into between OUTsurance Insurance Company Limited and FirstRand Bank Limited. In terms of this profit-sharing arrangement, ninety percent of the operating profit generated on the homeowners' insurance business referred by FirstRand Bank Limited businesses is paid to FirstRand Bank Limited by way of a bi-annual preference dividend. Operating losses incurred are for OUTsurance Insurance Company Limited's account. OUTsurance Insurance Company Limited however retains the right to offset such losses against future profits generated in the determination of any preference dividends to be paid to the preference shareholder.

These shareholders for preference share dividends are accounted for as a financial liability on the face of the statement of financial position. The profit attributable to the preference shareholder is the fair value movement and the payment of a dividend is treated as a partial settlement of the liability.

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

The policy for the recognition and measurement of insurance contracts applied to the profit-sharing arrangements is similar to the policy for short-term insurance above.

19. PREFERENCE SHARES

The group issues fixed and variable rate cumulative, compulsory redeemable preference shares to fund the statutory capital requirements of its insurance subsidiaries and while 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 profit before taxation and disclosed separately. Provision for dividends payable is disclosed separately in the statement of financial position as current liabilities.

20. ASSET FOR SHARE TRANSACTIONS

Intergroup asset for shares transactions are accounted for at the carrying value of the assets transferred in the accounts of the transferor.

21. OPERATING LEASES

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

22. AMENDMENTS TO PUBLISHED STANDARDS EFFECTIVE IN THE CURRENT YEAR

During the year, new accounting standards, interpretations and amendments were adopted by the group for the first time, including:

Standard	Effective date	Executive summary and impact on the group
Amendments to *IFRS 2: Share-based Payments* Clarifying how to account for certain types of share-based payment transactions.	1 January 2018 (published June 2016)	This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in *IFRS 2* that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. This amendment does not have a material impact on the group.
IFRS 15: Revenue from Contracts with Customers	1 January 2018 (published May 2014 and amendment published April 2016)	This standard establishes a single, comprehensive revenue recognition model for all contracts with clients to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to a client. *IFRS 15* is applicable to non-insurance revenue. Revenue from contracts accounted for in terms of *IFRS 4* is outside the scope of *IFRS 15*. The adoption of *IFRS 15* does not have a material impact on the results of the group.
IFRS 9: Financial Instruments Financial liabilities; Derecognition of financials instruments; Financial assets; and general hedge accounting.	1 January 2018 (published July 2014)	This standard replaces the guidance in *IAS 39*. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. The reviewed standard establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in *IAS39*. An amendment to IFRS was issued by the IASB to align hedge accounting more closely to an entity's risk management. This amendment is effective on 1 January 2018. The adoption of *IFRS 9* from 1 July 2018 for the group resulted in a change in accounting policy. The group's management assessed which business models to apply to its financial instruments and classified them into appropriate *IFRS 9* categories. The *IFRS 9* classification, measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet with no restatement of comparatives on initial application.
IFRS 4: Insurance Contracts	1 January 2018 (published September 2016)	These amendments introduce two approaches: an overlay approach and a deferral approach. The amendment does not have an impact on the group as *IFRS 9* has been implemented on the effective date and neither option introduced by the amendment was applied.
IFRIC 22: Foreign Currency Transactions and Advance Consideration	1 January 2018 (published December 2016)	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment or receipt is made as well as for situations where multiple payments or receipts are made. The guidance aims to reduce diversity in practice. The amendment does not have a material impact on the group.
Annual improvements 2014 to 2016	Annual periods beginning on or after 1 January 2018 (published December 2016)	None of these amendments had an impact on the group.

23. STANDARDS, AMENDMENTS, AND INTERPRETATIONS PUBLISHED THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP

The following new standards and interpretations to the existing standards are not yet effective for the current financial year. The group has not early adopted them and, unless otherwise stated, it is not expected that they will have any material impact on the group's results but may result in additional disclosures in the consolidated and separate annual financial statements.

Standard	Effective date	Executive summary
IFRS 9: Financial Instruments	1 January 2019 (published October 2017)	This narrow-scope amendment allows companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met. This narrow-scope amendment confirms that most modifications of financial liabilities will result in the immediate recognition of a gain or loss. This amendment will not have an impact on the group.
IFRS 16: Leases	1 January 2019 – earlier application permitted if *IFRS 15* is also applied (published January 2016)	The new standard requires lessees to recognise assets and liabilities arising from all leases in the statement of financial position. Lessor accounting has not substantially changed in the new standard. A lessee will measure the lease liabilities, including costs directly related to entering into the lease. Lease assets will be amortised in a similar way to other assets such as property, plant, and equipment. A lessee will not be required to recognise assets and liabilities for short-term leases (less than 12 months) and leases for which the underlying asset is of low value (such as laptops and office furniture). *IFRS 16* supersedes *IAS 17: Leases*, *IFRIC 4: Determining Whether an Arrangement Contains a Lease, SIC 15: Operating Leases – Incentives* and *SIC 27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The group assessed the impact of *IFRS 16* and concluded that it will not have a material impact on the results. The group has elected to apply the modified retrospective approach as allowed in the standard. Under this approach the group does not restate its comparatives. The group will not early adopt *IFRS 16*.
IAS 28: Investments in Associates and Joint Ventures	1 January 2019 (published October 2017)	This amendment provides clarification that an entity should apply *IFRS 9* to long-term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture but to which the equity method is not applied. This amendment will not have an impact on the group.
IFRIC 23: Uncertainty over Income Tax Treatments	1 January 2019 published June 2017)	This IFRIC specifies how an entity should reflect the effects of uncertainties in accounting for income taxes. This interpretation will not have an impact on the group.
IAS 19: Employee Benefits	1 January 2019	Plan amendment, curtailment or settlement (amendments to *IAS 19)*: The amendments require an entity to use the updated assumptions from a remeasurement net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. This amendment will not have an impact on the group.
Annual improvements 2015 to 2017	Annual periods beginning on or after 1 January 2019 (published December 2017)	These amendments impact the following standards: – *IFRS 11: Joint Arrangements* regarding clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business; – *IFRS 12: Income Taxes* regarding clarification that all income tax consequences of dividends should be recognised in profit or loss regardless of how the tax arises; – *IFRS 3: Business Combinations* regarding clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure all previously held interests in that business; and – *IAS 23: Borrowing Costs* provides clarification that when calculating the capitalisation rate on general borrowings, the entity should include borrowings that remain outstanding after the related asset is ready for its intended use or sale. These amendments will not have an impact on the group.

Standard	Effective date	Executive summary
IFRS 3: Business Combinations	1 January 2020	The amendments confirmed that a business must include inputs and a process, and clarified that: – The process must be substantive; and – The inputs and process must together significantly contribute to creating outputs. The amendments also narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to clients and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This amendment is not expected to have an impact on the group.
IAS 1: Presentation of Financial Statements	1 January 2020	Disclosure initiative: The amendments clarify and align the definition of material and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS. This amendment is not expected to have an impact on the group.
IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020	Disclosure initiative: The amendments clarify and align the definition of material and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS. This amendment is not expected to have an impact on the group.
IFRS 17: Insurance Contracts	1 January 2022 (following due process). Earlier application is permitted if both *IFRS 15: Revenue from Contracts with Customers* and *IFRS 9: Financial Instruments* have also been applied.	*IFRS 17: Insurance Contracts* establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the standard. The objective of *IFRS 17* is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. *IFRS 17* supersedes *IFRS 4: Insurance Contracts*. The standard will have an impact on the group's current reported financial position and future revenue recognition. The group has an *IFRS 17* committee facilitating implementation of *IFRS 17* within the group to ensure that the group is fully prepared for implementation on the effective date. This committee provides regular feedback on its progress to the various governance structures within the group.
Amendments to IFRS 10: Consolidated Financial Statements and *IAS 28: Investments in Associates and Joint Ventures on Sale or Contribution of Assets*	Effective date postponed (initially 1 January 2016)	The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to *IFRS 10: Consolidated Financial Statements* and *IAS 28: Investments in Associates and Joint Ventures*. Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures. The reason for making the decision to postpone the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. This amendment is not expected to have an impact on the group.

24. CRITICAL ACCOUNTING ASSUMPTIONS

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements 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**) for more detailed information on critical accounting assumptions and estimates with specific reference to: valuation of assets and liabilities arising from insurance contracts and annual assessment of goodwill for impairment.

Refer to the annual integrated report of Momentum Metropolitan Holdings Limited (at **www.momentummetropoltan.co.za**) for more detailed information on critical accounting assumptions and estimates with specific reference to the valuation of insurance contract liabilities.

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

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

Short-term insurance

Claims reserves

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

The estimate for claims incurred but not reported (IBNR) is calculated as a percentage of historic net written premium. The required IBNR percentage is calculated with reference to the run-off period of incurred claims. The overall IBNR percentage represents the weighted average of the required IBNR per business class, weighted by the net written premium generated by each business class.

The claims reserve is held so as to be at least sufficient at the 75th percentile of the ultimate cost distribution. The difference between this 75th percentile and the best estimate is considered to be an appropriate risk margin. Claims are considered to be the most sensitive to changes in assumptions, therefore a sensitivity analysis is performed.

As at 30 June 2019

R MILLION	South African short-term operations	Australasian short-term operations
70th percentile	**846**	**860**
75th percentile	**868**	**879**
80th percentile	**892**	**900**

As at 30 June 2018

R MILLION	South African short-term operations	Australasian short-term operations
70th percentile	737	954
75th percentile	751	974
80th percentile	767	995

Liability for non-claims bonuses on insurance contracts

The provision for non-claims cash bonuses is determined with reference to the contractual obligation per the contract of insurance adjusted for expected future claims and client cancellations based on historical experience. A risk margin is added to the best estimate of the future liability to allow for the uncertainty relating to future claims and cancellation experience. The risk margin is calibrated to ensure that the provision is at least sufficient at the 75th percentile of the ultimate cost distribution.

Long-term insurance

Valuation of policyholder liabilities

The following compulsory margins were applied in the valuation of the policyholder liabilities as at 30 June 2019:

Assumption	Margin
Investment return	0.25% increase/decrease*
Mortality	7.5% increase
Morbidity	10% increase
Disability	10% increase
Retrenchment	15% increase
Expenses	10% increase
Expense inflation	10% increase of estimated escalation rate
Lapses	25% increase/decrease* on best estimate

* Depending on which change increases the liability

In addition to the above compulsory margins, discretionary margins may be added to protect against future possible adverse experience. A discretionary margin is added to allow for the zerorisation of negative reserves after taking into account the release of negative reserves to offset the deferral of acquisition costs. The mortality and morbidity assumptions both have a discretionary margin of 10% for the Life Protector product.

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.

Economic assumptions

Investment return

The group calculates its investment return assumption using a full yield curve as opposed to using a point estimate on the underlying yield curve. The comparative point estimate of the current yield curve at the appropriate duration at the valuation date is 10.41% (2018: 11.5%).

Inflation

The group calculates its inflation assumption using a full inflation curve as opposed to using a point estimate on the underlying inflation curve, derived from nominal and real curves. The comparative point estimate of the current inflation curve at the estimated discounted mean term at the valuation date is 7.7% (2018: 8.0%).

Taxation

The tax position is taken into account and the taxation rates, consistent with that position and the likely future changes in that position, are allowed for.

Claims reserves

In addition to the discounted cash flow liability, both an IBNR and an outstanding claims reserve (OCR) was held. The IBNR was set using a claims run-off model based on recent experience and best estimates. The OCR is set using the actual estimate of outstanding claims as at year-end.

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 judgements on the measurement of the insurance contract liability.

Valuation of intangible assets

The group identified an intangible asset on its acquisition of a 31% equity stake in Visio made in the 2019 financial year (refer to page 6 in the directors' report).

During the fair value exercise, the group identified client relationships as an intangible asset in the Visio transaction. The estimation of the fair value of intangible assets is inherently uncertain due to all the valuation assumptions being forward-looking information. The valuation of the intangible assets at acquisition date may be refined over the next twelve months, resulting in a prospective restatement.

The calculation of the client relationship intangible asset for the Visio transaction was performed based on the present value of management's best estimate of future earnings to be derived from clients existing at the acquisition date. Some of the key assumptions include lapse rates, expense growth, profit margins and market growth in assets.

Client relationships are recognised on acquisition at fair value and are subsequently measured using the historical cost method. Historical cost is derived by reducing the original fair value by accumulated amortisation and impairment losses. These intangible assets are amortised over their useful lives and only tested for impairment if an indication of impairment arises.

The client relationships intangible assets identified in the Polar Star, Sesfikile Capital and Visio transactions are amortised over a ten-year period and the value of business intangible asset in Hastings and client relationships intangible assets in Ethos and Entersekt are amortised over five years.

The group did not adjust the intangible assets as calculated in prior years in the 2019 financial year.

Impairment assessment of associates

Since the acquisition of the group's 29.9% interest in Hastings on 1 March 2017, the Hastings share price has declined by approximately 21% up to 30 June 2019. This was partly caused by a disinflationary insurance cycle experienced in the UK. In addition, the UK motor insurance market, which makes up a material component of Hastings' insurance product mix, is known to be cyclical in nature, which impacts the Hastings share price.

The group considered whether there is a significant and prolonged decline in the fair value of Hastings below its group carrying value. The group considers significant to constitute a greater than 20% decline in fair value and prolonged to be a period of at least a year.

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

The DCF valuation model valued Hastings at R9.7 billion, which exceeds its carrying value of R9.3 billion.

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

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

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

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

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

Based on the outcome of the value-in-use calculation, the group did not impair its investment in Hastings in the 2019 financial year.

Management of insurance and financial risk

(Part of notes to the consolidated annual financial statements)

RISK MANAGEMENT FRAMEWORK

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

Risk and governance oversight is provided by the board, audit and risk committee, social, ethics and transformation committee, investment committee, remuneration committee, directors' affairs and governance committee and nominations committee at the RMI holding company level. There are various other committees at investee company level overseeing risk and governance matters at operational level. The three main focus areas are the management of insurance risk, the management of financial risk and capital management.

1. MANAGEMENT OF INSURANCE RISK

1.1 Background and insurance risk management philosophy

The following table shows the gross insurance contract liabilities of the group:

	As at 30 June	
R MILLION	2019	2018
Gross insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	**2 347**	1 910
– Unearned premiums	**4 152**	4 032
– Insurance contracts cash bonuses	**470**	436
Long-term insurance contracts	**488**	347
Total gross insurance contract liabilities	**7 457**	6 725

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

Due to the appropriate use of reinsurance and catastrophe cover, the RMI group believes that there is no single risk or event that represents a significant concentration of insurance risk for the group. The management of insurance risk is presented separately for short-term and long-term insurance.

1.2 Short-term insurance

Terms and conditions of insurance contracts

OUTsurance conducts short-term insurance business on the following classes of short-term insurance risk, indicated as a percentage of total gross written premium per risk category:

	As at 30 June 2019	
% OF TOTAL GROSS WRITTEN PREMIUM	Personal lines	Commercial
Personal accident	**<1.0%**	<1.0%
Liability	**–**	13.0%
Miscellaneous	**<1.0%**	<1.0%
Motor	**65.0%**	56.1%
Property	**34.4%**	28.5%
Transportation	**<1.0%**	2.2%

	As at 30 June 2018	
% OF TOTAL GROSS WRITTEN PREMIUM	Personal lines	Commercial
Personal accident	<1.0%	<1.0%
Liability	–	13.6%
Miscellaneous	<1.0%	–
Motor	64.4%	57.7%
Property	35.1%	26.6%
Transportation	<1%	2.0%

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

Personal accident

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

Liability

Provides cover for risks relating to liability not 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 or pipes and malicious damage.

Transportation

Provides cover to risks relating to stock in transit.

Insurance risks

Insurance risk is a risk other than a financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable, that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

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

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

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

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

Underwriting strategy

The group aims to diversify the pool of insured perils by 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 minimal cross subsidy between risks. Insurance premiums charged for a certain pool of risks are adjusted frequently according to the normalised loss ratios experienced for 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 information technology 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 reinsurance can be accepted without the necessary facultative cover being arranged. No-claims bonuses, which reward clients for not claiming, also form part of the group's underwriting strategy.

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

Reinsurance strategy

The group reinsures a portion of the risk it assumes through its reinsurance programme in order to control the exposure of the group to losses arising from insurance contracts and in order to protect the profitability of the group and its capital. A suite of treaties is purchased in order to limit losses suffered from individual and aggregate insurance risks. Facultative reinsurance is purchased for certain individual risks that have been identified as being outside the limits set for these risks. The retention limits are modelled to optimise the balance between acceptable volatility and reinsurance cost. Acceptable volatility is as defined by the limits set by the board of directors. During the current financial year, of the R8 014 million gross claims incurred, R843 million was reinsured. The group only enters into reinsurance agreements with reinsurers which have acceptable 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 a very stable and predictable claims experience.

Based on gross written premiums, the short-term insurance is split 53.6% in South Africa, 44.9% in Australia and 1.5% in New Zealand. The South African operation is exposed to a concentration of insurance risk in the Gauteng province, where 49.5% (2018: 50.3%) of the total sum insured is domiciled. The Australian operation is exposed to a concentration of insurance risk in South East Queensland, where 21.0% (2018: 22.0%) of the total sum insured is domiciled. The New Zealand operation is exposed to a concentration of insurance risk in Auckland, where 52.6% (2018: 53.3%) of the total sum insured is domiciled. The concentration risk which arises in each insurance entity is mitigated through the catastrophe excess of loss programme entered into by that entity.

Exposure to catastrophes and policies mitigating this risk

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

Profit-sharing arrangements

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

1.3 Long-term insurance

Terms and conditions of insurance contracts

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

- Underwritten Life;
- Life Protector; and
- Funeral Plan.

The following gives a brief explanation of each product:

Underwritten Life

The Underwritten Life insurance product is a fully underwritten product and covers the following insurance risks:

- Death cover;
- Disability cover;
- Critical illness cover; and
- Family funeral cover.

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

An optional OUTbonus is also available to policyholders. This allows the policyholder to receive all premiums paid over a period of 15 years if all terms and conditions are met.

Life Protector

The Life Protector product is a limited underwritten product and covers the following insurance risks:

- Death cover;
- Disability cover;
- Critical illness cover;
- Retrenchment cover;
- Temporary disability cover;
- Family funeral cover; and
- Premium waiver.

In the event of a valid death, permanent disability (occupational disability) or critical illness claim, OUTsurance Life pays the contractual sum assured. The policyholder's OUTsurance Personal cover premiums will also be waived following a valid claim. In the event of a valid temporary disability or retrenchment claim, OUTsurance Life undertakes to pay the policyholder a monthly instalment of a specified percentage of the sum assured as well as the premium for the specified period.

Funeral Plan

The OUTsurance Funeral Plan product is a limited underwritten product and provides the following cover:

- Death cover;
- Stillborn benefit;
- Premium waiver; and
- Repatriation benefit.

Insurance risks

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

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

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

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

Mortality and morbidity risk

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

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

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

Underwriting experience risk

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

Underwriting experience risk is managed through:

- **Product design and pricing**
  Rating factors are applied to different premium rates to differentiate between different levels of risk. Among other, premiums are differentiated by age, gender, smoking status and medical history. Premium rates are approved and reviewed by the head of actuarial function;
- **Underwriting**
  Underwriting ensures that only insurable risks are accepted and that premiums accurately reflect the unique circumstances of each risk. The group has developed an advanced medical underwriting system which captures detailed information regarding the clients' medical history and condition and 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; and
- **Experience monitoring**
  Experience investigations are conducted and corrective action is taken where adverse experience is noted.

Lapse risk

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

- Appropriate product design and pricing;
- Providing high-quality service; and
- Continuous experience monitoring.

Modelling and data risk

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

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

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

Expense risk

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

Non-claims bonus risk

Non-claims bonus risk is the risk that the future contractual bonus payments are higher than assumed in the calculation of the policyholder liability (lapse risk) or that the investment return received is lower than expected (economic risk). A decrease in the lapse rate will result in an increase in the non-claims bonus risk. This risk is managed by applying an appropriate lapse assumption to allow for uncertainty. A decrease in interest rates would result in a lowering of the investment return achieved on the assets backing the bonus liabilities, increasing the economic risk. This risk is mitigated by a zero-coupon deposit matching strategy, where the investment return on the zero-coupon deposit matches the required investment return in both timing and amount.

2. MANAGEMENT OF FINANCIAL RISK

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

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

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

2.1 Market risk

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

2.1.1 Currency risk

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

The group's exposure to currency risk is mainly in respect of foreign investments made. The group has invested in foreign subsidiaries operating in Australia and New Zealand. The group also invested in Hastings during the 2017 financial year and funded a portion of the acquisition price with a £150 million loan.

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

As at 30 June 2019

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

As at 30 June 2018

R MILLION	Rand	Australian Dollar	New Zealand Dollar	British Pound	Total
Total assets	35 323	8 781	671	–	44 775
Total liabilities	12 228	5 856	267	2 720	21 071
Exchange rates:					
Closing rate		10.15	9.29	18.13	
Average rate		9.90	9.10	17.29	

Currency translation risk

The potential effect on the group profit or loss and the equity of the group after an appreciation or depreciation in the Rand is provided in the following table:

30 June 2019

R MILLION	AUD 10% appreciation	AUD 10% depreciation	NZD 10% appreciation	NZD 10% depreciation	GBP 10% appreciation	GBP 10% depreciation
Profit or loss	**(67)**	**67**	**(2)**	**2**	**(43)**	**43**
Equity	**(293)**	**293**	**(43)**	**43**	**(376)**	**376**

30 June 2018

R MILLION	AUD 10% appreciation	AUD 10% depreciation	NZD 10% appreciation	NZD 10% depreciation	GBP 10% appreciation	GBP 10% depreciation
Profit or loss	(83)	83	(10)	10	(73)	73
Equity	(293)	293	(40)	40	(382)	382

Currency risk

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

30 June 2019

R MILLION	GBP 10% appreciation	GBP 10% depreciation
Profit or loss	**–**	–
Equity	**270**	(270)

30 June 2018

R MILLION	GBP 10% appreciation	GBP 10% depreciation
Profit or loss	–	–
Equity	272	(272)

2.1.2 Interest rate risk

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

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

The table below reflects the exposure to interest rate risk, which represents a fair value risk for fixed rate instruments and a cash flow risk for variable rate instruments. An increase or decrease in the market interest rate would result in the following changes in profit or loss before tax of the group (no impact on other comprehensive income):

R MILLION	30 June 2019 200 bps increase	30 June 2019 200 bps decrease	30 June 2018 200 bps increase	30 June 2018 200 bps decrease
Financial assets				
Fixed rate instruments				
Government, municipal and public utility securities	**3**	**(3)**	3	(3)
Term deposits	**104**	**(104)**	105	(105)
Unsecured loan	**1**	**(1)**	1	(1)
Money market instruments	**3**	**(3)**	5	(5)
Cash and cash equivalents	**1**	**(1)**	1	(1)
Variable rate instruments				
Unlisted preference shares	**–**	**–**	2	(2)
Collective investment scheme	**–**	**–**	1	(1)
Government, municipal and public utility securities	**5**	**(5)**	8	(8)
Money market instruments	**50**	**(50)**	51	(51)
Cash and cash equivalents	**31**	**(31)**	47	(47)
Derivative instruments	**1**	**(1)**	–	–

2.1.3 Other price risk

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

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

All equities are split between listed and unlisted securities. The table below reflects the shareholders' exposure to equity price risk. A hypothetical 10% increase or decrease in the equity prices would result in the following changes in profit or loss (P or L) or other comprehensive income (OCI) of the group:

R MILLION	Affects	30 June 2019 10% increase	30 June 2019 10% decrease	30 June 2018 10% increase	30 June 2018 10% decrease
Financial assets					
Listed preference shares	OCI	**–**	**–**	35	(35)
Listed preference shares	P or L	**39**	**(39)**	–	–
Collective investment scheme	P or L	**12**	**(12)**	11	(11)
Listed equity shares	OCI	**–**	**–**	73	(73)
Listed equity shares	P or L	**109**	**(109)**	15	(15)
Financial liabilities					
Derivative liability	P or L	**7**	**(7)**	3	(3)

2.2 Credit risk

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

- Unlisted preference shares;
- Debt securities;
- Insurance and other receivables;
- Reinsurance contracts; and
- Cash and cash equivalents.

Significant concentrations of credit risk are disclosed in the consolidated annual financial statements. The credit exposure to any one counterparty is managed by the board in accordance with the requirements of the Insurance Act, 18 of 2017, by setting transaction and exposure limits which are reviewed at each board and audit committee meeting. The creditworthiness of existing and potential clients is monitored quarterly at the board meeting and bi-annually by the actuarial committee and investment committee.

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

As at 30 June 2019

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

As at 30 June 2018

R MILLION	AAA	AA	A	BBB	BB	B	Not rated	Total
Collective investment schemes	–	11	–	–	–	–	20	31
Zero-coupon deposits	–	–	–	–	346	–	–	346
Term deposits	–	5 261	–	–	–	–	–	5 261
Unsecured loan	–	–	–	–	–	–	34	34
Money market instruments	508	615	310	194	1 066	6	94	2 793
Debt securities – available-for-sale	–	102	–	–	–	–	–	102
Debt securities at fair value through profit or loss	96	136	–	178	141	–	671	1 222
Insurance and other receivables	–	61	3	8	2	–	2 560	2 634
Reinsurance contracts	7	120	66	93	–	–	–	286
Cash and cash equivalents	16	928	677	–	796	–	–	2 417
Total	627	7 234	1 056	473	2 351	6	3 379	15 126

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset in the tables above.

The group utilises the credit ratings per counterparty as provided by each of the major credit rating agencies to determine the credit quality of a specific instrument.

In instances where the credit rating for the counterparty is not available, the group utilises the credit rating provided by a service provider, amended to take into account the credit risk appetite of the group. The internal methodology of the service provider provides a credit rating which assesses the counterparty's credit quality based on its financial standing. This methodology has been approved by the group's internal investment committee. Should the service provider not provide a credit rating, the counterparty is shown as unrated. The ratings disclosed are long-term international scale, local currency ratings.

The ratings are defined as follows:

Long-term ratings

AAA	**Highest credit quality**. The ratings denote the lowest expectation of credit risk. AAA ratings are assigned only in the case of exceptionally strong capacity or payment of financial commitments.
AA	**Very high credit quality**. AA ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	**High credit quality**. A ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	**Good credit quality**. BBB rating indicates a low expectation of credit risk. They indicate adequate capacity for timely payment of financial commitments. Changes in circumstances or in economic conditions are more likely to impair this capacity than is the case for higher ratings.
BB	**Speculative quality**. BB ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.
B	**Highly speculative quality**. B ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met, however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

Impairment of financial assets

Overview

The incurred loss model under *IAS 39* was replaced with the expected credit loss (ECL) model under *IFRS 9*. Application of the ECL model results in credit losses being recognised earlier than under the incurred loss model. As a consequence of the new standard, the group has revised its impairment methodology for each of these classes of financial assets.

Impact of the ECL impairment model

The group determined that the application of ECL model at 1 July 2018 resulted in an additional ECL allowance as an opening adjustment to retained earnings as set out in note 39. During the current financial period the group recognised an ECL of R10 million. Included in the retained earnings opening balance adjustment is an ECL allowance of R30 million.

Calculation of ECL

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

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

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

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

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

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

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

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

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

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

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

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

Significant increase in credit risk and default

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

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

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

Forward-looking information

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

Analysis of credit risk and allowance for ECL

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

R MILLION	As at 30 June 2019 Gross carrying amount	Allowance for ECL	Net amount	Subject to 12-month ECL allowance
Cash and cash equivalents	1 602	–	1 602	–
Term deposits	5 496	(8)	5 488	(8)
Money market securities	2 627	(16)	2 611	(16)
Insurance and other receivables	2 771	–	2 771	–
Total	12 496	(24)	12 472	(24)

Reinsurance credit exposures

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

Loan commitments and guarantees

As disclosed in note 34, the group has provided loan commitments to an associate for a total amount of R209 million, of which R55 million has been advanced by 30 June 2019. The remaining amount of the loan commitment of R154 million could expose the group to additional credit exposure. The expected credit loss on this exposure is not deemed to be material. The liquidity risk is deemed to be within one year.

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

2.3 Liquidity risk

Liquidity risk is the risk that the group, although solvent, is not able to settle its obligations as they fall due because of insufficient liquid assets in the group. To ensure that the group's operating entities are able to meet their liabilities when they fall due, the liquidity profile of the various balance sheets are actively managed with a defined investment mandate. The table below provides a liquidity profile of the group's financial assets. The liquidity profile assumes that instruments can be traded in the ordinary course of business and in markets with sufficient liquidity. The preference share liability and interest-bearing loans are the only two significant liabilities which are presented on an undiscounted basis.

In addition to the financial assets presented in the tables below, the group has significant investments in large listed entities (Discovery, Momentum Metropolitan and Hastings), with a combined market value of R38.7 billion (2018: R39.5 billion). Should the need arise, the group can sell a portion of these shares to repay the debt raised with the acquisition of the 29.9% stake in Hastings. However, the group's intention is to refinance the preference share debt and bank borrowings when they become due.

Liquidity risk

R MILLION	2019	2018
Liquid financial assets		
Realisable within 30 days		
– Cash and cash equivalents	**1 602**	2 417
– Collective investment schemes	**136**	141
– Government, municipal and public utility securities	**400**	560
– Money market securities	**2 643**	2 793
– Exchange traded funds – ordinary shares	**905**	713
– Listed equities	**184**	165
Realisable between one and 12 months		
– Term deposits	**5 195**	5 261
– Loans and receivables	**2 719**	2 634
– Unlisted preference shares	**–**	102
Total liquid financial assets	**13 784**	14 786
Illiquid financial assets		
Realisable in more than 12 months		
– Zero-coupon deposits	**590**	346
– Listed perpetual preference shares	**389**	354
– Unlisted equities	**190**	130
– Debt securities	**778**	662
– Derivative asset	**36**	–
– Unsecured loan	**37**	34
Total illiquid financial assets	**2 020**	1 526
Total financial assets held	**15 804**	16 312
Insurance contract assets		
Realisable within 30 days	**72**	82
Realisable between one and 12 months	**531**	141
Realisable after more than 12 months	**87**	63
Total insurance contract assets held	**690**	286
Total assets (excluding non-monetary assets)	**16 494**	16 598

Maturity profile of liabilities

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

R MILLION	2018 Total	Call to 12 months	1 – 5 years	> 5 years
Expected discounted cash flows				
Insurance contract liabilities	6 725	5 698	(254)	1 281
Contractual undiscounted cash flows				
Preference shares	11 205	656	10 549	–
Interest-bearing loans	2 984	87	2 897	–
Financial liabilities at fair value through profit or loss	132	93	–	39
Insurance and other payables	225	224	1	–
Derivative liability	36	–	36	–
	14 582	1 060	13 483	39
Other liabilities				
Share-based payment liability	134	119	15	–
Provisions	189	189	–	–
Tax liabilities	203	203	–	–
Insurance and other payables	933	904	29	–
	1 459	1 415	44	–
Total liabilities	22 766	8 173	13 273	1 320
Liquid asset coverage ratio	0.65	1.81		
Financial assets coverage ratio	0.72			

The liquid asset coverage ratio is the total liquid assets divided by the total liabilities.

The financial assets coverage ratio is the total financial assets divided by the total liabilities.

3. CAPITAL MANAGEMENT

Since 2014, RMI has actively pursued a strategy to optimise, diversify and modernise its portfolio of financial services assets. RMI's ambitions to diversify geographically, add to its existing portfolio of significant stakes in financial services companies and to facilitate ongoing growth initiatives in its existing portfolio companies imply additional investment and use of financial leverage.

The change in strategy has required RMI to become a more agile holding company and, for ease of raising funding, to comply with the norms familiar to the funding market. A decision was taken to restructure the RMI group to comply with market norms and ensure that best pricing on funding is obtained. This restructure entailed:

- The establishment of a wholly-owned treasury company, namely RMI Treasury Company Proprietary Limited (RMI Treasury Company), for purposes of raising funds for investment activities; and
- The establishment of a wholly-owned investment holding company, RMI Asset Holdings Proprietary Limited (RMI Asset Holdings), for purposes of housing RMI's investments.

RMI's investments in Discovery Limited and Momentum Metropolitan Holdings Limited were transferred from RMI to RMI Asset Holdings on 29 June 2018 (in the 2017 financial year, investments in RMI Investment Managers, Main Street 1353, RMI Investment Holdings and AlphaCode, as well as preference share holdings in special purpose entities were transferred on 22 February 2017).

The group raised preference share funding amounting to R9.7 billion in RMI Treasury Company during the 2017 financial year. R2.3 billion of this money was utilised to redeem existing preference share funding in RMI and the remaining R7.4 billion, together with a GBP-denominated loan of R2.4 billion (£150 million), was utilised to fund RMI's acquisition of a 29.9% stake in Hastings on 1 March 2017 for R8.6 billion and to create capacity for additional acquisitions.

The board is monitoring the group's debt to market capitalisation ratio to ensure that the group is not exposed to unacceptable risks from a capital management perspective. As part of this capital management process, the board has decided that, in addition to the cash dividend, it would offer a scrip distribution alternative and a reinvestment option to prudently manage RMI's capital structure. The board will continuously assess RMI's dividend policy through its investment phase and may, if appropriate, continue to utilise the scrip distribution alternative and the reinvestment option to support investment activity. The scrip distribution alternative and reinvestment option are effective methods of managing the balance sheet post the acquisition of the investment in Hastings. Furthermore, the scrip distribution alternative and the reinvestment option each provide a cost-effective opportunity for shareholders to increase their shareholding in RMI.

Capital adequacy risk is the risk that there are insufficient reserves to provide for variations in actual future experience that is worse than what has been assumed in conducting insurance business and to facilitate growth and strategic objectives.

The group's objectives when managing capital are:

- To comply with the higher of the regulatory solvency capital requirements for each entity and the group, or the internal assessment of the capital requirement for each entity and the group;
- To safeguard the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To provide an adequate return for shareholders by pricing insurance commensurately with the level of risk; and
- To retain sufficient surplus capital to facilitate future growth and strategic expansion.

The group and its insurance entities assess the solvency capital requirement as follows:

- **Non-life underwriting risk:** The risk that arises from insurance obligations for short-term insurance business and includes reserve, premium, catastrophe and lapse risk;
- **Life underwriting risk:** The risk that arises from insurance obligations for long-term insurance business and includes lapse, mortality, morbidity, catastrophe and expense risks;
- **Market risk:** The risk of loss arising from movements in market prices on the value of the insurer's assets and liabilities or of loss arising from the default of the insurer's counterparties; and
- **Operational risk:** The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

In each country in which the group operates, the local insurance regulator specifies the minimum amount and the type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities.

The group and its insurance entities set a target solvency coverage multiple of the regulated minimum for each jurisdiction and the group in aggregate to act as a buffer against uncertainty. These target multiples are derived from considering the unique risk characteristics of each entity and the group in aggregate. These risk characteristics include the impact of stress and scenario tests, the level and variability of profits and the accepted risk appetite. The target multiple is maintained at all times throughout the year.

Qualifying regulatory capital or own funds include retained earnings, contributed share capital and distributable reserves. Adjustments are made for non-qualifying or inadmissible assets and for differences between the fair value and book value of assets and liabilities.

The table below summarises the statutory solvency capital requirement (SCR) for each of the regulated group companies and the actual solvency achieved:

	Jurisdiction	SCR ratio 2019	SCR ratio 2018	Target SCR
Group		**2.4**	2.4	1.4
Short-term insurance				
OUTsurance Insurance Company Limited	South Africa	**2.3**	2.5	1.3
OUTsurance Insurance Company of Namibia (associate)	Namibia	**2.1**	2.5	1.2
Youi Australia	Australia	**3.7**	3.9	2.0
Youi New Zealand	New Zealand	**15.3**	6.3	2.0
Long-term insurance				
OUTsurance Life Insurance Company Limited	South Africa	**3.2**	2.8	1.3 – 1.7

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

Southern African operations

Previous regime

Up to 30 June 2018, the SCR for OUTsurance and OUTsurance Life was calculated based on *Board Notice 169* of 2011 and *SAP 104* respectively. From 1 July 2018, the SAM regime came into effect, replacing these calculation methods.

Solvency Assessment Management (SAM) Regime

The SAM regime became effective on 1 July 2018, after the Insurance Bill obtained final approval during January 2018.

The SAM regime aims to prescribe certain measures in which insurers need to measure their eligible own funds (similar to qualifying capital). It also prescribes the manner in which the SCR needs to be calculated.

The prescribed SCR is the level of eligible own funds required to ensure the value of assets will exceed technical provisions and other liabilities at a 99.5% level of certainty over a one-year time horizon. The SCR is calculated based on the following key risk categories:

- Non-life underwriting risk;
- Life underwriting risk;
- Market risk; and
- Operational risk.

From 1 July 2018, RMI and its insurance subsidiaries are regulated as an insurance group. The deduction and aggregation method is used to assess capital adequacy on a group-wide basis. This method sums the solo capital requirements and aims to calculate the relevant adjustments to avoid double or multiple gearing of capital. Excess or deficits of capital existing at the level of each entity in the group, i.e. on a solo basis, are aggregated (net of intragroup transactions) in order to measure the own funds surplus (or deficit) at a group level.

Australian operations – Short-term insurance operations

The Australian Prudential Regulation Authority (APRA) imposes capital requirements on Australian subsidiaries which are licensed general insurers calculated in accordance with *Prudential Standards GPS 110 Capital Adequacy*. The prudential capital requirement (PCR) is equal to the sum of the prescribed capital amount (PCA) and any supervisory adjustment determined by APRA.

The PCA is calculated in accordance with the standard method as the sum of:

- Insurance risk charge;
- Insurance concentration risk charge;
- Asset risk charge;
- Asset concentration risk charge;
- Operational risk charge; and
- Aggregation benefit.

New Zealand operations – Short-term insurance operations

The Reserve Bank of New Zealand (RBNZ) imposes capital requirements on New Zealand subsidiaries which are licensed general insurers calculated in accordance with the *Solvency Standard for Non-life Insurance Business* issued in terms of section 55 of the Insurance (Prudential Supervision) Act, 111 of 2010.

The minimum solvency capital is calculated as the sum of:

- Insurance risk capital charge;
- Catastrophe risk capital charge;
- Reinsurance recovery risk capital charge;
- Asset risk capital charge;
- Foreign currency risk capital charge; and
- Interest rate capital charge.

Notes to the consolidated annual financial statements

for the year ended 30 June

1. PROPERTY AND EQUIPMENT

R MILLION	Land and buildings	Property under development	Leasehold improvements	Furniture, fittings and equipment	Motor vehicles	Total
As at 30 June 2019						
Net book value at the beginning of the year	**930**	**–**	**5**	**174**	**–**	**1 109**
Additions	**–**	**–**	**2**	**97**	**1**	**100**
Disposals	**–**	**–**	**–**	**(8)**	**–**	**(8)**
Foreign exchange adjustments	**(18)**	**–**	**–**	**(1)**	**–**	**(19)**
Depreciation (note 25)	**(33)**	**–**	**(3)**	**(105)**	**–**	**(141)**
Net book value at the end of the year	**879**	**–**	**4**	**157**	**1**	**1 041**
Cost	**1 037**	**–**	**45**	**766**	**3**	**1 851**
Accumulated depreciation	**(158)**	**–**	**(41)**	**(609)**	**(2)**	**(810)**
Net book value at the end of the year	**879**	**–**	**4**	**157**	**1**	**1 041**
As at 30 June 2018						
Net book value at the beginning of the year	265	515	21	197	2	1 000
Additions	8	163	1	83	–	255
Disposals	–	–	(8)	(2)	(1)	(11)
Transfer of property under development	678	(678)	–	–	–	–
Foreign exchange adjustments	6	–	–	–	–	6
Depreciation (note 25)	(27)	–	(9)	(104)	(1)	(141)
Net book value at the end of the year	930	–	5	174	–	1 109
Cost	1 055	–	43	678	2	1 778
Accumulated depreciation	(125)	–	(38)	(504)	(2)	(669)
Net book value at the end of the year	930	–	5	174	–	1 109

Land and buildings are utilised by the group in the normal course of operations to provide services. The South African head office of OUTsurance is situated in Centurion, Gauteng. The Australian head office for the Youi Group is situated on the Sunshine Coast. Both these properties are owner-occupied.

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

Refer to note 42 for the current/non-current split.

2. INTANGIBLE ASSETS

R MILLION	Internally developed computer software	Intellectual property bonuses	Total
As at 30 June 2019			
Net book value at the beginning of the year	**–**	**124**	**124**
Additions	**14**	**17**	**31**
Accruals	**–**	**31**	**31**
Settlements	**–**	**(1)**	**(1)**
Service cost relating to intellectual property (amortisation) (note 25)	**–**	**(84)**	**(84)**
Net book value at the end of the year	**14**	**87**	**101**
Cost	**14**	**271**	**285**
Accumulated amortisation	**–**	**(184)**	**(184)**
Net book value at the end of the year	**14**	**87**	**101**

R MILLION	Intellectual property bonuses
As at 30 June 2018	
Net book value at the beginning of the year	90
Additions	26
Accruals	113
Settlements	(2)
Service cost relating to intellectual property (amortisation) (refer to note 25)	(100)
Foreign exchange adjustments	(3)
Net book value at the end of the year	124
Cost	309
Accumulated amortisation	(185)
Net book value at the end of the year	124

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

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

Refer to note 42 for the current/non-current split.

3. INVESTMENTS IN ASSOCIATES

R MILLION	2019	2018
Shares at cost	21 027	20 332
Treasury shares	(73)	(100)
Equity accounted reserves	7 383	6 181
Investments in associates	28 337	26 413
Analysis of the movement in the carrying value of associates		
Balance at the beginning of the year	26 413	24 455
Additional acquisition of associates	693	216
Treasury shares	27	(11)
Equity accounted earnings for the year	2 612	2 328
Dividends received for the year	(1 009)	(1 147)
Share of associates' other reserves	(399)	572
Balance at the end of the year	28 337	26 413
Carrying value is attributable to:		
Discovery Limited	11 649	10 268
Hastings Group Holdings plc	9 298	9 363
Momentum Metropolitan Holdings Limited	6 409	5 964
AlphaCode associates	137	166
OUTsurance associates	99	129
RMI Investment Managers associates	745	523
Total carrying value	28 337	26 413
Market value of listed associates (RMI's share)		
Discovery Limited	24 575	23 887
Hastings Group Holdings plc	6 912	9 072
Momentum Metropolitan Holdings Limited	7 608	7 087
Total market value of listed associates	39 095	40 046

3. INVESTMENTS IN ASSOCIATES continued

R MILLION	2019	2018
The group's interests in associates are as follows:		
AutoGuru Australia Proprietary Limited – Number of shares	2 752 278	2 752 278
AutoGuru Australia Proprietary Limited – % of equity	30	30
CoreShares Holdings Proprietary Limited – Number of shares	57 556	26 506
CoreShares Holdings Proprietary Limited – % of equity	55.4	51.2
Discovery Holdings Limited – Number of shares	164 810 590	161 944 992
Discovery Holdings Limited – % of equity*	25.1	25.1
Ethos Private Equity Proprietary Limited – Number of shares	32 141	29 305
Ethos Private Equity Proprietary Limited – % of equity	14	9.1
Entersekt Proprietary Limited – Number of shares	102 588	102 588
Entersekt Proprietary Limited – % of equity	25.1	25.1
Hastings Group Holdings plc – Number of shares	196 508 074	196 508 074
Hastings Group Holdings plc – % of equity	29.9	29.9
Merchant Capital Advisory Services Proprietary Limited – Number of shares	333 430	307 630
Merchant Capital Advisory Services Proprietary Limited – % of equity	25.8	25.1
Momentum Metropolitan Holdings Limited – Number of shares	401 048 075	401 048 075
Momentum Metropolitan Holdings Limited – % of equity*	27.5	26.5
Northstar Asset Management Proprietary Limited – Number of shares	16 216	16 216
Northstar Asset Management Proprietary Limited – % of equity	30	30
OUTsurance Insurance Company of Namibia Limited – Number of shares	1 960 000	49
OUTsurance Insurance Company of Namibia Limited – % of equity	49	49
Perpetua Investment Managers Proprietary Limited – Number of shares	300	–
Perpetua Investment Managers Proprietary Limited – % of equity	15	–
Polar Star Management – Number of shares	155 000	155 000
Polar Star Management – % of equity	25	26.7
Royal Investment Managers Proprietary Limited – Number of shares	1 741 662	450 000
Royal Investment Managers Proprietary Limited – % of equity	46.5	45
Sentio Capital Management Proprietary Limited – Number of shares	246	208
Sentio Capital Management Proprietary Limited – % of equity	26	22
Truffle Capital Proprietary Limited – Number of shares	6 876	6 876
Truffle Capital Proprietary Limited – % of equity	27.7	25
Tantalum Capital Proprietary Limited – Number of shares	960	960
Tantalum Capital Proprietary Limited – % of equity	30	30

* After consolidation of share trusts.

The group does not control CoreShares Holdings Proprietary Limited, notwithstanding the fact that it owns 55.4% of the issued share capital. In terms of a shareholders' agreement, the group is unable to appoint the majority of the directors. The shareholders' agreement also stipulates the minimum percentage vote required from shareholders for certain key decisions.

The group is believed to exercise significant influence over Ethos Private Equity Proprietary Limited and Perpetua Investment Managers Proprietary Limited through board representation, notwithstanding the fact that it owns less than 20% of the issued share capital.

Further details of significant associates are disclosed in note 36.

Refer to note 42 for the current/non-current split.

R MILLION	2019	2018
4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES		
The group's equity and debt securities are summarised by measurement category below:		
Available-for-sale	–	1 169
– Equity	–	1 067
– Debt	–	102
Fair value through other comprehensive income	3 213	–
– Equity	186	–
– Debt	3 027	–
Fair value through profit or loss	2 714	10 093
– Equity	1 597	406
– Debt	1 117	9 687
Amortised cost – Debt	5 496	–
Total financial assets – Equity and debt securities	11 423	11 262

Refer to note 42 for the current/non-current split.

The assets included in each of the categories above are detailed below:

R MILLION	2019	2018
Available-for-sale financial assets		
Equity securities		
– Listed shares	–	713
– Listed preference shares	–	354
Total equity securities	–	1 067
Debt securities		
– Unlisted preference shares	–	102
Total available-for-sale equity and debt securities	–	1 169
Fair value through other comprehensive income		
Equity securities		
– Unlisted shares	186	–
Debt securities		
– Government, municipal and public utility securities	400	–
– Money market securities	2 627	–
Total debt securities	3 027	–
Total financial assets at fair value through other comprehensive income	3 213	–

The unlisted shares and debt securities relate to the group's investments which were previously accounted for at fair value through profit and loss in terms of *IAS 39*. With *IFRS 9* becoming effective in the current financial year, the group reassessed these debt and equity investments and deemed the more appropriate accounting treatment in terms of *IFRS 9* to be fair value through other comprehensive income.

Equity securities at fair value through other comprehensive income

Equity securities at fair value through other comprehensive income comprise unlisted equity securities which are not held for trading and which the group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the group considers this classification to be more relevant.

These unlisted equity securities relate to the group's investments in fintech businesses where the group does not exercise significant influence and therefore does not equity account the investments.

On disposal of these equity investments, any related balance within the FVOCI reserve will be reclassified to retained earnings.

There were no disposals or dividends during the current or prior financial year.

During the year, the following gains were recognised in other comprehensive income:

	2019	2018
Gains recognised in other comprehensive income	44	–

R MILLION	2019	2018
4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES continued		
Financial assets at fair value through profit or loss		
Equity securities		
– Listed	1 478	166
– Unlisted	119	240
Total equity securities at fair value through profit or loss	1 597	406
Debt securities		
– Collective investment scheme assets	21	31
– Zero-coupon deposits	590	346
– Unsecured loans	37	34
– Term deposits	–	5 261
– Money market instruments	–	2 793
– Other debt securities		
– Variable rate	–	414
– Fixed rate	469	808
Total debt securities at fair value through profit or loss	1 117	9 687
Total equity and debt securities at fair value through profit or loss	2 714	10 093

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

Refer to note 38 for information relating to the fair value of investment securities.

	2019	2018
Financial assets at amortised cost		
Debt securities – Interest-bearing instruments	5 496	–

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

R MILLION	Available-for-sale	Fair value through profit or loss	Amortised cost	Fair value through OCI	Total
As at 30 June 2019					
Financial assets at the beginning of the year	1 169	10 093	–	–	11 262
Reclassification due to change in accounting policy	(1 169)	(7 974)	5 661	3 482	–
Reclassified balance at the beginning of the year	–	2 119	5 661	3 482	11 262
Additions (including net interest accruals)	–	500	5 219	2 671	8 390
Interest accrued	–	32	–	–	32
Dividends accrued	–	–	25	–	25
Disposals (sales and redemptions)	–	(27)	(5 261)	(2 977)	(8 265)
Unrealised fair value adjustment through profit or loss	–	90	–	–	90
Unrealised fair value adjustment through other comprehensive income	–	–	–	53	53
Foreign exchange difference	–	–	(140)	–	(140)
Expected credit loss	–	–	(8)	(16)	(24)
Financial assets at the end of the year	–	2 714	5 496	3 213	11 423
As at 30 June 2018					
Financial assets at the beginning of the year	1 101	8 739	–	–	9 840
Additions (including net interest accruals)	3	9 686	–	–	9 689
Interest accrued	–	3	–	–	3
Dividends accrued	–	29	–	–	29
Disposals (sales and redemptions)	(29)	(8 407)	–	–	(8 436)
Unrealised fair value adjustment	94	(12)	–	–	82
Foreign exchange difference	–	55	–	–	55
Financial assets at the end of the year	1 169	10 093	–	–	11 262

5. DERIVATIVE FINANCIAL INSTRUMENTS

R MILLION	2019	2018
Derivative assets		
Collateralised swap	**36**	–
Balance at the beginning of the year	**–**	6
Additions (purchased and issued)	**59**	–
Fair value movements	**(23)**	(6)
Balance at the end of the year	**36**	–

The collateralised swap arrangement is intended to match payments due to policyholders in the future, after a specified date. The portion of the policyholder liability that this arrangement has been matched to is R505 million as at 30 June 2019. The collateralised swap is recoverable in more than 12 months.

R MILLION	2019	2018
Derivative liabilities		
Interest rate swap	**(29)**	–
Equity swap	**(70)**	(36)
Total derivative liabilities	**(99)**	(36)
Balance at the beginning of the year	**(36)**	(8)
Additions (purchased and issued)	**(1)**	–
Fair value movements	**(62)**	(28)
Balance at the end of the year	**(99)**	(36)

Interest rate swap

The group utilises derivative financial instruments to reduce the impact of the interest rate risk contained in the policyholder liabilities in its long-term insurance business.

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

The following table provides a detailed breakdown of the group's interest rate swap outstanding at year-end. These instruments allow the group and its clients to transfer, modify or reduce their interest rate risks.

	Asset	Liability	Net derivative
Interest rate swap	322	(351)	(29)
– Floating rate swap	322	–	322
– Fixed rate swap	–	(351)	(351)

Of the R322 million derivative financial asset related to the interest rate swap, R9 million is recoverable within 12 months from reporting date.

Equity swap

The equity swap is a total return swap that relates to the RMI share incentive scheme. It is an economic hedge but does not meet the qualifying criteria for hedge accounting. The notional amount of the derivative of R120 million (2018: R119 million) does not necessarily indicate the future cash flow involved or the current fair value of the instrument and therefore does not represent RMI's exposure to credit or market risk. The derivative instrument becomes favourable (asset) or unfavourable (liability) based on changes in share prices and counterparty credit risk. The aggregate notional amount and fair value of derivative financial instruments can fluctuate over time.

Refer to note 42 for the current/non-current split.

6. INSURANCE AND OTHER RECEIVABLES

R MILLION	2019	2018
Receivables arising from insurance and reinsurance contracts:		
– Due from policyholders	**2 385**	2 307
– Due from reinsurers	**111**	60
Other receivables:		
– Other receivables and prepayments	**275**	267
Total insurance and other receivables	**2 771**	2 634

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

Insurance and other receivables are considered current assets.

Included in other receivables and prepayments are amounts due by related parties. Refer to note 33 for further details thereof.

The carrying amount of insurance and other receivables approximates the fair value based on the short-term nature of this asset.

7. DEFERRED ACQUISITION COST (DAC)

R MILLION	2019	2018
Balance at the beginning of the year	**307**	338
DAC raised	**774**	671
DAC charged to the income statement	**(712)**	(705)
Foreign exchange movement	**(9)**	3
Balance at the end of the year	**360**	307

In order to better align the initial acquisition expenses with the premium portions designed to cover the initial expenses, IFRS allows an entity to set up an asset (a DAC asset) equal to the initial acquisition expenses incurred, leading to a closer alignment of cash flows. The DAC is then run off (amortised) over time as the premium portions are received to cover the initial expenses. For OUTsurance LIfe, a linear amortisation over four years was chosen, which is closely aligned to the discounted payback period. Any DAC created from commission payments is amortised in line with regulated commission earned percentages.

Refer to note 42 for the current/non-current split.

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS

R MILLION	2019	2018
Gross insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	**2 347**	1 340
– Claims incurred but not reported	**–**	570
– Unearned premiums	**4 152**	4 032
– Insurance contract cash bonuses	**470**	436
Total short-term insurance contracts	**6 969**	6 378
Long-term insurance contracts	**488**	347
Total gross insurance liabilities	**7 457**	6 725
Recoverable from reinsurers		
Short-term insurance contracts		
– Outstanding claims provision	**(530)**	(114)
– Claims incurred but not reported	**–**	(34)
– Unearned premiums	**(56)**	(52)
Total short-term insurance contracts	**(586)**	(200)
Long-term insurance contracts	**(105)**	(86)
Total recoverable from reinsurers	**(691)**	(286)
Net insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	**1 817**	1 226
– Claims incurred but not reported	**–**	536
– Unearned premiums	**4 096**	3 980
– Insurance contract cash bonuses	**470**	436
Total short-term insurance contracts	**6 383**	6 178
Long-term insurance contracts	**383**	261
Total net insurance liabilities	**6 766**	6 439

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.1 Analysis of movement in claims reserves

R MILLION	Gross	Re-insurance	Net
As at 30 June 2019			
Opening balance			
– Outstanding claims provision	**1 340**	**(114)**	**1 226**
– Claims incurred but not reported	**570**	**(34)**	**536**
Total	**1 910**	**(148)**	**1 762**
Current year			
– Claims incurred	**7 582**	**(766)**	**6 816**
– Claims paid	**(6 340)**	**282**	**(6 058)**
Prior year			
– Claims incurred	**(11)**	**(15)**	**(26)**
– Claims paid	**(1 078)**	**123**	**(955)**
Change in risk margin	**64**	**(17)**	**47**
Change in claims handling cost	**253**	**–**	**253**
Foreign exchange difference	**(33)**	**11**	**(22)**
Closing balance[1]	**2 347**	**(530)**	**1 817**

1 All claims-related provisions have been combined into a single claims provision. This provides for better alignment of the calculation of claims handling expenses and the risk margin across the claims provisions. As a result of this, the incurred but not reported claims and outstanding claims provision have been combined into the claims provision for disclosure purposes.

R MILLION	Gross	Re-insurance	Net
As at 30 June 2018			
Opening balance			
– Outstanding claims provision	1 575	(352)	1 223
– Claims incurred but not reported	603	(168)	435
Total	2 178	(520)	1 658
Current year			
– Claims incurred	6 550	(316)	6 234
– Claims paid	(5 755)	262	(5 493)
Prior year			
– Claims incurred	300	(189)	111
– Claims paid	(1 323)	450	(873)
Movement in incurred but not reported	(35)	133	98
Change in risk margin	(9)	28	19
Change in claims handling cost	(4)	–	(4)
Foreign exchange difference	8	4	12
Closing balance			
– Outstanding claims provision	1 340	(114)	1 226
– Claims incurred but not reported	570	(34)	536
Total	1 910	(148)	1 762

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.2 Analysis of movement in unearned premium provision (UPP)

R MILLION	Gross	Re-insurance	Net
As at 30 June 2019			
Balance at the beginning of the year	**4 032**	**(52)**	**3 980**
UPP raised	**7 700**	**(691)**	**7 009**
UPP earned	**(7 486)**	**687**	**(6 799)**
Foreign exchange movement	**(94)**	**–**	**(94)**
Balance at the end of the year	**4 152**	**(56)**	**4 096**
As at 30 June 2018			
Balance at the beginning of the year	3 990	(54)	3 936
UPP raised	7 203	(647)	6 556
UPP earned	(7 198)	649	(6 549)
Foreign exchange movement	37	–	37
Balance at the end of the year	4 032	(52)	3 980

8.3 Analysis of movement in insurance contract cash bonuses

R MILLION	2019	2018
Balance at the beginning of the year	**436**	440
Cash bonuses paid during the year	**(415)**	(386)
Charge to profit or loss for the year	**449**	382
Balance at the end of the year	**470**	436

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.4 Analysis of movement in long-term insurance contract liabilities

The policyholder liability represents the present value of the expected cash outflow to existing policyholders at measurement date. The policyholder liability is calculated by present valuing the expected future cash flows derived from the best estimates of the variables which influence these cash flows.

R MILLION	Gross long-term insurance contract liabilities	Reinsurer's share of policyholder liabilities	Net long-term insurance contract liabilities	Negative Rand reserve	Net long-term insurance contract liabilities including deferral of acquisition costs
As at 30 June 2019					
Balance at the beginning of the year	**490**	**(86)**	**404**	**(143)**	**261**
– Policyholder liability	**461**	**(77)**	**384**	**(143)**	**241**
– Claims provision	**29**	**(9)**	**20**	**–**	**20**
Transfer to policyholder liabilities under insurance contracts	**159**	**(19)**	**140**	**(18)**	**122**
– Unwind of discount rate and release of profits	**159**	**(11)**	**148**	**–**	**148**
– Experience variance	**(14)**	**(1)**	**(15)**	**–**	**(15)**
– Modelling methodology changes	**(6)**	**(3)**	**(9)**	**–**	**(9)**
– Change in non-economic assumptions	**15**	**3**	**18**	**–**	**18**
– Change in economic assumptions	**(28)**	**5**	**(23)**	**–**	**(23)**
– New business	**3**	**(2)**	**1**	**–**	**1**
– Change in outstanding claims provision	**30**	**(10)**	**20**	**–**	**20**
– Change in negative Rand reserve	**–**	**–**	**–**	**(18)**	**(18)**
Balance at the end of the year	**649**	**(105)**	**544**	**(161)**	**383**
– Policyholder liability	**590**	**(86)**	**504**	**(161)**	**343**
– Claims provision	**59**	**(19)**	**40**	**–**	**40**
As at 30 June 2018					
Balance at the beginning of the year	386	(98)	288	(153)	135
– Policyholder liability	339	(84)	255	(153)	102
– Claims provision	47	(14)	33	–	33
Transfer to policyholder liabilities under insurance contracts	104	12	116	10	126
– Unwind of discount rate and release of profits	101	(13)	88	–	88
– Experience variance	10	1	11	–	11
– Modelling methodology changes	(10)	29	19	–	19
– Change in non-economic assumptions	(12)	(2)	(14)	–	(14)
– Change in economic assumptions	30	(7)	23	–	23
– New business	3	(1)	2	–	2
– Incurred but not reported claims	(1)	–	(1)	–	(1)
– Change in outstanding claims provision	(17)	5	(12)	–	(12)
– Change in negative Rand reserve	–	–	–	10	10
Balance at the end of the year	490	(86)	404	(143)	261
– Policyholder liability	461	(77)	384	(143)	241
– Claims provision	29	(9)	20	–	20

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.5 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 and profit and loss in respect of a 10% increase or decrease in the following components of this liability net of reinsurance:

R MILLION	Short-term insurance contract liability	10% increase	10% decrease
As at 30 June 2019			
Outstanding claims provision	**6 383**	**182**	**(182)**
Insurance contract cash bonus provision	**6 383**	**47**	**(47)**
As at 30 June 2018			
Outstanding claims provision	6 178	123	(123)
Incurred but not reported provision	6 178	54	(54)
Insurance contract cash bonus provision	6 178	44	(44)

Long-term insurance

The following sensitivities are provided on insurance risk assumptions:

Assumption	Margin
Lapses	10% increase/decrease
Investment return	1% increase/decrease
Mortality, morbidity, disability	5% to 10% increase/decrease
Retrenchment	5% to 10% increase/decrease
Expenses	10% increase/decrease

Insurance risk sensitivities are applied as a proportional percentage change to the assumptions made in the measurement of policyholder liabilities and the impact is reflected as the change in policyholder liabilities. Each sensitivity is applied in isolation with all other assumptions left unchanged.

The sensitivities shown in the table below are based on the assumption that negative reserves are not eliminated in order to derive sensitivity stresses which are more closely aligned with economic reality. An increase in liability will result in a reduction in profit and a decrease in liability will result in an increase in profit in the income statement.

R MILLION	Change in variable	Increase/ (decrease) in in policyholder liabilities	Increase/ (decrease) in policyholder liabilities %
As at 30 June 2019			
Lapses	**+10%**	**(29)**	**(9%)**
	–10%	**36**	**11%**
Interest rate environment	**+1%**	**(1)**	**–**
	–1%	**34**	**11%**
Mortality, morbidity, disability, retrenchment	**+10%**	**173**	**55%**
	–10%	**(176)**	**(56%)**
Mortality, morbidity, disability, retrenchment	**+5%**	**87**	**28%**
	–5%	**(88)**	**(28%)**
Expenses	**+10%**	**39**	**12%**
	–10%	**(39)**	**(12%)**
As at 30 June 2018			
Lapses	+10%	(37)	(12%)
	–10%	46	15%
Interest rate environment	+1%	(8)	(3%)
	–1%	42	14%
Mortality, morbidity, disability, retrenchment	+10%	146	47%
	–10%	(149)	(48%)
Mortality, morbidity, disability, retrenchment	+5%	74	24%
	–5%	(74)	(24%)
Expenses	+10%	36	12%
	–10%	(36)	(12%)

Refer to note 42 for the current/non-current split.

9. DEFERRED TAXATION

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

R MILLION	2019	2018
Deferred taxation assets		
Provisions	**272**	263
Special transfer credit	**20**	20
Fair value adjustment	**39**	44
Service cost on employee benefits	**12**	13
Difference between accounting and tax values of assets	**4**	1
Set-off in same legal entities	**(131)**	(121)
Expected loss adjustment	**4**	–
Total deferred taxation assets	**220**	220
Deferred taxation liabilities		
Deferred acquisition costs	**(141)**	(127)
Available-for-sale financial assets	**–**	(42)
Prepayments	**(7)**	(6)
Set-off in same legal entities	**131**	121
Financial assets at fair value through other comprehensive income	**(18)**	–
Unrealised fair value on investment in equity instruments	**(34)**	–
Total deferred taxation liabilities	**(69)**	(54)
Reconciliation of movement		
Deferred taxation asset at the beginning of the year	**220**	176
Deferred taxation charge for the year	**6**	20
Foreign exchange movement	**(6)**	3
Transfer to share-based payment reserve	**–**	16
Prior year adjustment for expected credit loss	**9**	–
Deferred tax asset before set-off in same legal entities	**229**	215
Set-off in same legal entities	**(9)**	5
Total deferred taxation asset at the end of the year	**220**	220
Deferred taxation liability at the beginning of the year	**(54)**	(53)
Deferred taxation charge for the year	**(15)**	25
Available-for-sale financial assets[1]	**–**	(20)
Foreign exchange movement	**3**	(1)
Financial assets at fair value through other comprehensive income[1]	**(12)**	–
Deferred tax liability before set-off in same legal entities	**(78)**	(49)
Set-off in same legal entities	**9**	(5)
Total deferred taxation liabilities at the end of the year	**(69)**	(54)

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

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.

A deferred taxation asset relating to the start-up loss incurred by Youi New Zealand has not been recognised due to the short trading history of the business. The deferred taxation asset will be recognised once reasonable certainty exists that the losses are recoverable against future profits. The deferred taxation asset for the current financial year that has not been recognised is R44 million (2018: R79 million). A deferred taxation asset relating to the individual policyholder taxation fund in OUTsurance Life Insurance Company amounting to R195 million (2018: R195 million) has not been recognised.

Refer to note 42 for the current/non-current split.

R MILLION	2019	2018
10. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	1 208	925
Money market investments	394	1 492
Total cash and cash equivalents	1 602	2 417

Included in money market investments are deposits with a term to maturity of less than three months. The carrying value of cash and cash equivalents approximates the fair value.

11. SHARE CAPITAL AND SHARE PREMIUM

R MILLION	Number of shares after treasury shares million	Ordinary share capital*	Share premium	Treasury shares	Total
As at 30 June 2019					
Balance at the beginning of the year	**1 520**	**–**	**15 086**	**(100)**	**14 986**
Issue of shares	**9**	**–**	**345**	**–**	**345**
Movement in treasury shares	**1**	**–**	**–**	**28**	**28**
Balance at the end of the year	**1 530**	**–**	**15 431**	**(72)**	**15 359**
As at 30 June 2018					
Balance at the beginning of the year	1 503	–	14 417	(89)	14 328
Issue of shares	17	–	669	–	669
Movement in treasury shares	–	–	–	(11)	(11)
Balance at the end of the year	1 520	–	15 086	(100)	14 986

* Amount less than R500 000.

Ordinary shares

The total authorised number of ordinary shares is 2 000 000 000, with a par value of R0.0001 per share. The total number of issued ordinary shares as at 30 June 2018 was 1 522 719 206 shares. On 22 October 2018, RMI issued an additional 9 088 564 ordinary shares with par value of R0.0001 at a premium of R37.9999 per share. This increased the number of issued ordinary shares as at 30 June 2019 to 1 531 807 770 shares. The unissued share capital is under the control of the board of directors until the forthcoming annual general meeting.

Preference shares

The total authorised number of cumulative, redeemable, par value preference shares is 100 000 000 with a par value of R0.0001 per share. The issued number of par value preference shares is nil (2018: nil).

The total authorised number of cumulative, redeemable, no par value preference shares is 100 000 000. The issued number of no par value preference shares is nil (2018: nil).

The company created a new class of 100 000 000 authorised, cumulative, redeemable, no par value preference shares in the 2016 financial year in terms of its debt programme. None of these preference shares have been issued yet.

RMI had no issued preference shares as at 30 June 2019. If any of these preference shares are issued, it would be classified as debt.

Treasury shares

The life insurance businesses of the associates acquired RMI shares as part of their investment programme aimed at meeting policyholders' liabilities. These shares are treated as treasury shares and any gains or losses are reversed from group earnings. The number of treasury shares as at 30 June 2019 was 2 176 323 (2018: 2 739 154).

R MILLION	2019	2018
Number of treasury shares held as at 30 June (million)	**2**	3
Weighted number of treasury shares held during the year (million)	**3**	3
The treasury sharers are eliminated from the weighted number of shares in issue for the purposes of calculating earnings and headline earnings per share:		
Weighted number of issued shares (million)	**1 529**	1 516
Less: Weighted number of treasury shares (million)	**(3)**	(3)
Weighted number of shares in issue	**1 526**	1 513

R MILLION	2019	2018
12. RESERVES		
Distributable reserves		
Retained earnings	**5 435**	4 453
Equity accounted reserves		
Balance at the beginning of the year	**5 881**	4 300
Income from associates retained	**1 602**	1 181
Other comprehensive income	**(82)**	312
Treasury shares	**–**	4
Other movement in reserves	**(265)**	84
Change in accounting policies	**(29)**	–
Total equity accounted reserves	**7 107**	5 881
Transactions with non-controlling interests	**(3 637)**	(3 345)
Other reserves		
Currency translation reserve	**213**	271
Other comprehensive income reserve	**55**	–
Available-for-sale reserve	**–**	114
Share-based payments reserve	**7**	12
Total other reserves	**275**	397
Total reserves	**9 180**	7 386

Nature and purpose of reserves

Equity accounted reserves

All equity accounted earnings and the group's portion of other reserve movements of investments in associates are allocated to the equity accounted reserves.

Transactions with non-controlling interests

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

Currency translation reserve

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

Other comprehensive income reserve

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

Share-based payments reserve

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

13. PREFERENCE SHARES

R MILLION	2019	2018
Unlisted preference shares issued by RMI Treasury Company Limited		
– Class A cumulative redeemable non-participating preference shares	**–**	1 130
– Class B cumulative redeemable non-participating preference shares	**1 130**	1 130
– Class C cumulative redeemable non-participating preference shares	**5 650**	5 650
– Class D cumulative redeemable non-participating preference shares	**1 800**	1 800
Total cumulative redeemable non-participating preference shares	**8 580**	9 710

RMI Treasury Company Limited issued 1 130 class A cumulative redeemable non-participating preference shares on 22 February 2017. These preference shares were all redeemed during the 2019 financial year.

RMI Treasury Company Limited issued 1 130 class B cumulative redeemable non-participating preference shares on 22 February 2017. These preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 22 February 2022. These preference shares paid dividends at a fixed rate of 7.343% for the first year after issue and thereafter at a floating rate of 68% of the prime rate, compounded monthly in arrears. Dividends are payable on 30 April and 31 October every year.

RMI Treasury Company Limited issued 5 650 class C cumulative redeemable non-participating preference shares on 27 February 2017. These preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 28 February 2020. These preference shares pay dividends at a floating rate of 66% of the prime rate, compounded monthly in arrears. Dividends are payable on 30 April and 31 October every year.

RMI Treasury Company Limited issued 1 800 class D cumulative redeemable non-participating preference shares on 27 February 2017. These preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 27 February 2022. These preference shares pay dividends at a floating rate of 68% of the prime rate, compounded monthly in arrears. Dividends are payable on 30 April and 31 October every year.

The fair value of the unlisted preference shares is approximated by the carrying amount due to the preference dividend rate being a variable rate. These preference shares are classified as Level 2 instruments in terms of the fair value hierarchy described in note 38.

Refer to note 42 for the current/non-current split.

14. INTEREST-BEARING LOANS

R MILLION	2019	2018
Bank borrowings at amortised cost	**2 697**	2 730
Balance at the beginning of the year	**2 730**	2 611
Interest accrued	**89**	91
Interest paid	**(89)**	(91)
Loans repaid	**(10)**	(50)
Foreign currency movement	**(23)**	169
Balance at the end of the year	**2 697**	2 730

On 22 March 2017, Main Street 1353 Proprietary Limited incurred a loan of £150 million (R2 367 million at that time) as part of the funding raised to acquire a 29.9% stake in Hastings Group Holdings plc. Half of the loan is a three-year loan at LIBOR (LIBOR fixed at 0.77%) plus 1.9% (2018: 1.9%) and half is a five-year loan at LIBOR (LIBOR fixed at 0.98%) plus 2.75% (2018: 2.75%).

These interest-bearing loans are classified as Level 2 instruments in terms of the fair value hierarchy described in note 38. The fair value is approximated by the carrying value.

Refer to note 42 for the current/non-current split.

15. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

R MILLION	2019	2018
Shareholders for preference dividends on profit-shares	**65**	93
Other loans at fair value through profit or loss	**39**	39
Total financial liabilities at fair value through profit or loss	**104**	132

Financial liabilities at fair value through profit or loss relate to the preference shares issued by OUTsurance Insurance Company Limited to FirstRand Limited for the profit-sharing arrangements. Profits arising from these arrangements are distributed by way of bi-annual preference dividends payable in February and August each year. The preference dividend attributable to the profit-share for the year is recognised in profit or loss as a fair value adjustment to the liability. The portion of the unpaid preference dividend as at 30 June is recognised as a financial liability at fair value through profit or loss.

The other loans have no fixed terms of repayment and carry no interest.

Refer to note 42 for the current/non-current split.

16. SHARE-BASED PAYMENTS

R MILLION	2019	2018
RMI share appreciation rights	**19**	32
OUTsurance Holdings Limited cash-settled share scheme	**84**	102
Total share-based payment liability	**103**	134
Balance at the beginning of the year	**134**	165
Charge for the year	**24**	64
Liability settled	**(55)**	(95)
Balance at the end of the year	**103**	134
Refer to note 42 for the current/non-current split.		
The income statement charge for share-based payments comprise:		
Equity-settled scheme	**(1)**	(4)
Cash-settled scheme	**(24)**	(64)
Total share-based payment expense	**(25)**	(68)

RMI

RMI operates a share scheme as part of its remuneration philosophy, which tracks the company's share price and settles in cash.

RMI share appreciation rights

The purpose of this scheme is to provide identified employees, including executive directors, the opportunity of receiving incentive remuneration payments based on the increase in the market value of the shares in RMI.

Appreciation rights may only be exercised by the third, fourth and fifth anniversary of the grant date in equal tranches of one third each, provided that the performance objectives set for the grant have been achieved. All share appreciation rights tranches issued since September 2015 have performance conditions that have to be met before vesting, but the exercise period has been increased from five to seven years. The performance condition for 90% of the share appreciation rights is growth in normalised earnings of the established investments of at least the real GDP growth rate. The remaining 10% of the vesting of the share appreciation rights is dependent on the performance of the new investments, at the discretion of the remuneration committee. The share appreciation rights issued since September 2015 also vest in equal tranches of one third each by the third, fourth and fifth anniversary. The performance conditions for share appreciation rights tranches issued since September 2018 have changed so that 45% of vesting is dependent on growth in normalised earnings of nominal CPI, 45% of vesting is dependent on total shareholders' return of nominal GDP and 10% of vesting is dependent on the discretion of the remuneration committee, based on the performance of new investments.

Valuation methodology:

The share appreciation rights scheme issues are valued using the Cox Rubenstein binomial tree. The scheme is cash-settled and will therefore 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.

16. SHARE-BASED PAYMENTS continued

OUTsurance

The various share schemes are as follows:

- OUTsurance Holdings cash-settled share scheme; and
- Youi Holdings equity-settled share scheme.

The purpose of these schemes is to attract, incentivise and retain managers within the group by providing them with an option to acquire shares.

OUTsurance Holdings Limited cash-settled share scheme

In terms of the current trust deed, 12% of the issued share capital of the company is available to the employees under the scheme. The trust and employees currently hold 4.5% (2018: 5.3%) of the shares in OUTsurance Holdings Limited.

In terms of the cash-settled scheme, participants receive notional shares which have a value equal to the market value of an OUTsurance Holdings Limited ordinary share. Participants will receive the after-tax gain in the market value over the vesting period as a cash payment. Participants of this scheme have the option to purchase one ordinary share for each vested notional share from the OUTsurance Holdings Share Trust at the ruling market price on the date of purchase.

Valuation methodology

The cash-settled scheme issues are valued using a Black-Scholes option pricing model with all notional shares (share appreciation rights) vesting in one tranche at the end of year three. The scheme is cash-settled and will therefore be repriced at each reporting date.

Market data consists of the following:

- Since OUTsurance Holdings Limited is not listed, expected volatility is derived with reference to the volatility of RMI. The volatility reflects a historic period matching the duration of the option.
- The risk-free interest rate input is derived from government bonds with a remaining term equal to the term of the option being valued.

Dividend data consists of the following:

- The dividend growth assumption is based on the historic annual dividend paid on OUTsurance Holdings Limited ordinary shares.

Employee statistic assumption

- The number of rights granted is reduced by the actual staff turnover at year-end. This turnover is then assumed to be constant over the period of the grant and used to estimate the expected number of rights which will vest on the vesting date.

Youi Holdings Proprietary Limited equity-settled share scheme

The Youi Holdings employee share option plan was established in 2008. In terms of the plan rules, 20% of the issued share capital of the company is available under the plan for the granting of options to employees. Employees of the Youi Holdings Group currently own 15.5% (2018: 6.9%) of the issued ordinary shares of the group.

Valuation methodology

The fair value of share options is determined at grant date and expensed over the vesting period. The fair value of options at grant date is determined by the use of the Black-Scholes share option pricing model.

A share-based payment expense is only recognised if the options issued have a positive intrinsic value, therefore, if the market value of the underlying shares is expected to rise above the strike price over the vesting period of the options.

The option duration is the number of years before the options expire.

Market data consists of the following:

Since Youi Holdings Proprietary Limited is not listed, expected volatility is derived with reference to similar listed peers and the volatility of RMI. The volatility reflects a historic period matching the duration of the option.

The risk-free interest rate input is derived from government bonds with a remaining term equal to the term of the option being valued.

Dividend data consists of the following:

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

Employee statistic assumption

- The average annual employee turnover estimates the number of participants in the option schemes that will leave before the options have vested.

16. SHARE-BASED PAYMENTS continued

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

	RMI	OUTsurance cash-settled	Youi equity-settled
Number of options at the beginning of the year (000's)	**4 663**	**64 160**	**222 427**
Adjustment to number of options in force at the beginning of the year (000's)	**–**	**240**	**–**
Range of strike prices of opening balances (cents)	**2 645 – 4 341**	**715 – 930**	**AUS$ 0.10 – AUS$ 0.53**
Number of options granted/transferred during the year (000's)	**1 299**	**34 555**	**29 600**
Strike price of options granted/transferred during the year (cents)	**3 955**	**1 008 – 1 028**	**AUS$ 0.42**
Number of options delivered during the year (000's)	**(25)**	**(18 360)**	**(197 582)**
Range of strike prices on date of delivery (cents)	**3 937**	**715 – 930**	**AUS$ 0.10 – AUS$ 0.48**
Number of options cancelled/forfeited during the year (000's)	**–**	**(7 185)**	**(12 645)**
Range of strike prices of forfeited options (cents)	**–**	**848 – 1 008**	**AUS$ 0.10 – AUS$ 0.53**
Number of options in force at the end of the year (000's)	**5 937**	**73 410**	**41 800**
Range of strike prices of closing balances (cents)	**2 645 – 4 341**	**848 – 1 028**	**AUS$ 0.10 – AUS$ 0.53**
Price per ordinary share*		**1 028**	**AUS$ 0.10 – AUS$ 0.51**
Number of scheme participants	**9**	**162**	**64**
Weighted average remaining vesting period (years)	**3**	**1.29**	**2.33**

The table below summarises the options issued under the various schemes as at 30 June 2018:

	RMI	OUTsurance cash-settled	Youi equity-settled
Number of options at the beginning of the year (000's)	5 768	56 293	229 011
Range of strike prices of opening balances (cents)	0 – 4 341	557 – 848	AUS$ 0.10 – AUS$ 0.53
Number of options granted/transferred during the year (000's)	988	30 230	16 300
Strike price of options granted/transferred during the year (cents)	3 992	930	AUS$ 0.41
Number of options delivered during the year (000's)	(1 530)	(17 503)	(21 967)
Range of strike prices on date of delivery (cents)	0 – 4 177	557	AUS$ 0.10 – AUS$ 0.41
Number of options cancelled/forfeited during the year (000's)	(563)	(4 860)	(917)
Range of strike prices of forfeited options (cents)	3 313 – 4 341	715 – 930	AUS$ 0.10 – AUS$ 0.41
Number of options in force at the end of the year (000's)	4 663	64 160	222 427
Range of strike prices of closing balances (cents)	2 645 – 4 341	715 – 930	AUS$ 0.10 – AUS$ 0.53
Price per ordinary share*		990	AUS$ 0.10 – AUS$ 0.53
Number of scheme participants	9	135	53
Weighted average remaining vesting period (years)	3	1.16	0.26

* The price of ordinary shares resets six-monthly on 1 July and 1 January.

16. SHARE-BASED PAYMENTS continued

RMI management ownership participation structure

The aim of the structure is to align the interests of management with those of shareholders and establish a long-term focus. The *IFRS 2* liability as at 30 June 2019 was Rnil (2018: Rnil).

Description of the scheme

The purpose of this scheme was to provide participants, including executive directors the opportunity to participate in the creation of the long-term value in the fintech and asset management portfolios after RMI has been compensated for the capital it provided.

Vesting occurs on day one and the structure has no exercise period. There are no further performance conditions attached other than the valuation methodology.

Monetisation of the structure occurs after 10 years through a put option to RMI, (only available for 365 days) or through the realisation of the underlying investment, whichever occurs first. The remuneration committee has discretion concerning:

- The allocation per individual participant;
- The hurdle rate per individual participant per individual allocation;
- Good leaver principles if a participant should leave before the monetisation of the underlying investment; and
- The maximum exposure provided to the participants.

Valuation methodology

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

(ii) A value per share is determined by dividing the value of the underlying investment by the number of shares.

(iii) A cost per share is calculated by taking the capital amount injected and accruing the hurdle rate. This amount is divided by the number of shares.

(iv) The value of the liability is the value per share minus the cost per share, multiplied by the total number of shares. An increase in the liability results in a share-based payment expense in profit or loss and a decrease in the liability results in a negative share-based payment expense in profit or loss.

	2019	2018
Number of shares issued at the beginning of the year	13 376	–
Number of shares allocated during the year at zero value	16 321	26 370
Number of shares bought back from participants at zero value	(395)	(12 994)
Number of shares issued to participants at the end of the year	29 302	13 376

The shares have a cumulative value of Rnil (2018: Rnil) as at 30 June 2019.

17. PROVISIONS

	2019	2018
Short-term employee benefits		
Staff incentive bonus		
Balance at the beginning of the year	189	64
Additional provisions	152	211
Amount utilised during the year	(220)	(87)
Foreign translation difference	(2)	1
Balance at the end of the year	119	189

The staff incentive bonus provision is a provision for payments to staff in recognition of their performance during the financial year. The final amount paid may differ from the amount provided due to the fact that staff may resign before the allocated bonus becomes payable.

All amounts are expected to be settled within 12 months and are therefore considered to be current.

R MILLION	2019	2018
18. INSURANCE AND OTHER PAYABLES		
Insurance-related payables		
Due to intermediaries	2	2
Due to reinsurers	134	119
Other payables	12	12
Non-insurance-related payables		
Trade creditors and accrued expenses	136	60
Short-term employee benefits – Leave pay liability	171	142
Redeemable preference share dividends payable	98	108
VAT liability	55	63
Indirect tax on debtors	386	373
Other payables	315	279
Total insurance and other payables	1 309	1 158

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.

The carrying amount of payables approximates the fair value.

Refer to note 42 for the current/non-current split.

R MILLION	2019	2018
19. NET INSURANCE PREMIUMS EARNED		
Long-term insurance contracts		
– Premiums received	488	454
– Policyholders' fees written	15	15
Short-term insurance contracts		
– Premiums written	15 541	14 419
– Policyholders' fees written	91	139
– Change in unearned premium provision	(214)	(5)
Premium revenue arising from insurance contracts issued	15 921	15 022
Long-term reinsurance contracts		
– Premiums payable	(42)	(39)
Short-term reinsurance contracts		
– Premiums payable	(820)	(808)
– Change in unearned premium provision	4	(2)
Premium revenue ceded to reinsurers on insurance contracts issued	(858)	(849)
Net insurance premiums earned	15 063	14 173

R MILLION	2019	2018
20. FEE AND OTHER INCOME		
Commission earned from reinsurers, net of deferred acquisition revenue	75	99
Other income	32	25
Total fee and other income	107	124

During the current financial year, the group qualified for a job-creation incentive associated with offshored call centre activities of the Youi Holdings Group, offshored to South Africa. The incentive is accounted for based on the actual incentive qualified for during the year under review.

R MILLION	2019	2018
21. INVESTMENT INCOME		
Investment income	211	760
– Interest – Financial assets at fair value through profit or loss	47	–
– Interest – Other financial assets	–	586
– Dividends – Listed equities	77	–
– Dividends – Other financial assets	87	109
– Dividend income on available-for-sale assets	–	58
– Interest income on available-for-sale assets	–	7
Interest income on financial assets using effective interest rate method	588	–
– Interest – Financial assets measured at amortised cost	173	–
– Interest – Other financial assets	415	–
Total investment income	799	760

R MILLION	2019	2018
22. NET FAIR VALUE GAINS/(LOSSES) ON FINANCIAL ASSETS		
Fair value gains	**128**	48
Fair value losses	**(105)**	(91)
Impairment – Available-for-sale financial assets	**–**	(23)
Expected credit loss	**10**	–
Net fair value gains/(losses) on financial assets	**33**	(66)
Net fair value gains/(losses) comprise:		
Equity securities		
– Fair value gains	**77**	36
Debt securities	**61**	(68)
– Fair value gains/(losses)	**51**	(45)
– Expected credit loss	**10**	–
– Impairment	**–**	(23)
Derivative instruments	**(105)**	(34)
Total net fair value gains/(losses)	**33**	(66)

R MILLION	Gross	Re-insurance	Net
23. INSURANCE BENEFITS AND CLAIMS INCURRED			
30 June 2019			
Short-term insurance	**(7 888)**	**798**	**(7 090)**
– Claims paid net of salvages and recoveries	**(7 418)**	**404**	**(7 014)**
– Change in claims reserves	**(470)**	**394**	**(76)**
Long-term insurance			
Claims paid	**(126)**	**45**	**(81)**
– Life claims	**(103)**	**41**	**(62)**
– Disability claims	**(11)**	**2**	**(9)**
– Retrenchment claims	**(2)**	**–**	**(2)**
– Critical illness claims	**(10)**	**2**	**(8)**
Total insurance benefits and claims incurred	**(8 014)**	**843**	**(7 171)**
30 June 2018			
Short-term insurance	(6 802)	344	(6 458)
– Claims paid net of salvages and recoveries	(7 079)	712	(6 367)
– Change in claims reserves	277	(368)	(91)
Long-term insurance			
Claims paid	(117)	40	(77)
– Life claims	(103)	37	(66)
– Disability claims	(3)	1	(2)
– Retrenchment claims	(2)	–	(2)
– Critical illness claims	(9)	2	(7)
Total insurance benefits and claims incurred	(6 919)	384	(6 535)

R MILLION	2019	2018
Provision for cash bonuses		
– Short-term insurance business	**(451)**	(382)
– Long-term insurance business	**–**	(13)
	(451)	(395)
24. ACQUISITION EXPENSES		
Commission paid	**(45)**	(31)

Acquisition expenses relate to payments for intermediary sourced business.

R MILLION	2019	2018
25. MARKETING AND ADMINISTRATION EXPENSES		
Expenses by nature:		
Employee benefit expenses	**(2 563)**	(2 292)
Professional fees and regulatory compliance costs	**(121)**	(87)
Depreciation (note 1)	**(141)**	(141)
Operating lease expenses	**(79)**	(101)
Asset management services	**(11)**	(10)
Audit fees	**(22)**	(16)
Loss on sale of property and equipment	**(7)**	(6)
Other expenses	**(1 513)**	(1 221)
Total marketing and administration expenses	**(4 457)**	(3 874)
Employee benefit expenses		
Salaries and incentive bonuses	**(2 137)**	(1 851)
Retirement funding	**(196)**	(166)
Service cost relating to intellectual property (amortisation) (note 2)	**(84)**	(101)
Share-based payment charge (including *IAS 19* share liability charge)	**(39)**	(90)
Medical aid contributions	**(107)**	(84)
Total employee benefit expenses	**(2 563)**	(2 292)
Depreciation		
Buildings	**(33)**	(27)
Leasehold improvements	**(3)**	(9)
Furniture, fittings and equipment	**(105)**	(104)
Motor vehicles	**–**	(1)
Total depreciation (note 1)	**(141)**	(141)
Audit fees		
Statutory audit – Current year	**(16)**	(12)
Statutory audit – Under provision in prior year	**–**	(1)
Fees for other services	**(6)**	(3)
Total audit fees	**(22)**	(16)
Operating lease rentals		
The group's operating lease commitments under non-cancellable operating lease agreements are as follows:		
Up to 1 year	**(29)**	(24)
Between 1 and 5 years	**(56)**	(32)
Between 5 and 10 years	**(1)**	–
Total operating lease commitments	**(86)**	(56)

The group leases various offices in terms of non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Youi Group leases its office building in terms of a non-cancellable operating lease expiring within a maximum of five years. The leases are renewable for further periods of up to four years.

26. RETIREMENT BENEFITS

Group companies are participants in a defined contribution pension fund and a defined contribution provident fund.

To the extent that the company is responsible for contributions to these funds, such contributions are charged against profit or loss as incurred. The funds are registered in terms of the Pension Funds Act, 24 of 1956.

R MILLION	2019	2018
27. FINANCE COSTS		
Interest on bank borrowings	(89)	(91)
Dividends on redeemable preference shares	(640)	(674)
Total finance costs	(729)	(765)
28. TAXATION		
South African normal taxation		
Current taxation		
– Current year	(785)	(838)
Deferred taxation		
– Current year	(5)	20
– Prior year	–	(1)
Withholding taxation	–	(3)
Australian taxation		
Current taxation		
– Current year	(303)	(338)
– Prior year	1	(2)
Deferred taxation		
– Current year	(4)	25
– Prior year	–	1
Total taxation	(1 096)	(1 136)
The tax on the group's profit before taxation differs from the theoretical amount that would arise using the basic tax rate of South Africa as follows:		
Profit before taxation	5 470	5 402

	%	%
Effective tax rate	20.04	21.03
Income not subject to taxation	0.66	0.74
Finance costs not deductible	(3.73)	(2.40)
Other non-deductible expenses	(0.84)	(1.81)
Fair value adjustments	(0.87)	(0.99)
Income taxation rate differential	(0.36)	(0.37)
Capital gains tax	0.06	(0.03)
Deferred taxation asset not recognised	(0.33)	(0.21)
Associates equity accounted using after-taxation profits	13.37	12.07
Prior year over and under provisions	–	(0.01)
Other permanent differences	–	(0.02)
Standard income taxation rate in South Africa	28.00	28.00

R MILLION	2019	2018
29. CASH FLOWS FROM OPERATING ACTIVITIES		
Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation	5 470	5 403
Adjusted for:		
Loss on sale of property and equipment	7	6
Foreign currency translation difference	(112)	52
Equity accounted earnings	(2 612)	(2 328)
Depreciation	141	141
Service cost relating to intellectual property	84	100
Intellectual property bonuses paid	(30)	(24)
Provisions	(101)	12
Share option expenses	19	64
Cash paid in terms of share option liability	(55)	(95)
Investment income	(799)	(760)
Finance costs	729	765
Net fair value gains on assets at fair value through profit or loss	41	(30)
Fair value adjustment to financial liabilities	(28)	(18)
Purchase of treasury shares of subsidiary by share scheme participants	282	92
Purchase of treasury shares of subsidiary by share trust from share scheme participants	(367)	(218)
Other non-cash items	207	(40)
Changes in insurance balances		
– Gross provision for unearned premiums	214	5
– Reinsurers' share of provisions for unearned premiums	(4)	2
– Gross provision for claims incurred but not reported	–	(35)
– Provision for cash bonus on insurance contracts	449	395
– Cash bonus paid on insurance contracts	(415)	(386)
– Insurance contracts	83	289
Deferred acquisition costs	(53)	31
Changes in working capital		
– Current receivables and prepayments	(137)	(98)
– Current payables and provisions	161	(38)
Cash generated from operations	3 174	3 287
Net debt reconciliation		
Opening balance	(10 023)	(10 019)
Movement in cash and cash equivalents	(815)	115
Movement in gross borrowings – fixed rate	33	2 141
Movement in gross borrowings – variable rate	1 130	(2 260)
Net debt	(9 675)	(10 023)
Current	1 602	2 407
Due within 1 year	(6 998)	(1 130)
Due within 2 to 5 years	(4 279)	(11 300)
Net debt	(9 675)	(10 023)
30. 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	4 047	3 897
Weighted average number of ordinary shares in issue (full amount)	1 526 456 819	1 512 960 802
Earnings per share (cents)	265.1	257.6
Earnings attributable to ordinary shareholders	4 047	3 897
Dilution on earnings from associates	(17)	(71)
Diluted earnings attributable to ordinary shareholders	4 030	3 826
Weighted average number of ordinary shares in issue (full amount)	1 526 456 819	1 512 960 802
Diluted earnings per share (cents)	264.0	252.9

31. HEADLINE EARNINGS PER SHARE

Headline earnings per share is calculated by dividing the adjusted earnings attributable to shareholders by the weighted number of ordinary shares in issue during the year.

R MILLION	2019	2018
Headline earnings reconciliation		
Earnings attributable to ordinary shareholders	4 047	3 897
RMI's share of headline earnings adjustments made by associates:	(289)	83
– Gain on previously held interests in DiscoveryCard business	(191)	–
– Gain on dilution and disposal of equity accounted investments	(167)	–
– Impairments relating to held for sale entities	24	–
– Intangible asset impairments	23	86
– Impairment of owner-occupied building below cost	14	–
– Impairment of fixed assets	6	–
– Impairment of goodwill	4	–
– (Profit)/loss on sale of subsidiary	(2)	5
– Realised profit on sale of available-for-sale assets	–	(5)
– Release of foreign currency translation reserve	–	(3)
Loss on dilution of shareholding	38	79
Loss on disposal of property and equipment	5	5
Impairment of available-for-sale instruments	–	17
Headline earnings attributable to ordinary shareholders	3 801	4 081
Weighted average number of ordinary shares in issue (full amount)	1 526 456 819	1 512 960 802
Headline earnings per share (cents)	249.0	269.7
Headline earnings attributable to ordinary shareholders	3 801	4 081
Dilution on earnings from associates	(18)	(71)
Diluted headline earnings attributable to ordinary shareholders	3 783	4 010
Weighted average number of ordinary shares in issue (full amount)	1 526 456 819	1 512 960 802
Diluted headline earnings per share (cents)	247.8	265.0

32. DIVIDEND PER SHARE

R MILLION	2019	2018
Total dividends paid during the year	1 679	1 571
Total dividends declared relating to the profit for the year	1 685	1 582
Number of issued shares at the beginning of the year	1 522 719 206	1 505 688 346
Shares issued on 22 October 2018	9 088 564	–
Shares issued on 9 October 2017	–	12 160 153
Shares issued on 9 April 2018	–	4 870 707
Number of issued shares at the end of the year	1 531 807 770	1 522 719 206
Dividend declared per share (cents)	110.0	104.0

33. 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 (2018: Remgro Limited and Royal Bafokeng Holdings Proprietary Limited).

Key management personnel

RMI's directors and prescribed officers are key management personnel. Information on the remuneration of the prescribed officers, directors' emoluments and their shareholding in the company appears in note 43 and the directors' report.

Subsidiaries

Details of income from and investments in RMI's main subsidiaries are disclosed in note 37.

The following companies are subsidiaries of RMI:
- AlphaCode Proprietary Limited
- Firness International Proprietary Limited
- Granate Asset Management Proprietary Limited
- Main Street 1353 Proprietary Limited
- OUTsurance Properties Proprietary Limited
- OUTvest Nominees RF Proprietary Limited
- OUTvest Proprietary Limited
- OUTsurance Holdings Limited
- OUTsurance Insurance Company Limited
- OUTsurance Life Insurance Company Limited
- OUTsurance International Holdings Proprietary Limited
- OUTsurance Shared Services Proprietary Limited
- RMI Treasury Company Limited
- RMI Asset Holdings Proprietary Limited
- RMI Investment Managers Group Proprietary Limited
- RMI Investment Managers Affiliates 1 Proprietary Limited
- RMI Investment Managers Affiliates 2 Proprietary Limited
- RMI Investment Holdings Proprietary Limited
- RMI Invest One Proprietary Limited
- RMI Invest Two Proprietary Limited
- RMI Invest Three Proprietary Limited
- RMI Invest Four Proprietary Limited
- RMI Invest Five Proprietary Limited
- RMI Invest Six Proprietary Limited
- Youi Proprietary Limited (South Africa)
- Youi Holdings Proprietary Limited
- Youi Proprietary Limited (Australia)
- Youi New Zealand Proprietary Limited
- Youi Properties Proprietary Limited

Associates

Details of income from and investments in RMI's main associates are disclosed in note 36.

The following companies are associates of RMI:
- AutoGuru Australia Proprietary Limited
- CoreShares Holdings Proprietary Limited
- Discovery Limited
- Ethos Private Equity Proprietary Limited
- Entersekt Proprietary Limited
- Entersekt International Limited
- Hastings Group Holdings plc
- Momentum Metropolitan Holdings Limited
- Merchant Capital Advisory Services Proprietary Limited
- Northstar Asset Management Proprietary Limited
- OUTsurance Insurance Company of Namibia Limited
- Polar Star Management SEZC
- Polar Star Management Proprietary Limited
- Perpetua Investment Managers Proprietary Limited
- Royal Investment Managers Proprietary Limited
- Sentio Capital Management Proprietary Limited
- Truffle Capital Proprietary Limited
- Tantalum Capital Proprietary Limited

33. RELATED PARTIES continued

R MILLION	2019	2018
Related party transactions		
Transactions of RMI and its subsidiary companies with:		
Principal shareholders		
Dividends paid	756	702
Key management personnel		
Salaries and other benefits	14	13
Value of share appreciation rights vesting	1	5
Transactions of RMI's key management with associates of the group		
Investment products		
Balance at the beginning of the year	1 288	1 400
Directors retiring from the RMI board and new directors joining	–	(134)
Net withdrawals	(32)	(82)
Net investment return	(36)	109
Commission and other transaction fees	(3)	(5)
Balance at the end of the year	1 217	1 288
Associates		
Income statement effect:		
– Dividends received	1 009	1 147
– Investment income	9	5
– Administration fees received	153	56
– Retirement fund contributions	107	94
– Group life	9	8
– Disability premiums	9	7
– Medical aid premiums paid	107	82
Effect on the statement of financial position:		
– Preference share investment	48	41
– Administration fee receivable	3	5
– Loan	55	33

34. SUBSEQUENT EVENTS, CONTINGENCIES AND COMMITMENTS

Subsequent events

Final dividend declaration

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

Corporate actions after 30 June 2019

The following transactions were completed after 30 June 2019:

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

Contingent liabilities and contingent assets

The purchase agreement between RMI and Merchant Capital Advisory Services Proprietary Limited (Merchant Capital) stipulates that RMI would be a debt and equity investor that involves the following:

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

The long-term growth from the equity investment in Merchant Capital is expected to offset the cost of debt to Merchant Capital.

As at 30 June 2019, R50 million of the senior loan facility and R5 million of the junior loan facility has been issued to Merchant Capital.

RMI guarantees a liability of one of its associates, limited to a maximum amount of R28 million.

Commitments

The group's operating lease commitments under non-cancellable operating lease agreements are disclosed in note 25.

35. EFFECTIVE INTEREST IN SUBSIDIARIES AND ASSOCIATES

There is a difference between the actual and effective holdings in associates and subsidiaries as a result of the consolidation by such entities of:

- Treasury shares held by them;
- Shares held in them by their share incentive trusts;
- Deemed treasury shares held in them by policyholders and mutual funds managed by them; and
- Deemed treasury shares arising from B-BBEE transactions entered into.

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

%	2019	2018
Discovery – Effective	25.1%	25.1%
Discovery – Actual	25.0%	25.0%
Momentum Metropolitan – Effective	27.5%	26.5%
Momentum Metropolitan – Actual	27.3%	26.2%
OUTsurance – Effective	90.4%	89.7%
OUTsurance – Actual	89.1%	88.6%
RMI Investment Managers – Effective	100.0%	100.0%
RMI Investment Managers – Actual	100.0%	100.0%
Merchant Capital – Effective	25.8%	25.1%
Merchant Capital – Actual	25.8%	25.1%
Entersekt – Effective	25.1%	25.1%
Entersekt – Actual	25.1%	25.1%

36. ASSOCIATES

Listed associates

All the investments in associates are strategic, long-term investments. RMI exercises significant influence through board representation and strategic dialogue with senior management. RMI's aim with these investments is to achieve maximum return for its shareholders by investing in companies in the financial services industry. Refer to note 41 for a description of the business activities of Discovery, Momentum Metropolitan and Hastings.

R MILLION	2019	2018
DISCOVERY LIMITED		
Financial year	30 June	30 June
Year used for equity accounting	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held ('000)	164 811	161 945
Interest held (%) (after consolidation of share trust)	25.1%	25.1%
Total net asset value of Discovery Limited	43 083	37 594
Perpetual preference share capital	(779)	(779)
Net asset value attributable to ordinary shareholders	42 304	36 815
RMI's effective interest in net asset value	10 618	9 244
Notional goodwill	1 031	1 024
Group carrying value	11 649	10 268
The group carrying value comprises:		
RMI's effective interest in at acquisition net asset value	4 083	3 626
Notional goodwill	1 031	1 024
Cost price of investment	5 114	4 650
RMI's effective interest in post-acquisition movement in net asset value	6 535	5 618
Group carrying value	11 649	10 268
Market value of the 25% stake (actual holding)	24 575	23 887
Income attributable to RMI for the year	1 638	1 418
Less: Dividends received	(351)	(322)
Share of retained income for the year	1 287	1 096

36. ASSOCIATES continued

R MILLION	2019	2018
DISCOVERY LIMITED		
Statement of financial position		
Assets		
Assets arising from insurance contracts	48 781	43 625
Property and equipment	4 212	4 272
Intangible assets and deferred acquisition costs	6 133	6 641
Contract assets from clients	752	–
Goodwill	4 642	2 247
Investment in associates	1 950	1 159
Financial assets	101 538	86 830
Deferred taxation	2 372	1 968
Current income tax asset	136	38
Reinsurance contracts	314	308
Cash and cash equivalents	9 403	10 894
Total assets	180 233	157 982
Shareholders' equity and liabilities		
Total equity	43 083	37 594
Liabilities arising from insurance contracts	70 522	61 488
Liabilities arising from reinsurance contracts	10 835	8 918
Financial liabilities	35 865	32 084
Deferred taxation	8 697	8 007
Deferred revenue	–	324
Contract liabilities to clients	433	–
Employee benefits	260	232
Trade and other payables	10 262	9 043
Current income tax liability	276	292
Total shareholders' equity and liabilities	180 233	157 982
Net insurance premium revenue	37 441	32 329
Statement of comprehensive income		
Profit for the year	6 614	5 735
Other comprehensive (loss)/income for the year	(334)	921
Total comprehensive income for the year	6 280	6 656
Contingencies and commitments	479	1 214
Reconciliation of headline earnings to normalised earnings[1]		
Headline earnings	5 147	5 803
Amortisation of intangible assets relating to business combinations	84	109
Costs relating to disposal of equity-accounted investments net of tax	15	–
Debt restructuring costs resulting from DiscoveryCard joint venture transaction	33	–
Deferred tax asset raised on assessed losses	(326)	(352)
Policyholder fund assessed loss	(38)	(119)
Duplicate building costs	–	37
Unrealised losses/(gains) on foreign exchange contracts not designated as a hedge	97	(77)
Accrual of dividends payable to preference shareholders	–	1
Initial expenses related to Prudential Book transfer	23	(1)
Normalised earnings	5 035	5 401

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

36. ASSOCIATES continued

R MILLION	2019	2018
MOMENTUM METROPOLITAN HOLDINGS LIMITED		
Financial year	30 June	30 June
Year used for equity accounting	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held ('000)	401 048	401 048
Interest held (%) (after consolidation of share trust)	27.5%	26.5%
Total net asset value of Momentum Metropolitan Holdings Limited	23 546	22 790
Non-controlling interest	(526)	(462)
Net asset value attributable to ordinary shareholders	23 020	22 328
RMI's effective interest in net asset value	6 337	5 920
Notional goodwill	153	153
Treasury shares	(81)	(109)
Group carrying value	6 409	5 964
The group carrying value comprises:		
RMI's effective interest in at acquisition net asset value	6 142	6 142
Notional goodwill	153	153
Cost price of investment	6 295	6 295
RMI's effective interest in post-acquisition movement net asset value	195	(222)
Treasury shares	(81)	(109)
Group carrying value	6 409	5 964
Market value of the 27.3% stake (actual holding) (2018: 26.2%)	7 608	7 087
Income attributable to RMI for the year	581	280
Less: Dividends received	(140)	(369)
Share of retained profit/(loss) for the year	441	(89)
Statement of financial position		
Assets		
Intangible assets	9 665	10 515
Owner-occupied properties	4 629	3 864
Property and equipment	381	323
Investment properties	8 103	8 614
Properties under development	192	136
Investment in associates	792	636
Employee benefits assets	469	436
Financial instrument assets	438 962	415 505
Insurance and other receivables	5 259	4 962
Deferred taxation	599	290
Reinsurance contracts	5 912	4 989
Current tax asset	184	283
Non-current assets held for sale	608	–
Cash and cash equivalents	27 147	25 812
Total assets	502 902	476 365

36. ASSOCIATES continued

MOMENTUM METROPOLITAN HOLDINGS LIMITED continued

R MILLION	2019	2018
Shareholders' equity and liabilities		
Total equity	23 546	22 790
Insurance contract liabilities	125 783	117 931
Reinsurance contract liabilities	1 912	1 685
Financial instrument liabilities	320 931	315 303
Deferred taxation	3 222	2 874
Employee benefits obligations	1 339	1 153
Other payables	25 064	14 304
Provisions	112	73
Non-current liabilities held for sale	534	–
Current tax liability	459	252
Total shareholders' equity and liabilities	502 902	476 365
Net insurance premiums	36 618	29 893
Statement of comprehensive income		
Profit for the year	2 410	1 422
Other comprehensive (loss)/income for the year	(57)	138
Total comprehensive income for the year	2 353	1 560
Contingencies and commitments	971	608
Reconciliation of headline earnings to normalised earnings		
Headline earnings	2 474	1 444
Amortisation of intangible assets relating to business combinations	522	543
Momentum Metropolitan shares held by policyholder funds	35	(32)
B-BBEE cost	23	24
Normalised earnings	3 054	1 979
Finance costs – convertible preference shares	37	40
Dilutory effect of subsidiaries	(17)	(16)
Diluted normalised earnings[1]	3 074	2 003

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

36. ASSOCIATES continued

HASTINGS GROUP HOLDINGS PLC

R MILLION	2019	2018
Financial year	31 December	31 December
Period used for equity accounting	Year to 30 June 2019	Year to 30 June 2018
Country of incorporation	UK	UK
Number of shares held ('000)	196 508	196 508
Interest held (%)	29.9%	29.9%
Net asset value attributable to ordinary shareholders of Hastings (including intangible assets recognised)	12 563	12 781
RMI's effective interest in net asset value	3 754	3 819
Notional goodwill	5 544	5 544
Group carrying value	9 298	9 363
The group carrying value comprises:		
RMI's effective interest in at acquisition net asset value	3 228	3 228
Hastings dividend forming part of acquisition price	(216)	(216)
Notional goodwill	5 544	5 544
Cost price of investment	8 556	8 556
RMI's effective interest in post-acquisition net asset value	742	807
Group carrying value	9 298	9 363
Market value of the 29.9% stake[1]	6 912	9 072

1 An impairment test was performed on the basis of calculating the recoverable amount as the higher of the fair value less cost to sell and the value-in-use. The value-in-use was calculated on a discounted cash flow basis, which indicated that the asset was not impaired as at 30 June 2019.

R MILLION	2019	2018
Income attributable to RMI for the year	427	664
Less: Dividends received	(486)	(432)
Share of retained (loss)/income for the year	(59)	232
Statement of financial position as at 30 June		
Assets		
Goodwill	8 452	8 522
Intangible assets	1 467	1 494
Property and equipment	417	415
Deferred income tax assets	86	129
Reinsurance assets	24 276	21 751
Deferred acquisition costs	629	615
Prepayments	156	114
Insurance and other receivables	8 743	8 289
Financial assets at fair value	10 205	9 501
Cash and cash equivalents	2 714	2 720
Total assets	57 145	53 550

R MILLION	2019	2018

36. ASSOCIATES continued

HASTINGS GROUP HOLDINGS PLC continued

R MILLION	2019	2018
Shareholders' equity and liabilities		
Total equity	11 469	11 354
Loans and borrowings	4 402	4 419
Insurance contract liabilities	35 705	32 489
Insurance and other payables	5 301	4 722
Deferred income tax liabilities	115	252
Current tax liabilities	153	314
Total shareholders' equity and liabilities	57 145	53 550
Net earned premiums	3 952	3 708
Statement of comprehensive income for the six months ended 30 June		
Profit for the six months	700	1 233
Other comprehensive income/(loss) for the six months	117	(64)
Total comprehensive income for the six months	817	1 169
Contingencies and commitments	545	649
Reconciliation of headline earnings to normalised earnings[1]		
Headline earnings for the six months	700	1 233
Amortisation of intangible assets relating to business combinations	20	152
Normalised earnings for the six months	720	1 385

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

Other investments in associates

Total comprehensive income, assets and liabilities of other investments in associates

The associates listed below do not have discontinued operations.

	As at 30 June 2019		
R MILLION	Total comprehensive income	Assets	Liabilities
RMI Investment Managers associates	69	1 072	300
AlphaCode associates	(72)	457	425
OUTsurance associates	(32)	239	167

	As at 30 June 2018		
R MILLION	Total comprehensive income	Assets	Liabilities
RMI Investment Managers associates	51	468	166
AlphaCode associates	(55)	365	261
OUTsurance associates	23	241	80

37. SUBSIDIARIES

Unlisted subsidiaries

OUTSURANCE HOLDINGS LIMITED[1]

R MILLION	2019	2018
Financial year	30 June	30 June
Year used for consolidation	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held ('000)	3 385 574	3 366 764
Interest held (%) (after consolidation of share trust)	90.4%	89.7%
Equity shares at cost	8 271	8 081
Net profit for the year	2 182	2 964
Valuation of RMI's investment	35 582	33 937
Results for the year ended 30 June		
Income statement		
Gross insurance premiums	16 135	15 028
Less: Reinsurance premiums	(862)	(847)
Net insurance premiums	15 273	14 181
Change in provision for unearned premiums net of reinsurance	(211)	(7)
Net insurance premiums earned	15 062	14 174
Fee income	84	101
Investment income	116	516
Interest income on financial assets using the effective interest rate method	454	–
Net fair value gains/(losses) on financial assets	81	(35)
Net income	15 797	14 756
Gross claims paid	(7 934)	(6 919)
Reinsurance recoveries received	843	384
Provision for cash bonuses	(530)	(395)
Transfer to policyholder liabilities under insurance contracts	(123)	(126)
Acquisition expenses	(45)	(31)
Fair value adjustment to financial liabilities	(169)	(193)
Marketing and administration expenses	(4 301)	(3 710)
Result of operating activities	3 538	3 766
Share of after-tax results of associates	158	306
Impairment of investment in associate[2]	(450)	–
Profit before taxation	3 246	4 072
Taxation	(1 064)	(1 108)
Profit for the year	2 182	2 964

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

37. SUBSIDIARIES continued

OUTSURANCE HOLDINGS LIMITED continued

R MILLION	2019	2018
Non-controlling interest relating to Youi Holdings Proprietary Limited		
Balance at the beginning of the year	199	143
Profit attributable to non-controlling interests (15.5% in underlying subsidiary (2018: 7%))	82	56
FCTR attributable to non-controlling interests	(15)	3
Shares issued to non-controlling interest	213	–
Dividends paid	(111)	–
Transactions with non-controlling interests	116	(3)
Total non-controlling interest in respect of Youi Holdings Proprietary Limited	484	199
Non-controlling interest relating to OUTsurance Holdings Limited		
Balance at the beginning of the year	1 047	1 031
Non-controlling interest portion of change in accounting policy	(3)	–
Profit attributable to non-controlling interests (9.9% (2018: 10.3%))	253	324
Dividends paid	(250)	(189)
Non-controlling interest in other reserves	–	11
Movement in shares acquired from non-controlling interests	(48)	(88)
Movement in treasury shares	(23)	(42)
Total non-controlling interest in respect of OUTsurance Holdings Limited	976	1 047
Reconciliation of shares acquired from minorities		
Movement in transactions with non-controlling interests reserve	(142)	(272)
Movement in non-controlling interest	(48)	(88)
Cash paid for additional shares acquired from non-controlling interests	(190)	(360)
Current assets	11 729	12 211
Non-current assets	8 220	7 292
Current liabilities	7 755	7 202
Non-current liabilities	1 216	1 156
Cash inflow from operating activities	110	56
Cash inflow/(outflow) from investing activities	34	(172)
Cash inflow/(outflow) from financing activities	116	(125)
RMI INVESTMENT MANAGERS GROUP		
Financial year	30 June	30 June
Year used for consolidation	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held ('000)	142	100
Interest held (%)	100%	100%
Equity shares at cost	708	510
Net loss for the year	(11)	(19)
Valuation of RMI's investment	708	510
Results for the year ended 30 June		
Fee and other income	8	6
Investment income	2	5
Marketing and administration expenses	(35)	(40)
Result of operating activities	(25)	(29)
Finance costs	(2)	(4)
Share of after-tax results of associates	15	15
Loss before taxation	(12)	(18)
Taxation	1	(1)
Loss for the year	(11)	(19)

R MILLION	2019	2018
37. SUBSIDIARIES continued		
Non-controlling interest in respect of RMI Investment Managers Group Proprietary Limited relating to its 51%-held subsidiary, RMI Investment Managers Affiliates 2 Proprietary Limited		
Balance at the beginning of the year	86	41
Loss attributable to non-controlling interests (49% in underlying subsidiary (2018: 49%))	(8)	(9)
Transactions with non-controlling interest	64	54
Total non-controlling interest in respect of RMI Investment Managers Group Proprietary Limited	142	86
Current assets	48	30
Non-current assets	838	614
Current liabilities	12	14
Non-current liabilities	62	70
Cash outflow from operating activities	(15)	(18)
Cash outflow from investing activities	(226)	(100)
Cash inflow from financing activities	263	108
Total non-controlling interests		
Youi Holdings Proprietary Limited	484	199
OUTsurance Holdings Limited	976	1 047
RMI Investment Managers Group Proprietary Limited	142	86
Total non-controlling interests	1 602	1 332

38. 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 to which observable prices and/or data are used in the calculation of the fair value of the financial instruments. These levels are defined as follows:

Level 1 – Fair value is based on quoted market prices (unadjusted) in active markets for identical instruments as measured on the reporting date;

Level 2 – Fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly (for example prices) or indirectly (for example derived from prices); and

Level 3 – Fair value is determined from inputs for the asset or liability that are not based on observable market data.

38. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

The following table presents the group's financial assets and liabilities that are measured at fair value:

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

R MILLION	2019	2018
Reconciliation of movement in Level 3 assets		
Balance at the beginning of the year	798	814
Reclassification to amortised cost	(270)	–
Additions in the current year	154	192
Disposals (sales and redemptions)	(15)	(187)
Fair value movement	60	(15)
Investment income accrued	31	66
Dividends received	(62)	(72)
Balance at the end of the year	696	798
The Level 3 financial assets at fair value through profit or loss represent loans and preference share investments, the value of which is not significantly sensitive to an increase or decrease in the counterparty credit rating due to the collateralised nature of the transaction.		
Reconciliation of movement in Level 3 liabilities		
Balance at the beginning of the year	132	150
Preference dividends charged to profit or loss	169	193
Preference dividends paid	(197)	(211)
Balance at the end of the year	104	132

The Level 3 financial liabilities at fair value through profit or loss represent profits arising out of profit-sharing arrangements on ring-fenced insurance business that accrue on a monthly basis.

38. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

R MILLION	Level 1	Level 2	Level 3	Total carrying amount
As at 30 June 2018				
Financial assets				
Equity securities				
– Exchange traded funds	713	–	–	713
– Listed preference shares	354	–	–	354
– Collective investment schemes	–	110	–	110
– Listed equity securities	166	–	–	166
– Unlisted equity securities	–	–	130	130
Debt securities				
– Unsecured loans	–	–	34	34
– Unlisted preference shares	–	102	–	102
– Zero-coupon deposits	–	346	–	346
– Term deposits	–	5 261	–	5 261
– Government, municipal and public utility securities	–	560	–	560
– Money market securities	–	2 793	–	2 793
– Collective investment schemes	–	31	–	31
– Other debt securities at fair value through profit or loss	–	28	634	662
Total financial assets recognised at fair value	1 233	9 231	798	11 262
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	132	132
Derivative liability	–	36	–	36
Total financial liabilities recognised at fair value	–	36	132	168

The fair values of the above instruments were determined as follows:

Level 1

The fair value of financial instruments traded in an active market is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The listed preference share investments comprise instruments which are listed on a securities exchange.

The fair values of these investments are calculated based on the quoted closing prices of the individual investments on the reporting date. These instruments are included in Level 1 and comprise mainly equity and debt instruments classified as trading securities. The investment in the exchange traded funds track the performance of the top 50 companies listed on the JSE.

Level 2

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

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

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

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

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

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

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

38. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

Level 2 continued

The group uses zero-coupon deposits to offset the interest rate risk inherent in some of the life insurance products underwritten by OUTsurance Life. The counterparties to these deposits are the large South African banks. The zero-coupon deposits have been structured to allow for the payment of the notional initial deposit to be spread over the specified term to enable cash flow matching.

The maturity dates of the accreting zero-coupon deposits are long-term, with maturity dates at the various trading dates not exceeding 15 years. The fair values of the accreting zero-coupon deposits are determined monthly based on observable market inputs. To determine the fair values of the accreting zero-coupon deposits, a risk-free swap yield curve produced every business day by the JSE is referenced. The instruments are designated at fair value through profit or loss, with both the interest accrual and fair value accounted for in profit or loss.

The group makes use of an interest rate swap as well as a collateralised swap arrangement to manage the interest rate risk contained in the non-bonus policyholder liability. The interest rate swap is a fixed for floating instrument. The fixed leg is priced at a fixed percentage plus a contractually agreed basis point adjustment and the floating leg is priced at three-month JIBAR. The fair value of the collateralised swap arrangement, whereby the R2 048 government bond serves as collateral and is the underlying liability, is determined in the same manner as other money market instruments held by the group.

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

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

LEVEL 3

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

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

- The fair value is determined based on valuation techniques where the input is determined by management, e.g. profits arising out of profit-sharing arrangements, and is not readily available in the market or where market observable input is significantly adjusted, i.e. profits arising out of profit-sharing arrangements.
- Inputs are determined by the profits arising and calculations are made in accordance with the profit-share percentages, stipulated within the profit-sharing arrangement. No assumptions or adjustments or any other inputs are made to the profits before or after distribution. Distribution of the profits arising is made in the form of preference dividends.

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

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

39. CHANGE IN ACCOUNTING POLICIES

The group has applied *IFRS 9* retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

As at the date of initial application, 1 July 2018, the financial instruments of the group were as follows, with any reclassifications noted:

	Measurement basis		Carrying amount		
R MILLION	Original – *IAS 39*	New – *IFRS 9*	Original	**New**	Changes in carrying amounts arising from a change in ECL on transition to *IFRS 9*
Financial assets					
Listed preference shares	Available-for-sale	FVPL	354	**354**	–
Exchange traded funds	Available-for-sale	FVPL	713	**713**	–
Unsecured loan	FVPL	FVPL	34	**34**	–
Zero-coupon deposits	FVPL	FVPL	346	**346**	–
Money market and government bonds	FVPL	FVOCI	3 352	**3 318**	(34)
Insurance and other receivables	Amortised cost	Amortised cost	2 634	**2 634**	–
Cash and cash equivalents	Amortised cost	Amortised cost	467	**467**	–
Term deposits	FVPL	Amortised cost	5 261	**5 261**	–
Unlisted preference shares	Available-for-sale	Amortised cost	102	**102**	–
Collective investment schemes	FVPL	FVPL	141	**141**	–
Listed equity securities	FVPL	FVPL	165	**165**	–
Unlisted equity securities	FVPL	FVOCI	130	**130**	–
Unlisted equity securities	FVPL	FVPL	1	**1**	–
Debt securities	FVPL	FVPL	365	**365**	–
Debt securities	FVPL	Amortised cost	346	**346**	–
Total financial assets			14 411	**14 377**	(34)
Financial liabilities					
Preference shares	Amortised cost	Amortised cost	9 710	**9 710**	–
Interest-bearing loans	Amortised cost	Amortised cost	2 730	**2 730**	–
Financial liabilities at fair value through profit or loss	FVPL	FVPL	132	**132**	–
Derivative liability	FVPL	FVPL	36	**36**	–
Insurance and other payables	Amortised cost	Amortised cost	1 158	**1 158**	–
Total financial liabilities			13 766	**13 766**	–

39. CHANGE IN ACCOUNTING POLICIES continued

The table below provides a reconciliation of the reclassification impact of adopting *IFRS 9*:

	Fair value through other comprehensive income (FVOCI)	Available-for-sale	Fair value through profit or loss (FVPL)	Amortised cost
Closing balance as at 30 June 2018	–	1 169	10 141	–
Reclassify listed preference shares from available-for-sale to FVPL	–	(354)	354	–
Reclassify exchange traded funds from available-for-sale to FVPL	–	(713)	713	–
Reclassify unlisted preference shares from available-for-sale to amortised cost	–	(102)	–	102
Reclassify term deposits from FVPL to amortised cost	–	–	(5 261)	5 261
Reclassify money market and government bonds to FVOCI	3 352	–	(3 352)	–
Reclassify unlisted equity securities from FVPL to FVOCI	130	–	(130)	–
Reclassify debt securities from FVPL to amortised cost	–	–	(346)	346
Opening balance as at 1 July 2018 – *IFRS 9*	3 482	–	2 119	5 709

Reclassify from available-for-sale to FVPL

Investments in exchange traded funds and the listed perpetual preference shares were reclassified from available-for-sale financial assets to FVPL (R713 million and R354 million respectively as at 1 July 2018). They do not meet the *IFRS 9* criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

Related fair value gains of R114 million were transferred from the available-for-sale financial assets reserve to retained earnings on 1 July 2018.

Reclassification of financial instruments at FVPL to FVOCI

Segregated portfolios were reclassified from FVPL to FVOCI, as the group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, segregated portfolios with a fair value of R3.4 billion were reclassified from FVPL financial assets to financial assets at FVOCI and fair value gains of R21 million were reclassified from retained earnings to the OCI reserve on 1 July 2018. In addition, unlisted equity securities amounting to R130 million were reclassified from FVPL to FVOCI.

Reclassification of financial instruments at available-for-sale to amortised cost

The unlisted redeemable preference shares were reclassified from available-for-sale to amortised cost (R102 million as at 1 July 2018). At the date of initial application, the group's intention is to hold these investments for collection of contractual cash flows which represent solely payments of principal and interest on the principal amount.

Financial instruments remaining at amortised cost

Insurance and other receivables, cash and cash equivalents and other payables remained classified at amortised cost. In terms of the group's business model, it intends to hold these assets to collect contractual cash flows which consist solely of payments of principal and interest.

Reclassification of financial instruments from FVPL to amortised cost

Term deposits were reclassified from FVPL to amortised cost (R5 261 million as at 1 July 2018) and debt securities amounting to R346 million. At the date of initial application, the group's intention is to hold these investments for collection of contractual cash flows, which represent solely payments of principal and interest on the principal account.

Financial assets remaining at FVPL

The unsecured loan and collective investment scheme remained classified as FVPL. The loan and collective investment scheme meets the *IFRS 9* criteria for classification as FVPL because they are held to collect contractual cash flows that do not represent solely payments of principal and interest. There was no impact on the amounts recognised in relation to these assets from the adoption of *IFRS 9* on 1 July 2018. Zero-coupon deposits remained classified as FVPL under the accounting mismatch rule as these financial assets have specifically been acquired to match the OUTbonus portion of the policyholder liability.

39. CHANGE IN ACCOUNTING POLICIES continued

The total impact on the group's retained earnings as at 1 July 2018 is as follows:

R MILLION	2019
Opening balance	4 453
Change in accounting policy adjustments:	79
Reclassified investments from available-for-sale to FVPL	188
Deferred tax relating to investments reclassified from available-for-sale to FVPL	(42)
Reclassified investments from FVPL to FVOCI	(21)
Deferred tax relating to investments reclassified from FVPL to FVOCI	6
Expected credit loss for investments at FVOCI	(34)
Deferred tax relating to expected credit loss for investments at FVOCI	9
Non-controlling interest and at-acquisition reserves	(27)
Opening retained earnings 1 July 2018 – *IFRS 9*	**4 532**

The impact on the opening balance of the equity accounted reserves due to the implementation of *IFRS 9* by RMI's associates is a reduction of R31 million.

IFRS 15: Revenue from Contracts with Customers.

IFRS 15 which replaced *IAS 18: Revenue* and *IAS 11: Construction Contracts*, was applied effective from 1 July 2018. It applies to all contracts with clients except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model requires the group to:

(i) Identify the contract with the clients;
(ii) Identify each of the performance obligations included in the contract;
(iii) Determine the amount of consideration in the contract;
(iv) Allocate the consideration to each of the identified performance obligations; and
(v) Recognise revenue as each performance obligation is satisfied.

The significant majority of the group's revenue is accounted for in terms of *IFRS 4: Insurance Contracts* and *IFRS 9: Financial Instruments*, which are scoped out of *IFRS 15*. There are no material changes to revenue recognition for fee income recognised under *IFRS 15*. The impact on the group's opening balance of equity accounted reserves from investments in associates in respect of *IFRS 15* is R2 million.

40. RESTATEMENT OF COMPARATIVES

R MILLION	Amount as previously reported	Amount as restated	Difference
As at 30 June 2018			
Consolidated statement of cash flows			
Cash flows from operating activities			
Cash flows on assets backing policyholder liabilities	–	(153)	(153)
Purchase of financial assets	–	(9 346)	(9 346)
Proceeds on disposal of financial assets	–	8 163	8 163
Net cash flows from operating activities	–	(1 336)	(1 336)
Cash flows from investing activities			
Purchase of financial assets	(9 689)	(190)	9 499
Proceeds on disposal of financial assets	8 436	273	(8 163)
Net cash flows from investing activities	(1 253)	83	1 336
Total	(1 253)	(1 253)	–

During 2019, a review of the group's long-term insurance business model was undertaken in light of the adoption of *IFRS 9*. In addition, consideration was also given to the new regulatory capital regime effective 1 July 2018 and industry trends. This supports a change in key judgement relating to the appropriateness of all cash flows relating to investment portfolios backing certain insurance liabilities. Management believes that these should be reflected as cash flows from operating activities rather than, as previously reflected, as cash flows from investing activities. This provides more relevant information as it more accurately reflects the nature of the cash flows.

41. SEGMENTAL REPORT

The chief operating decision-maker regards normalised earnings as the appropriate basis to evaluate business performance as it eliminates the impact of non-recurring items and accounting anomalies. The segmental analysis is based on the management accounts prepared for the group.

R MILLION	Discovery	Momentum Metropolitan	OUTsurance	Hastings	Other[1]	RMI group
Year ended 30 June 2019						
Net income	–	–	15 797	–	205	16 002
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 744)	–	–	(7 744)
Depreciation	–	–	(139)	–	(2)	(141)
Amortisation	–	–	(84)	–	–	(84)
Other expenses	–	–	(4 123)	–	(154)	(4 277)
Finance costs	–	–	–	–	(729)	(729)
Fair value adjustment to financial liabilities	–	–	(169)	–	–	(169)
Share of after-tax results of associates	1 638	581	158	262	(27)	2 612
Profit/(loss) before taxation	1 638	581	3 696	262	(707)	5 470
Taxation	–	–	(1 064)	–	(32)	(1 096)
Result for the year	1 638	581	2 632	262	(739)	4 374
Hastings included in OUTsurance	–	–	(165)	165	–	–
Profit/(loss) for the year	1 638	581	2 467	427	(739)	4 374
Normalised earnings	1 261	825	2 634	308	(947)	4 081
Hastings included in OUTsurance	–	–	(244)	244	–	–
Normalised earnings	1 261	825	2 390	552	(947)	4 081
Assets	–	–	16 225	–	2 039	18 264
Associates	11 649	6 409	3 623	5 774	882	28 337
Intangible assets	–	–	101	–	–	101
Total assets	11 649	6 409	19 949	5 774	2 921	46 702
Hastings included in OUTsurance	–	–	(3 524)	3 524	–	–
Total assets	11 649	6 409	16 425	9 298	2 921	46 702
Total liabilities	–	–	8 971	–	11 590	20 561
Year ended 30 June 2018						
Net income	–	–	14 757	–	237	14 994
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 056)	–	–	(7 056)
Depreciation	–	–	(136)	–	(4)	(140)
Amortisation	–	–	(99)	–	(2)	(101)
Other expenses	–	–	(3 506)	–	(158)	(3 664)
Finance costs	–	–	–	–	(765)	(765)
Fair value adjustment to financial liabilities	–	–	(193)	–	–	(193)
Share of after-tax results of associates	1 418	280	305	370	(45)	2 328
Profit/(loss) before taxation	1 418	280	4 072	370	(737)	5 403
Taxation	–	–	(1 108)	–	(28)	(1 136)
Profit/(loss) for the year	1 418	280	2 964	370	(765)	4 267
Hastings included in OUTsurance	–	–	(294)	294	–	–
Profit/(loss) for the year	1 418	280	2 670	664	(765)	4 267
Normalised earnings	1 356	508	3 012	405	(1 015)	4 266
Hastings included in OUTsurance	–	–	(373)	373	–	–
Normalised earnings	1 356	508	2 639	778	(1 015)	4 266
Assets	–	–	15 254	–	2 984	18 238
Associates	10 268	5 964	4 125	5 367	689	26 413
Intangible assets	–	–	124	–	–	124
Total assets	10 268	5 964	19 503	5 367	3 673	44 775
Hastings included in OUTsurance	–	–	(3 996)	3 996	–	–
Total assets	10 268	5 964	15 507	9 363	3 673	44 775
Total liabilities	–	–	8 359	–	12 712	21 071

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

41. SEGMENTAL REPORT continued

Reconciliation of normalised earnings to headline earnings attributable to ordinary shareholders as per note 32.

R MILLION	2019	2018
Normalised earnings as per segmental report	4 081	4 266
RMI's share of normalised earnings adjustments made by associate:	(286)	(209)
– Amortisation of intangible assets relating to business combinations	(329)	(332)
– Deferred tax asset raised on assessed losses	82	88
– Unrealised (losses)/gains on foreign exchange contracts not designated as a hedge	(24)	19
– Policyholder funds assessed loss	9	30
– Debt restructuring costs resulting from DiscoveryCard joint venture transaction	(8)	–
– B-BBEE cost	(6)	(6)
– Initial expenses related to Prudential Book transfer	(6)	–
– Costs relating to disposal of equity accounted investments	(4)	–
– Non-recurring and restructuring expenses	–	(8)
Group treasury shares	6	24
Headline earnings attributable to ordinary shareholders as per note 32	3 801	4 081

The normalised adjustments made by associates are split as follows:

R MILLION	Discovery	Momentum Metropolitan	Hastings	Other	Total
As at 30 June 2019					
Amortisation of intangible assets relating to business combinations	(21)	(141)	(142)	(25)	(329)
Deferred tax asset raised on assessed losses	82	–	–	–	82
Unrealised losses on foreign exchange contracts not designated as a hedge	(24)	–	–	–	(24)
Policyholder funds assessed loss	9	–	–	–	9
Debt restructuring costs resulting from DiscoveryCard joint venture transaction	(8)	–	–	–	(8)
B-BBEE cost	–	(6)	–	–	(6)
Initial expenses related to Prudential Book transfer	(6)	–	–	–	(6)
Costs relating to disposal of equity accounted investments	(4)	–	–	–	(4)
Normalised earnings adjustments by associates	28	(147)	(142)	(25)	(286)
As at 30 June 2018					
Amortisation of intangible assets relating to business combinations	(27)	(136)	(148)	(21)	(332)
Deferred tax raised on assessed losses	88	–	–	–	88
Unrealised gains on foreign exchange contracts not designated as a hedge	19	–	–	–	19
Policyholder funds assessed loss	30	–	–	–	30
B-BBEE cost	–	(6)	–	–	(6)
Non-recurring and restructuring expenses	(8)	–	–	–	(8)
Normalised earnings adjustments by associates	102	(142)	(148)	(21)	(209)

41. SEGMENT REPORT continued

Geographical segments

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

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 (UK), China, Singapore, Australia, Japan, Europe and the United States. It is a pre-eminent developer of integrated financial services products and operates under the Discovery Health, Discovery Life, Discovery Insure, Discovery Invest, Discovery Vitality, VitalityHealth, VitalityLife and Ping An Health brand names. Discovery has also launched a bank in the 2019 financial year called Discovery Bank.

Momentum Metropolitan

Momentum Metropolitan is a South African financial services group that provides life insurance, employee benefits, investments and savings, healthcare solutions and short-term insurance to individual clients, small and medium businesses, large companies, organisations and public enterprises in South Africa, the rest of Africa and selected international countries. It covers the lower-, middle- and upper-income markets, principally under the Momentum and Metropolitan brand names.

OUTsurance

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

Hastings

Hastings is a UK-listed short-term insurer. It commenced operations in 1997 and listed on the London Stock Exchange in 2015. It is a fast-growing agile digital general insurance provider operating principally in the UK motor market. It provides private car and other forms of personal insurance cover (home, van and bike).

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

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

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

R MILLION	As at 30 June 2018 Total	Current	Non-current
ASSETS			
Property and equipment	1 109	–	1 109
Intangible assets	124	75	49
Investments in associates	26 413	–	26 413
Financial assets			
Equity securities			
– Available-for-sale	1 067	1 067	–
– Fair value through profit or loss	406	110	296
Debt securities			
– Available-for-sale	102	102	–
– Fair value through profit or loss	9 687	7 266	2 421
Insurance and other receivables	2 634	2 634	–
Deferred acquisition cost	307	307	–
Reinsurance contracts	286	222	64
Deferred taxation	220	–	220
Taxation	3	3	–
Cash and cash equivalents	2 417	2 417	–
Total assets	44 775	14 203	30 572
LIABILITIES			
Financial liabilities			
– Preference shares	9 710	–	9 710
– Interest-bearing loans	2 730	–	2 730
– Financial liabilities at fair value through profit or loss	132	93	39
– Derivative liability	36	–	36
Insurance contracts	6 725	5 698	1 027
Share-based payment liability	134	77	57
Provisions	189	189	–
Insurance and other payables	1 158	1 127	31
Deferred taxation	54	–	54
Taxation	203	203	–
Total liabilities	21 071	7 387	13 684

43. DIRECTORS' EMOLUMENTS

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

R000's	Services as director	Cash package	Bonus	Other benefits[1]	Share appreciation rights[2]	**Total 2019**
Executive						
HL Bosman[3]	–	8 177	46	1 108	1 035	**10 366**
– Paid by RMI	–	10 903	61	1 477	–	**12 441**
– Recovered from RMH	–	(2 726)	(15)	(369)	–	**(3 110)**
– Value of share appreciation rights vesting	–	–	–	–	1 035	**1 035**
Non-executive						
JJ Durand[4]	649	–	–	–	–	**649**
JP Burger	477	–	–	–	–	**477**
P Cooper	374	–	–	–	–	**374**
SEN de Bruyn	438	–	–	–	–	**438**
LL Dippenaar	374	–	–	–	–	**374**
DA Frankel (alternate)	266	–	–	–	–	**266**
PK Harris	374	–	–	–	–	**374**
A Kekana[4]	374	–	–	–	–	**374**
P Lagerström	361	–	–	–	–	**361**
MM Mahlare	266	–	–	–	–	**266**
MM Morobe	316	–	–	–	–	**316**
RT Mupita[4]	266	–	–	–	–	**266**
O Phetwe	266	–	–	–	–	**266**
JA Teeger	333	–	–	–	–	**333**
Total	5 134	8 177	46	1 108	1 035	**15 500**

1. "Other benefits" comprise pension fund, provident fund and medical aid contributions.
2. Includes the value of share appreciation rights granted by RMI which vest and become exercisable in the 12 months following the end of the reporting period.
3. Mr Bosman's executive remuneration is paid for by RMI. A portion of his remuneration is recovered from RMH.
4. Directors' fees for services rendered by Messrs Durand and Mupita and Ms Kekana were paid to Remgro, MTN and Royal Bafokeng respectively for their time spent on the RMI board.
5. There were no other services rendered by non-executive directors to RMI.

Directors' participation in RMI's share schemes

RMI share appreciation rights

Participant	Strike price (cents)	Vesting date	Balance as at 1 July 2018 000's	Issued 000's	Forfeited 000's	Exercised 000's	**Balance as at 30 June 2019 000's**	Value as at 30 June 2019 R000's
HL Bosman	2 874	02/04/2017	631	–	–	–	**631**	3 299
HL Bosman	2 874	02/04/2018	631	–	–	–	**631**	3 299
HL Bosman	2 874	02/04/2019	631	–	–	–	**631**	3 299
HL Bosman	4 125	14/09/2018	27	–	–	–	**27**	140
HL Bosman	4 125	14/09/2019	27	–	–	–	**27**	132
HL Bosman	4 125	14/09/2020	26	–	–	–	**26**	106
HL Bosman	4 341	14/09/2019	167	–	–	–	**167**	903
HL Bosman	4 341	14/09/2020	167	–	–	–	**167**	677
HL Bosman	4 341	14/09/2021	167	–	–	–	**167**	542
HL Bosman	3 992	19/09/2020	179	–	–	–	**179**	596
HL Bosman	3 992	19/09/2021	180	–	–	–	**180**	447
HL Bosman	3 992	19/09/2022	180	–	–	–	**180**	357
HL Bosman	3 947	14/09/2021	–	249	–	–	**249**	454
HL Bosman	3 947	14/09/2022	–	249	–	–	**249**	340
HL Bosman	3 947	14/09/2023	–	250	–	–	**250**	271

43. DIRECTORS' EMOLUMENTS continued

RMI management ownership participation structure

Participant	Investment	Number of shares	Percentage of investment	Hurdle rate	Value as at 30 June 2019 R000's
HL Bosman	RMI Investment Managers	1 761	1.4%	Prime	–
HL Bosman	RMI Invest One (Merchant Capital)	350	3.5%	Prime	–
HL Bosman	RMI Invest Two (Entersekt)	375	3.75%	Prime	–
HL Bosman	RMI Invest Three (Prodigy)	375	3.75%	Prime	–
HL Bosman	AlphaCode (Luno)	365	3.65%	Prime	–
					–

Schedule of directors' emoluments paid for services rendered to RMI in respect of the year ended 30 June 2018:

R000's	Services as director	Cash package	Bonus	Other benefits[1]	Share appreciation rights[2]	Total 2018
Executive						
HL Bosman[3]	–	7 101	261	970	5 284	13 616
– Paid by RMI	–	9 468	348	1 293	–	11 109
– Recovered from RMH	–	(2 367)	(87)	(323)	–	(2 777)
– Value of share appreciation rights vesting	–	–	–	–	5 284	5 284
Non-executive						
GT Ferreira	778	–	–	–	–	778
JJ Durand[4]	425	–	–	–	–	425
JP Burger[4]	397	–	–	–	–	397
P Cooper	355	–	–	–	–	355
SEN de Bruyn	356	–	–	–	–	356
LL Dippenaar	355	–	–	–	–	355
JW Dreyer	296	–	–	–	–	296
DA Frankel (alternate)	64	–	–	–	–	64
PM Goss	205	–	–	–	–	205
PK Harris	355	–	–	–	–	355
A Kekana[4]	314	–	–	–	–	314
P Lagerström	335	–	–	–	–	335
MM Mahlare	64	–	–	–	–	64
MM Morobe	257	–	–	–	–	257
RT Mupita[4]	64	–	–	–	–	64
O Phetwe	252	–	–	–	–	252
KC Shubane	188	–	–	–	–	188
JA Teeger	76	–	–	–	–	76
Total	5 136	7 101	261	970	5 284	18 752

1. "Other benefits" comprise pension fund, provident fund and medical aid contributions.
2. Includes the value of share appreciation rights granted by RMI which vest and become exercisable in the 12 months following the end of the reporting period.
3. Mr Bosman's executive remuneration is paid for by RMI. A portion of his remuneration is recovered from RMH.
4. Directors' fees for services rendered by Messrs Burger, Durand and Mupita and Ms Kekana were paid to FirstRand, Remgro, MTN and Royal Bafokeng respectively for their time spent on the RMI board.
5. There were no other services rendered by non-executive directors to RMI.

43. DIRECTORS' EMOLUMENTS continued

Directors' emoluments paid by subsidiaries and associates

Schedule of directors' emoluments paid by subsidiaries and associates in respect of the year ended 30 June 2019:

R000's	2019	2018
Executive		
HL Bosman[1]	**1 853**	1 446
Non-executive		
P Cooper[2]	**1 664**	1 322
SEN de Bruyn[3]	**1 247**	1 371
LL Dippenaar[4]	**519**	359
F Knoetze (alternate)[5]	**–**	168
KC Shubane[6]	**–**	786
Total	**5 283**	5 452

1. Directors' fees for serviced rendered by Mr Bosman were paid to RMI. R1 448 000 (2018: R1 278 000) was received from Discovery and R405 000 (2018: R168 000) was received from OUTsurance.
2. R1 136 000 (2018: R1 077 000) was received from Momentum Metropolitan and R528 000 (2018: R245 000) was received from OUTsurance.
3. Received from Discovery.
4. Received from OUTsurance.
5. Directors' fees for services rendered to OUTsurance by Mr Knoetze were paid to Remgro Limited.
6. Received from Momentum Metropolitan. Mr Shubane retired as a director of RMI on 31 March 2018, therefore the fees he received from Momentum Metropolitan are not disclosed in the 2019 financial year.

43. DIRECTORS' EMOLUMENTS continued

Emoluments paid to prescribed officers

OUTsurance Holdings Limited

In addition to Mr HL Bosman, financial director and chief executive officer of RMI, Mr MC Visser, chief executive officer of OUTsurance from 1 January 2018 and Mr WT Roos, chief executive officer of OUTsurance until 31 December 2017, 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 2019	Salary	Performance related[1]
MC Visser	**13 985**	**5 364**	**8 621**

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

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

	MC Visser 000's
OUTsurance Holdings share incentive scheme	
Strike price R7.15 with vesting dates from 1 July 2015 to 1 July 2018	
Opening balance as at 1 July 2018	600
Taken up during the year	(600)
Forfeited during the year	–
Closing balance as at 30 June 2019	–
Benefit derived	1 758
Strike price R8.48 with vesting dates from 1 July 2016 to 1 July 2019	
Opening balance as at 1 July 2018	600
Granted during the year	–
Forfeited during the year	–
Closing balance as at 30 June 2019	600
Strike price R9.30 with vesting dates from 1 July 2017 to 1 July 2020	
Opening balance as at 1 July 2018	700
Granted during the year	–
Forfeited during the year	–
Closing balance as at 30 June 2019	700
Strike price R10.08 with vesting dates from 1 September 2018 to 1 September 2021	
Opening balance as at 1 July 2018	–
Granted during the year	935
Forfeited during the year	–
Closing balance as at 30 June 2019	935

Contents

Separate annual financial statements

The basis of preparation of these separate annual financial statements is outlined on page 21.

Separate statement of financial position

as at 30 June

R MILLION	Note	2019	2018
ASSETS			
Property and equipment	1	**2**	4
Investment in subsidiaries	2	**20 024**	19 424
Financial assets			
Equity securities			
– Fair value through profit or loss	4	**188**	166
Debt securities			
– Fair value through profit or loss	4	**469**	365
Other receivables		**5**	2
Taxation		**2**	–
Deferred taxation	5	**38**	27
Cash and cash equivalents	6	**162**	267
Total assets		**20 890**	20 255
EQUITY			
Share capital and premium	7	**15 432**	15 087
Reserves	8	**5 300**	5 062
Total equity		**20 732**	20 149
LIABILITIES			
Share-based payment liability	9	**20**	31
Employee benefit liability		**29**	22
Financial liabilities			
– Derivative liability	10	**70**	36
– Financial guarantee contract liability		**18**	–
Provisions	11	**4**	4
Trade and other payables	12	**17**	13
Total liabilities		**158**	106
Total equity and liabilities		**20 890**	20 255

Separate income statement

for the year ended 30 June

R MILLION	Note	2019	2018
Revenue – Investment income	13	**2 044**	2 101
Interest income on financial assets using the effective interest rate method		**20**	–
Fair value loss		**(57)**	(33)
Fee and other income		**16**	16
Net income		**2 023**	2 084
Marketing and administration expenses	14	**(112)**	(122)
Profit before taxation		**1 911**	1 962
Taxation	15	**6**	2
Profit for the year		**1 917**	1 964
Attributable to:			
Equity holders of the company		**1 917**	1 964

Separate statement of comprehensive income

for the year ended 30 June

R MILLION	2019	2018
Profit for the year	**1 917**	1 964
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**1 917**	1 964
Attributable to:		
Equity holders of the company	**1 917**	1 964

Separate statement of changes in equity

for the year ended 30 June

R MILLION	Share capital	Share premium	Retained earnings	Total equity
Balance as at 1 July 2017	–	14 417	4 669	19 086
Shares issued	–	670	–	670
Total comprehensive income for the year	–	–	1 964	1 964
Dividends paid	–	–	(1 571)	(1 571)
Balance as at 30 June 2018	**–**	**15 087**	**5 062**	**20 149**
Shares issued	**–**	**345**	**–**	**345**
Total comprehensive income for the year	**–**	**–**	**1 917**	**1 917**
Dividends paid	**–**	**–**	**(1 679)**	**(1 679)**
Balance as at 30 June 2019	**–**	**15 432**	**5 300**	**20 732**
Note	7	7	8	

Separate statement of cash flows

for the year ended 30 June

R MILLION	Note	2019	2018
Cash flows from operating activities			
Cash utilised by operations	16	**(94)**	(117)
Dividends received		**2 044**	2 079
Interest received		**20**	22
Taxation paid		**(7)**	(7)
Net cash generated from operating activities		**1 963**	1 977
Cash flows from investing activities			
Investment in debt securities		**(175)**	(14)
Proceeds on sale of debt securities		**42**	83
Acquisition of property and equipment		**–**	(1)
Subscription for additional shares in subsidiary		**(600)**	(1 100)
Net cash outflows into investing activities		**(733)**	(1 032)
Cash flows from financing activities			
Proceeds from shares issued		**304**	493
Dividends paid to shareholders		**(1 638)**	(1 394)
Net cash outflows into financing activities		**(1 334)**	(901)
Net (decrease)/increase in cash and cash equivalents for the year		**(104)**	44
Cash and cash equivalents at the beginning of the year		**266**	222
Cash and cash equivalents at the end of the year		**162**	266

Notes to the separate annual financial statements

for the year ended 30 June

R MILLION	Leasehold improvements	Furniture, fittings and equipment	Total
1. PROPERTY AND EQUIPMENT			
30 June 2019			
Net book value at the beginning of the year	**2**	**2**	**4**
Depreciation (note 14)	**(1)**	**(1)**	**(2)**
Net book value at the end of the year	**1**	**1**	**2**
Cost	**14**	**4**	**18**
Accumulated depreciation	**(13)**	**(3)**	**(16)**
Net book value at the end of the year	**1**	**1**	**2**
30 June 2018			
Net book value at the beginning of the year	5	2	7
Additions	–	1	1
Depreciation (note 14)	(3)	(1)	(4)
Net book value at the end of the year	2	2	4
Cost	14	4	18
Accumulated depreciation	(12)	(2)	(14)
Net book value at the end of the year	2	2	4

R MILLION	2019	2018
2. INVESTMENTS IN SUBSIDIARIES		
Unlisted subsidiaries		
Ordinary shares at cost		
– OUTsurance Holdings Limited	**5 365**	5 365
– RMI Treasury Company Limited	**2 933**	2 333
– RMI Asset Holdings Proprietary Limited	**11 726**	11 726
Total investments in subsidiaries	**20 024**	19 424

R MILLION	2019	2018
2. INVESTMENTS IN SUBSIDIARIES continued		
Balance at the beginning of the year	**19 424**	7 379
Subscription for additional shares in RMI Treasury Company Limited		
– 25 October 2018	**400**	–
– 12 November 2018	**200**	–
– 30 October 2017	**–**	700
– 6 March 2018	**–**	400
Section 42 transfer[1]		
Shares issued by RMI Asset Holdings Proprietary Limited	**–**	10 945
Balance at the end of the year	**20 024**	19 424

1. The section 42 transfer relates to an assets for shares transaction on 29 June 2018 between RMI and its 100%-owned subsidiary, RMI Asset Holdings, in terms of section 42 of the Income Tax Act.

	2019	2018
RMI Asset Holdings Proprietary Limited issued shares to RMI in exchange for RMI's investments in:		
Discovery Limited	**–**	4 650
Momentum Metropolitan Holdings Limited	**–**	6 295
Total amount of shares issued by RMI Asset Holdings Proprietary Limited	**–**	10 945
OUTsurance Holdings Limited		
Number of shares[1]	**3 385 573 803**	3 366 763 599
% of equity[2]	**90.4**	89.7
Principal place of business	**Centurion**	Centurion
RMI Treasury Company Limited		
Number of shares	**19 000**	18 100
% of equity	**100.0**	100.0
Principal place of business	**Sandton**	Sandton
RMI Asset Holdings Proprietary Limited		
Number of shares	**44 604**	44 604
% of equity	**100.0**	100.0
Principal place of business	**Sandton**	Sandton

1. Held indirectly via Firness International Proprietary Limited and RMI Asset Holdings Proprietary Limited.
2. After consolidation of share trust.

3. INVESTMENT IN ASSOCIATES

R MILLION	2019	2018
Balance at the beginning of the year	–	10 945
Section 42 transfer[1]		
Discovery Limited	–	(4 650)
Momentum Metropolitan Holdings Limited	–	(6 295)
Balance at the end of the year	–	–

1. RMI's holdings in Discovery and Momentum Metropolitan were transferred to its 100%-owned subsidiary, RMI Asset Holdings, in an assets for shares transaction in terms of section 42 of the Income Tax Act.

4. EQUITY AND DEBT SECURITIES

R MILLION	2019	2018
Equity securities		
– Listed investments		
– Fair value through profit or loss	184	166
– Unlisted investments		
– Fair value through profit or loss	4	–
Debt securities		
– Unlisted investments		
– Fair value through profit or loss	469	365
Total equity and debt securities	657	531
Listed equity securities carried at fair value through profit or loss		
Balance at the beginning for the year	166	130
Fair value movement	18	36
Balance at the end of the year	184	166

The unlisted debt securities carried at fair value through profit or loss include an investment in the OUTsurance Investment Trust, OUTsurance Equity Trust, OUTsurance Equity Trust 2 and OUTsurance Equity Trust 3.

R MILLION	2019	2018
Balance at the beginning for the year	365	470
Additions	171	14
Disposals	(42)	(83)
Fair value movement	37	37
Dividends received from the OUTsurance Investment Trust	(38)	(58)
Dividends received from the OUTsurance Equity Trust	(19)	(14)
Dividends received from the OUTsurance Equity Trust 2	(1)	(1)
Dividends received from the OUTsurance Equity Trust 3	(4)	–
Balance at the end of the year	469	365

5. DEFERRED TAXATION

R MILLION	2019	2018
Deferred taxation asset – Fair value adjustments	38	27
Reconciliation of movement		
Deferred taxation asset at the beginning of the year	27	20
Deferred taxation credit in the income statement	11	7
Deferred taxation asset at the end of the year	38	27

6. CASH AND CASH EQUIVALENTS

R MILLION	2019	2018
Cash at bank and on hand	162	267

Cash and cash equivalents represent current accounts and call deposits. The fair value approximates the carrying value.

7. SHARE CAPITAL AND SHARE PREMIUM

R MILLION	Number of shares million	Ordinary shares	Share premium	Total
Share capital and share premium as at 1 July 2017	1 506	–	14 417	14 417
Issue of shares	17	–	670	670
Share capital and share premium as at 30 June 2018	1 523	–	15 087	15 087
Issue of shares	9	–	345	345
Share capital and share premium as at 30 June 2019	1 532	–	15 432	15 432

Ordinary shares

The total authorised number of ordinary shares is 2 000 000 000, with a par value of R0.0001 per share. The total number of issued ordinary shares as at 30 June 2017 was 1 505 688 346 shares, issued at a premium of R9.1926 per share. On 9 October 2017, RMI issued an additional 12 160 153 ordinary shares with par value of R0.0001 at a premium of R37.9999 per share and on 9 April 2018, RMI issued an additional 4 870 707 ordinary shares with par value of R0.0001 at a premium of R42.49999 per share. An additional 9 088 564 ordinary shares with par value of R0.0001 at a premium of R37.9999 per share were issued on 22 October 2018. This increased the number of issued ordinary shares as at 30 June 2019 to 1 531 807 770 shares. The unissued share capital is under the control of the board of directors until the forthcoming annual general meeting.

Preference shares

The total authorised number of cumulative, redeemable, par value preference shares is 100 000 000 with a par value of R0.0001 per share. The issued number of par value preference shares is nil (2018: nil).

The total authorised number of cumulative, redeemable, no par value preference shares is 100 000 000. The issued number of no-par value preference shares is nil (2018: nil).

The company created a new class of 100 000 000 authorised, cumulative, redeemable, no par value preference shares in the 2016 financial year. None of these preference shares have been issued yet.

R MILLION	2019	2018
8. RESERVES		
Retained earnings	**5 300**	5 062
9. SHARE-BASED PAYMENT LIABILITY		
Balance at the beginning of the year	**31**	47
Share-based payment expense accrued during the year	**(11)**	11
Liability settled	**–**	(27)
Balance at the end of the year	**20**	31

For additional information on the share scheme, refer to note 16 to the consolidated annual financial statements.

R MILLION	2019	2018
10. DERIVATIVE LIABILITY		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	**70**	36
Notional value	**120**	119

The total return swap derivative relates to the RMI share incentive scheme, which serves as an economic hedge but does not meet the qualifying criteria for hedge accounting. The notional amount of the derivative does not necessarily indicate the future cash flow involved or the current fair value of the instrument and therefore does not represent RMI's exposure to credit or market risk. The derivative instrument becomes favourable (asset) or unfavourable (liability) based on changes in share prices and counterparty credit risk. The aggregate notional amount and fair value of derivative financial instruments can fluctuate over time.

R MILLION	2019	2018
11. PROVISIONS		
Staff incentive bonus		
Balance at the beginning of the year	**4**	5
Provision	**4**	3
Utilised during the year	**(4)**	(4)
Total provisions	**4**	4
12. TRADE AND OTHER PAYABLES		
Trade payables and accrued expenses	**17**	13
13. REVENUE – INVESTMENT INCOME		
Revenue – Investment income	**2 044**	2 101
Dividend income from subsidiaries and associates	**1 974**	1 999
Dividend income from investment in OUTsurance Investment Trust	**38**	58
Dividend income from investment in OUTsurance Equity Trust	**19**	14
Dividend income from investment in OUTsurance Equity Trust 2	**1**	1
Dividend income from investment in OUTsurance Equity Trust 3	**4**	–
Dividend income from listed fair value through profit or loss equity securities	**8**	7
Interest income on cash and cash equivalents	**–**	22
Interest income on financial assets using the effective interest rate method	**20**	–
Total investment income	**2 064**	2 101

R MILLION	2019	2018
14. MARKETING AND ADMINISTRATION EXPENSES		
Expenses by nature:		
Directors' remuneration	**(14)**	(13)
Personnel costs	**(33)**	(69)
Professional fees and regulatory compliance cost	**(37)**	(12)
Printing costs	**(3)**	(4)
Operating lease rentals	**(3)**	(3)
Depreciation	**(2)**	(4)
Audit fees	**(4)**	(3)
Other expenses	**(16)**	(14)
Total marketing and administration expenses	**(112)**	(122)
Audit fees		
Statutory audit – Current year	**(4)**	(2)
Statutory audit – Prior year	**–**	(1)
Total audit fees	**(4)**	(3)

The company is leasing its office space on a monthly basis, therefore there is no commitment under non-cancellable operating lease agreements.

R MILLION	2019	2018
15. TAXATION		
SA normal taxation		
Current taxation		
– Current year	**(5)**	(5)
Deferred taxation		
– Current year	**11**	8
– Prior year	**–**	(1)
Total taxation	**6**	2

The taxation on the company's profit before taxation differs from the theoretical amount that would arise using the basic rate of taxation in South Africa as follows:

	2019	2018
Profit before taxation	**1 911**	1 962
	%	%
Effective tax rate	**(0.29)**	(0.10)
Dividend income not subject to taxation	**29.64**	29.67
Non-deductible expenses	**(1.35)**	(1.57)
Standard income taxation rate in South Africa	**28.00**	28.00

16. CASH UTILISED BY OPERATIONS

R MILLION	2019	2018
Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation	**1 911**	1 962
Adjusted for:		
Dividends received	**(2 044)**	(2 079)
Interest income	**(20)**	(22)
Fair value loss	**57**	33
Non-cash income and expenses included in the income statement	**1**	2
Changes in working capital		
– Other receivables	**(3)**	3
– Provisions	**–**	(1)
– Trade and other payables	**4**	(15)
Total cash utilised by operations	**(94)**	(117)

17. DIVIDEND PER SHARE

R MILLION	2019	2018
Total dividends paid during the year	**1 679**	1 571
Total dividends declared relating to the earnings for the year	**1 685**	1 582

	number	number
Number of ordinary shares in issue at the beginning of the year	**1 522 719 206**	1 505 688 346
Shares issued on 9 October 2017	**–**	12 160 153
Shares issued on 9 April 2018	**–**	4 870 707
Shares issued on 22 October 2018	**9 088 564**	–
Number of ordinary shares in issue at the end of the year	**1 531 807 770**	1 522 719 206

	cents	cents
Dividend declared per share		
– Interim	**45.0**	39.0
– Final	**65.0**	65.0
Total dividend per share declared	**110.0**	104.0

18. RELATED PARTIES

Principal shareholders

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

Key management personnel

Only RMI's directors are key management personnel. Information on directors' emoluments and their shareholding in the company appears in note 43 to the consolidated annual financial statements and in the directors' report respectively.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 2.

The following companies are subsidiaries of RMI:

- RMI Treasury Company Limited;
- RMI Asset Holdings Proprietary Limited; and
- Firness International Proprietary Limited (which owns 80.3% of OUTsurance Holdings Limited).

R MILLION	2019	2018
Related party transactions		
Transactions of RMI and its subsidiary companies with:		
Principal shareholders		
Dividends paid	**756**	702
Remgro Limited reinvested the dividends received from RMI in new RMI ordinary shares as follows:		
– 7 894 998 new RMI ordinary shares for a subscription amount of R300 million.		
Key management personnel		
Salaries and other benefits	**14**	13
Value of share appreciation rights vesting	**1**	5
Subsidiaries		
Income statement effect:		
– Dividends received	**1 974**	1 308
– Financial guarantee contract liability	**(18)**	–
Associates		
Income statement effect:		
– Dividends received	**–**	691

Assets for shares transaction

As disclosed in note 3, RMI transferred its investments in Discovery and Momentum Metropolitan to RMI Asset Holdings Proprietary Limited in an assets for shares transaction on 29 June 2018.

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

19. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The purchase agreement between RMI and Merchant Capital Advisory Services Proprietary Limited (Merchant Capital) stipulates that RMI would be a debt and equity investor that involves the following:

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

The long-term growth from the equity investment in Merchant Capital is expected to offset the cost of debt to Merchant Capital.

As at 30 June 2019, an amount of R5 million of the junior loan facility has been issued to Merchant Capital by RMI and R50 million by a subsidiary of RMI.

All the class B, class C and class D preference shares (R8 580 million in total) issued by RMI's 100%-owned subsidiary, RMI Treasury Company Limited, are guaranteed by RMI, RMI Asset Holdings Proprietary Limited and Main Street 1353 Proprietary Limited in terms of the group's domestic medium-term note and preference share programme. The class A preference shares were redeemed by RMI Treasury Company Limited in the 2019 financial year.

RMI and RMI Asset Holdings Proprietary Limited guaranteed the loan of R2 697 million incurred by Main Street 1353 Proprietary Limited as part of the funding raised to acquire a 29.9% stake in Hastings Group Holdings plc.

20. 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.

20.1 Market risk

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

20.1.1 Currency risk

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

The company had no exposure to currency risk as at 30 June 2019 (2018: none).

20.1.2 Interest rate risk

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

The table below reflects the company's exposure to interest rate risk. An increase or decrease in the market interest rate would result in the following changes in the profit before taxation of the company:

R MILLION	2019	2018
Cash and cash equivalents – 200 bps increase	3	5
Cash and cash equivalents – 200 bps decrease	(3)	(5)

20.1.3 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.

The table below reflects the company's exposure to equity price risk. A hypothetical 10% increase or decrease in the equity prices would result in the following changes in the profit before taxation of the company:

	30 June 2019		30 June 2018	
R MILLION	10% increase	10% decrease	10% increase	10% decrease
Equity securities at fair value through profit or loss	18	(18)	17	(17)
Derivative asset	–	–	16	(16)
Derivative liability	(7)	7	(13)	13
	11	(11)	20	(20)

20. FINANCIAL RISK MANAGEMENT continued

20.2 Credit risk

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

- Unlisted debt securities;
- Other receivables; and
- Cash and cash equivalents.

Significant concentrations of credit risk, if applicable, are disclosed in the separate annual financial statements. The credit exposure to any one counterparty is managed by the board of directors by setting transaction and exposure limits which are reviewed at each board and audit and risk committee meeting. The creditworthiness of existing and potential clients is monitored by the board.

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

R MILLION	BB	Not rated	Total
30 June 2019			
Debt securities			
– Fair value through profit or loss – Unlisted	–	469	469
Other receivables	–	5	5
Cash and cash equivalents	162	–	162
Total	162	474	636
30 June 2018			
Debt securities			
– Fair value through profit or loss – Unlisted	–	365	365
Other receivables	–	2	2
Cash and cash equivalents	267	–	267
Total	267	367	634

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset in the tables above.

Where available, the company utilises the credit ratings per counterparty as provided by each of the major credit rating agencies to determine the credit quality of a specific instrument. Where the instrument credit rating is not available, the credit rating of the counterparty as provided by the major credit ratings agencies is used.

In instances where the credit rating for the counterparty is not available, the company utilises the credit rating provided by a service provider, amended to take into account the credit risk appetite of the company. The internal methodology of the service provider provides a credit rating which assesses the counterparty's credit quality based on its financial standing. Should the service provider not provide a credit rating, the counterparty is shown as unrated. The ratings disclosed are long-term international scale, local currency ratings.

Long-term investment grade:

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

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

Not rated – The credit exposure for the assets listed above is considered acceptable by the board even though certain assets do not have a formal rating. The debt securities at fair value through profit or loss represent a loan provided to the OUTsurance Investment Trust, OUTsurance Equity Trust, OUTsurance Equity Trust 2 and OUTsurance Equity Trust 3, the values of which are not significantly sensitive to an increase or decrease in the counterparty credit rating due to the collateralised nature of these transactions.

20. FINANCIAL RISK MANAGEMENT continued

20.3 Liquidity risk and asset liability matching

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. The company's liabilities are matched by appropriate assets and it has significant liquid resources to cover its obligations. The company's liquidity and ability to meet such calls are monitored quarterly at the board meetings.

As disclosed in note 19, RMI has provided loan commitments and a guarantee to associates and intergroup guarantees. From a liquidity perspective, these are viewed to be a liquidity risk in the call category.

R MILLION	Call to 6 months	7 to 12 months	1 to 5 years/no contractual maturity	Total
30 June 2019				
Assets				
Property and equipment	**–**	**–**	**2**	**2**
Investment in subsidiaries	**–**	**–**	**20 024**	**20 024**
Equity securities – Fair value through profit or loss	**–**	**–**	**188**	**188**
Debt securities – Fair value through profit or loss	**–**	**–**	**469**	**469**
Other receivables	**5**	**–**	**–**	**5**
Deferred taxation	**–**	**–**	**38**	**38**
Taxation	**2**	**–**	**–**	**2**
Cash and cash equivalents	**162**	**–**	**–**	**162**
Total assets	**169**	**–**	**20 721**	**20 890**
30 June 2019				
Liabilities				
Share-based payment liability	**13**	**–**	**7**	**20**
Employee benefit liability	**22**	**–**	**7**	**29**
Financial liabilities				
– Derivative liability	**–**	**–**	**70**	**70**
– Financial guarantee contract liability	**18**	**–**	**–**	**18**
Provisions	**4**	**–**	**–**	**4**
Trade and other payables	**17**	**–**	**–**	**17**
Loan commitments to associate	**154**	**–**	**–**	**154**
Guarantee to associate	**28**	**–**	**–**	**28**
Intergroup guarantees	**11 277**	**–**	**–**	**11 277**
Total liabilities	**11 533**	**–**	**84**	**11 617**
30 June 2018				
Assets				
Property and equipment	–	–	4	4
Investment in subsidiaries	–	–	19 424	19 424
Equity securities – Fair value through profit or loss	–	–	166	166
Debt securities – Fair value through profit or loss	–	–	365	365
Other receivables	2	–	–	2
Deferred taxation	–	–	27	27
Cash and cash equivalents	267	–	–	267
Total assets	269	–	19 986	20 255
30 June 2018				
Liabilities				
Share-based payment liability	14	5	12	31
Employee benefit liability	13	3	6	22
Financial liabilities				
– Derivative liability	–	–	36	36
Provisions	4	–	–	4
Trade and other payables	13	–	–	13
Total liabilities	44	8	54	106

21. 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 to which quoted prices are used in the calculation of the fair value of the financial instruments. These levels are defined as follows:

Level 1 – Fair value is based on quoted market prices (unadjusted) in active markets for identical instruments as measured at the reporting date;

Level 2 – Fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly (for example prices) or indirectly (for example derived from prices); and

Level 3 – Fair value is determined from inputs for the asset or liability that are not based on observable market data.

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

R MILLION	2019	2018
Reconciliation of movement in Level 3 assets		
Balance at the beginning of the year	**365**	470
Additions in the current year	**175**	14
Disposals (sales and redemptions)	**(42)**	(83)
Fair value movement	**37**	37
Dividends received from the OUTsurance Investment Trust	**(38)**	(58)
Dividends received from the OUTsurance Equity Trust	**(19)**	(14)
Dividends received from the OUTsurance Equity Trust 2	**(1)**	(1)
Dividends received from the OUTsurance Equity Trust 3	**(4)**	–
Balance at the end of the year	**473**	365

The Level 3 financial assets at fair value through profit or loss represent loans to the OUTsurance Investment Trust, OUTsurance Equity Trust, OUTsurance Equity Trust 2 and OUTsurance Equity Trust 3, the values of which are not significantly sensitive to an increase or decrease in the counterparty credit rating due to the collateralised nature of these transactions.

21. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

R MILLION	Level 1	Level 2	Level 3	Total carrying amount
30 June 2018				
Financial assets				
Equity securities				
– Fair value through profit or loss	166	–	–	166
Debt securities				
– Fair value through profit or loss	–	–	365	365
Total financial assets valued at fair value	166	–	365	531
Financial liabilities				
Derivative liability	–	36	–	36

The fair values of the above instruments were determined as follows:

Level 1

The fair value of financial instruments traded in an active market is based on quoted market prices at balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. If all significant inputs required to fair value an instrument are market observable, the instrument is included in Level 2. The derivative liability is calculated with reference to the quoted prices for shares listed on the JSE. The financial guarantee contract liability is calculated with reference to the external credit rating, exposure at risk and likelihood of default by the respective counterparties.

Level 3

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

22. POST REPORTING DATE EVENT

Final dividend declaration

RMI declared a final dividend of 65.0 cents (2018: 65.0 cents) per ordinary share (R996 million) (2018: R990 million) on 10 September 2019, payable on 4 November 2019.

23. CHANGE IN ACCOUNTING POLICIES

The company has applied *IFRS 9* retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the company's previous accounting policy.

As at the date of initial application, 1 July 2018, the financial instruments of the company were as follows, with any reclassifications noted:

	Measurement basis		Carrying amount		
R MILLION	Original – *IAS 39*	New – *IFRS 9*	Original	New	Changes in carrying amounts arising from a change in ECL on transition to *IFRS 9*
Financial assets					
Listed equities	FVPL	FVPL	166	**166**	–
Unlisted debt securities	FVPL	FVPL	365	**365**	–
Other receivables	Amortised cost	Amortised cost	2	**2**	–
Total financial assets			533	**533**	–
Financial liabilities					
Derivative liability	FVPL	FVPL	36	**36**	–
Trade and other payables	Amortised cost	Amortised cost	13	**13**	–
Total financial liabilities			49	**49**	–

The unlisted debt securities have been classified at FVPL in terms of *IFRS 9* as the cash flows do not represent solely payments of interest and principal.

As the measurement category was unchanged between *IAS 39* and *IFRS 9*, there were no reclassification adjustments required, nor any impact on the company's opening retained earnings as at 1 July 2018.