# UNAUDITED SUMMARY RESULTS ANNOUNCEMENT AND CASH DIVIDEND DECLARATION

for the six months ended
31 December 2019

RMI
OPTIMISE
DIVERSIFY
MODERNISE

# Contents



## Basis of preparation

These unaudited summary financial results for the six months ended 31 December 2019 have been prepared in accordance with:

- International Financial Reporting Standards (IFRS), including *IAS 34: Interim financial reporting*;
- The requirements of the Companies Act, 71 of 2008, as amended;
- The SAICA Financial Reporting Guide as issued by the Accounting Practices Committee;
- The Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council; and
- The Listings Requirements of the JSE Limited.

The accounting policies applied are consistent with those applied in the previous financial period, except for changes required by the mandatory adoption of new and revised IFRS. During the six months ended 31 December 2019, the group adopted *IFRS 16: Leases*, which replaced *IAS 17: Leases*. The implementation of *IFRS 16* resulted in the recognition of a right-of-use asset and corresponding lease liability on the statement of financial position. More detail is provided in the financial review section of this report.

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

The summary consolidated financial statements for the six months ended 31 December 2019 contained in this booklet have not been audited.

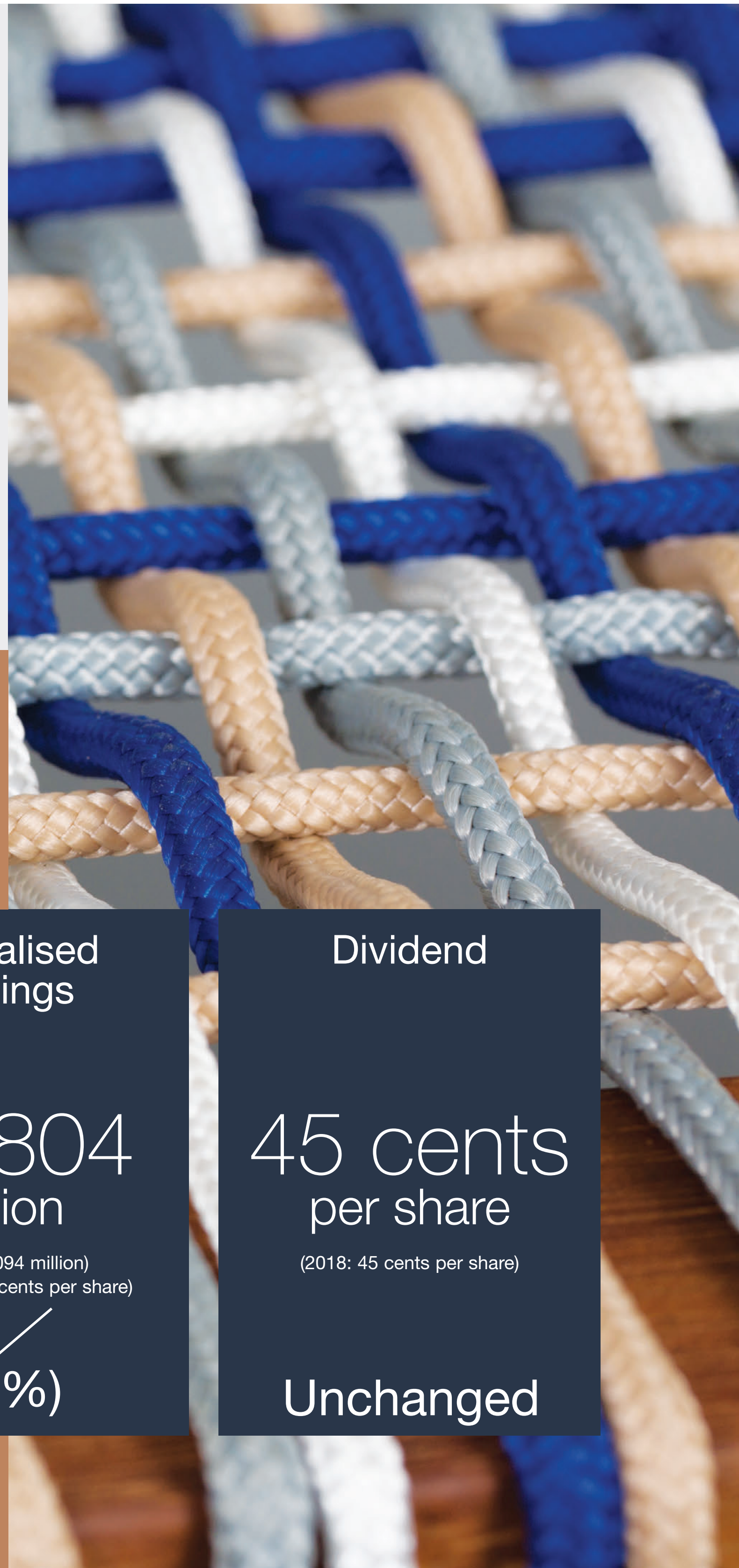
Normalised earnings presented in these summary financial results constitute pro forma financial information. The pro forma financial information is the responsibility of RMI's board of directors and is presented for illustrative purposes. As a result of its nature, pro forma financial information may not fairly present RMI's financial position, changes in equity, results of operations or cash flows.

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

# Artwork used in this announcement

RMI approached Khayelitsha-born furniture designer **Bonga Jwambi** to create a timber bench in RMI's colours. 31-year-old Bonga 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.

His creations speak to RMI's ongoing sustainability journey.



# Enduring value created

for the six months ended 31 December 2019

## Compound shareholders' return

since listing in 2011

16.9%
per annum

## Normalised earnings

R1 804
million

(2018: R2 094 million)
((14%) to 117.8 cents per share)

(14%)

## Dividend

45 cents
per share

(2018: 45 cents per share)

Unchanged

# About RMI

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

RMI is a strategic, active manager of a **R47 billion financial services portfolio**

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

See **page 19**.

| | |
|---|---|
| **Discovery Limited** (Discovery) | 25.0% |
| **Hastings Group Holdings plc** (Hastings) | 29.8% |
| **Momentum Metropolitan Holdings Limited** (Momentum Metropolitan) | 27.3% |
| **OUTsurance Holdings Limited** (OUTsurance) | 89.1% |
| **RMI Investment Managers Group Proprietary Limited** (RMI Investment Managers) | 100% |
| **AlphaCode Proprietary Limited** (AlphaCode), with its next-generation investments: | 100% |

- Entersekt
- Guidepost
- Luno
- Merchant Capital
- Prodigy Finance

# Investment overview

RMI's significant investments as at 31 December 2019

| Listed or unlisted | Discovery JSE-listed | Hastings LSE-listed | Momentum Metropolitan JSE-listed | OUTsurance Unlisted |
|---|---|---|---|---|
| MARKET CAPITALISATION/ IMPLIED VALUE (100%) | R79.4 billion | R21.9 billion | R32.7 billion | R23.1 billion |
| RMI'S INTEREST | 25.0% | 29.8% | 27.3% | 89.1% |
| RMI'S RANKING AS SHAREHOLDER | 1st | 1st | 1st | 1st |
| MARKET VALUE/IMPLIED VALUE OF RMI'S INTEREST | R19.9 billion | R6.5 billion | R8.8 billion | R20.5 billion |
| SHARE OF RMI PORTFOLIO BASED ON VALUE | 35% | 12% | 16% | 37% |
| NORMALISED EARNINGS FOR THE SIX MONTHS (100%) | R2 117 million | R596 million | R1 772 million | R1 103 million |

# Listed investments

Discovery

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

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

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

Refer to **page 15** for further information on Discovery's performance in the past six months.

Hastings

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

Hastings provides refreshingly straightforward products and services. It has 2.9 million live client policies and is a multi-award-winning business.

Refer to **page 16** for further information on Hastings' performance in the past year.

Momentum Metropolitan

**Momentum Metropolitan** is an insurance-based financial services group which is listed on the JSE Limited.

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

Refer to **page 17** for further information on Momentum Metropolitan's performance in the past six months.

# Unlisted investments

**OUTsurance** provides short- and long-term insurance products in South Africa, Australia and Namibia. Investment products are offered by OUTvest.

OUTsurance's mission is to provide world-class value-for-money insurance products backed by industry-leading client service. Premiums are calculated according to a client's unique risk profile. Clients who remain claim-free receive a cash OUTbonus, the first such reward system in South Africa.

Refer to **page 18** for further information on OUTsurance's performance in the past six months.

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

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

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

**Royal Investment Managers** is a joint venture between RMI Investment Managers and Royal Bafokeng Holdings (RBH). It acquires equity stakes in either existing or new asset management firms with a strong and unrelenting focus on diversity.

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

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

AlphaCode is actively seeking to fund new and dynamic, sustainable and scalable business models in the financial services industry. AlphaCode is committed to building a pipeline of next-generation financial services businesses and has launched a number of structured learning and mentorship programmes geared for different stages of business maturity to build this pipeline.

# Performance

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

## EXTERNAL ENVIRONMENT

The macroeconomic environment within which RMI's investee companies operate experienced significant challenges during the reporting period:

| | |
|---|---|
| **SA government under pressure** | President Ramaphosa recognised the economic challenges SA currently face in his State of the Nation address to Parliament, including unreliable energy provision, the precarious fiscal position and, more broadly, the weak GDP growth environment, while placing more emphasis on the role of the private sector to help solve these challenges. The impact of the President's proposal on confidence and economic prospects remains to be seen. |
| **Ratings going down** | All three major credit rating agencies have SA's credit rating on a negative outlook. If Finance Minister Tito Mboweni's budget is not viewed as providing a credible fiscal consolidation trajectory over the medium term, ratings downgrades could follow. This will raise the cost of funding in SA, dealing a further blow to depressed business and consumer confidence. |
| **Slow or no economic growth** | Three of the four quarters of 2019 experienced a GDP decline. Load shedding affected both factories and trade negatively.<br><br>Moody's lowered its outlook for real GDP growth to 0.7% in 2020, from a previous forecast of 1%. They anticipate growth to marginally pick up in 2021 to 0.9% and cited lacklustre private sector demand and a lack of action to contain state spending as key risks. |
| **Unemployment concerns** | The unemployment rate remained at 29.1% in the fourth quarter of 2019. |
| **Inflation up but subdued** | Consumer inflation, as measured by the consumer price index (CPI), accelerated to a seven-month high of 4.5% in January 2020. In the short term, inflation is expected to remain subdued. |
| **Market volatility** | The JSE was in part lifted by higher gold and resource mining shares. The gold price reached a multi-year high due to an increase in safe-haven demand as non-China Coronavirus cases rose. However, gold price gains were capped by a stronger dollar. The sharp rise in resource shares was more than offset by a fall in the industrials and financial indices. The softer local bourse was in line with the weaker performance of global equity markets. |
| **UK growth also slowing** | GDP growth also stalled in the UK during the fourth quarter of 2019. The weak performance was driven by ongoing Brexit uncertainty and a slowdown in international trade. Consumer spending increased at the weakest rate in four years and manufacturing output fell sharply, especially in the car industry. A slowdown in international trade amid the US-China trade war also weighed heavily on UK growth. |
| **Impact of the Coronavirus** | Fears regarding the impact that Covid-19 could have on economic growth reflected in the markets and emerging market currencies, including the Rand. |
| **Climate change** | The effects of global warming and changes to the planet have affected the group's investees more in the past year than ever before, from raging bushfires in Australia and drought in South Africa to health crises. The World Economic Forum has now emphasised the importance of global leaders addressing climate change urgently. |

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

# OVERVIEW OF RESULTS

RMI's group consolidated normalised earnings decreased by 14% to R1.8 billion for the six months ended 31 December 2019. This result is mainly attributable to the significant increase in spend on new strategic initiatives at Discovery and OUTsurance and an increase in the claims ratio of the short-term insurance operations at OUTsurance following the Australian bushfires and also at Hastings.

It is important to note that:

- Sporadic and, most notably, natural catastrophe-linked claims spikes are an inevitable part of a short-term insurance business; and
- RMI is pleased with the investments in strategic initiatives at Discovery and OUTsurance, which are all showing signs of market traction and success.

**Discovery**'s normalised earnings decreased by 11% for the six months ended 31 December 2019. All of Discovery's established and emerging businesses, with the exception of VitalityLife, produced robust operating results. VitalityLife's earnings were negatively impacted by the strategic decision to mitigate its exposure to further interest rate declines in the UK. In addition, the group invested R1 billion in new initiatives, an increase of 81% over the prior period. Of this spend, 53% was dedicated to Discovery Bank, which is expected to remain the dominant investment going forward. New business annualised premium income increased by 17% to R11.1 billion. Performance of cash and capital metrics remained within guidance, with the group financial leverage ratio at 24.3% and the cash buffer at R2.5 billion.

RMI included normalised earnings of R170 million from **Hastings** for the six months to 31 December 2019, 51% lower than the R348 million in the comparative period. Hastings announced its 31 December 2019 year-end results on 27 February 2020, which reflected a 52% decline in normalised earnings in Sterling terms. Gross written premiums were in line with the prior year, with volume growth offset by a change in the risk mix. Earned premium inflation for Hastings' financial year amounted to 1% excluding the risk mix effect. Including the risk mix effect, Hastings experienced overall earned premium deflation of 2%. Live client policies increased by 5% to 2.85 million, driven by higher retention rates. Claims increased by 8% due to increased policy volumes and claims inflation of between 7% and 8%. The claims ratio of 82.6% (post-Ogden) was significantly higher than the 75% claims ratio in the prior year and above the long-term target of between 75% and 79%.

**Momentum Metropolitan** recorded a 10% increase in diluted normalised earnings to R1.8 billion for the six-month period under review and a 12% increase in diluted normalised earnings per share, reflecting the positive impact of the R2 billion share buy-back programme that was completed in November 2018. This growth was supported by a resilient performance in the core South African life insurance businesses, underpinned by disciplined expense management and steady underwriting results. Guardrisk delivered an excellent performance which, together with the sale of loss-making operations in the rest of Africa, contributed to the overall growth in normalised earnings. The diluted embedded value per share increased by 7% to R28.56, which represents an annualised return on embedded value per share of 10.6%. The group's main life insurance entity strengthened its regulatory solvency position to 2.2 times the Solvency Capital Requirement (SCR), which is higher than the target range of 1.7 to 2.1 times the SCR. The dividend increased by 14% to 40 cents per ordinary and the dividend cover of 3.0 times remains at the upper end of the target range of 2.0 to 3.0 times. Momentum Metropolitan also maintained its Level 1 B-BBEE status.

The highlights at **OUTsurance** for the six-month period were the continued growth recovery at Youi, the successful continuation of the expansion of OUTsurance Business and strong OUTsurance Personal growth within a difficult economic climate. Overall group gross written premiums increased by 6% to R8.6 billion and annualised new premium written increased by 15% to R2.1 billion. Normalised earnings, including OUTsurance's stake in Hastings, decreased by 12% to R1.2 billion. Excluding its share in Hastings, OUTsurance's normalised earnings decreased by 6%. The devastating bushfires in Australia severely impacted the claims ratio performance for the six-month period. At 31 December 2019, Youi's gross claims exposure was R352 million with an expected R146 million in reinsurance recoveries resulting in a net estimated loss of R206 million. In South Africa, OUTsurance experienced two catastrophe events during the period under review with a combined net cost of R84 million, compared to none in the comparative period. OUTsurance also incurred R20 million more in net claims related to power surge and dip claims due to load shedding. As a result, the group's overall claims ratio increased from 51.6% to 53.4%.

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

The six-month period to December was characterised by high volatility in the local market that further precipitated risk aversion among investors. The JSE All Share Index was flat during the period, but portfolio returns among local equity managers ranged between -13% to 25%, reflecting the high volatility experienced. Managers who were overweight gold and platinum stocks had a very successful six-month period, while those who had overweight positions in financials and REITs underperformed. South African equities, helped by the precious metal rally, outperformed emerging market equities by 5.5% as geopolitical risks lowered investors' appetite for riskier assets. Notwithstanding the challenging political and macroeconomic conditions, the affiliate managers remained focused on delivering good investment performance for their clients while continuing to strengthen their businesses through a more diversified client base and bolstering their investment and operational capabilities.

**Royal Investment Managers** is a joint venture between RMI Investment Managers and RBH. The portfolio performed in line with expectations during the period under review.

The **net funding and holding company costs** increased by 14% to R365 million. This increase is mainly attributable to a fair value gain on an interest rate swap included in the comparative period which did not recur in the current period. This interest rate swap was entered into to fix the interest rate on the GBP-denominated funding. RMI also channelled its enterprise and supplier development spend into its AlphaCode initiative as part of its overall commitment to an enhanced transformation strategy. The net funding and holding company costs incurred in the six-month period under review are more in line with the R360 million incurred in the second half of the 2019 financial year.

# SOURCES OF NORMALISED EARNINGS

RMI regards normalised earnings as the appropriate basis to evaluate business performance as it eliminates the impact of non-recurring items and accounting anomalies. The total reported normalised earnings of RMI's investee companies for the six months under review are listed in the table below:

| R MILLION | Six months ended 31 December 2019 | Six months ended 31 December 2018 | % change | Year ended 30 June 2019 |
|---|---|---|---|---|
| Discovery | **2 117** | 2 376 | (11) | 5 035 |
| Hastings | **596** | 1 223 | (51) | 1 941 |
| Momentum Metropolitan | **1 772** | 1 618 | 10 | 3 074 |
| OUTsurance (excluding Hastings) | **1 103** | 1 172 | (6) | 2 390 |
| – OUTsurance (including Hastings) | **1 169** | 1 329 | (12) | 2 634 |
| – Hastings included in OUTsurance | **(66)** | (157) | 58 | (244) |
| Other[1] | **(5)** | (12) | 58 | (22) |

1. Other includes RMI Investment Managers and AlphaCode investments.

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

RMI's consolidated normalised earnings for the period under review is listed in the table below:

| R MILLION | Six months ended 31 December 2019 | Six months ended 31 December 2018 | % change | Year ended 30 June 2019 |
|---|---|---|---|---|
| Discovery | **527** | 597 | (12) | 1 261 |
| Hastings | **170** | 348 | (51) | 552 |
| Momentum Metropolitan | **479** | 429 | 12 | 825 |
| OUTsurance (excluding Hastings) | **998** | 1 052 | (5) | 2 145 |
| – OUTsurance (including Hastings) | **1 058** | 1 193 | (11) | 2 364 |
| – Hastings included in OUTsurance | **(60)** | (141) | 57 | (219) |
| Other[1] | **(5)** | (12) | 58 | (22) |
| Funding and holding company costs | **(365)** | (320) | (14) | (680) |
| **Normalised earnings** | **1 804** | 2 094 | (14) | 4 081 |
| **Normalised earnings per share (cents)** | **117.8** | 137.2 | (14) | 266.9 |

1. Other includes RMI Investment Managers and AlphaCode investments.

## MARKET VALUE OF INVESTMENTS

During the 2019 calendar year, RMI's share price decreased by 15% (2018: decreased by 21%), compared to a 7% decrease in the life insurance index and a 2% decrease in the non-life insurance index. RMI has delivered a total annually compounded return to shareholders of 16.9% since its listing in March 2011.

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

- **Discovery's** share price decreased by 25% (2018: decreased by 14%).
- **Hastings'** share price decreased by 4% in Pound Sterling terms (2018: decreased by 42%) and by 3% in Rand terms (2018: decreased by 36%).
- **Momentum Metropolitan's** share price increased by 27% (2018: decreased by 18%).
- On a "look-through" basis, based on share prices as at 31 December 2019, the value attributed to RMI's unlisted investments decreased by 15% (2018: decreased by 15%) to R22.1 billion (2018: R26 billion). These unlisted investments include **OUTsurance** (excluding OUTsurance's 49% stake in the group's holding in Hastings) (89.1% held), **RMI Investment Managers** and the **AlphaCode** investments.

| R MILLION | As at 31 December 2019 | 2018 | % change | As at 30 June 2019 |
|---|---|---|---|---|
| **Market value of listed investments** | **34 832** | 39 577 | (12) | 38 726 |
| Discovery | **19 881** | 26 335 | (25) | 24 575 |
| Hastings (RMI's effective holding) | **6 192** | 6 372 | (3) | 6 543 |
| – 29.8% holding | **6 541** | 6 731 | (3) | 6 912 |
| – Attributable to non-controlling interest in OUTsurance | **(349)** | (359) | 3 | (369) |
| Momentum Metropolitan | **8 759** | 6 870 | 27 | 7 608 |
| **Market value of unlisted investments** | **22 117** | 26 036 | (15) | 22 948 |
| RMI Investment Managers and AlphaCode | **1 568** | 836 | 88 | 1 035 |
| Implied market value of RMI's stake in OUTsurance (excluding Hastings) | **20 549** | 25 200 | (18) | 21 913 |
| **Gross market value of portfolio** | **56 949** | 65 613 | (13) | 61 674 |
| Net liabilities of holding company | **(9 708)** | (9 794) | 1 | (9 638) |
| **RMI market capitalisation** | **47 241** | 55 819 | (15) | 52 036 |
| **RMI closing share price (cents)** | **3 084** | 3 644 | (15) | 3 397 |

## DIVIDEND POLICY

It is RMI's objective to provide shareholders with a consistent annual dividend flow. RMI's dividend policy is to pay out all normal dividends received from underlying investments after servicing any funding commitments at holding company level and considering its debt capacity and investment pipeline. The intention is however to, where possible, target dividend growth in line with CPI. This policy seeks to achieve a sound balance between providing an attractive yield to shareholders, achieving sustained growth and maintaining an optimal capital structure, while remaining agile. Given RMI's active investment strategy, this policy will be assessed on a regular basis.

## INTERIM DIVIDEND PAYMENT

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

The board resolved to declare an interim dividend of 45.0 cents (2018: 45.0 cents) per ordinary share. The interim dividend per ordinary share is covered 2.6 times (2018: 3.0 times) by the normalised earnings of 117.8 cents (2018: 137.2 cents) per share.

Shareholders are referred to the dividend declaration on **page 14** regarding the applicability of Dividend Withholding Tax to the ordinary dividend.

## EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any material adjusting or non-adjusting events relating to the six months ended 31 December 2019 that occurred between the date of the statement of financial position and the date of this report.

# RMI's strategy

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

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

## OPTIMISE

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

### MAJOR MILESTONES OVER PAST FIVE YEARS

- Increased shareholding in OUTsurance and Momentum Metropolitan (via the share buy-back programme of Momentum Metropolitan);
- Explored new products and strategic projects to diversify revenue streams for OUTsurance;
- Ongoing strategic dialogue with Discovery, Momentum Metropolitan and Hastings;
- Sold RMB Structured Insurance; and
- RMI Investment Managers is partnering its boutique investment managers in a supportive but non-interfering manner.

## DIVERSIFY

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

### MAJOR MILESTONES OVER PAST FIVE YEARS

- Started RMI Investments Managers and invested in 12 affiliates;
- Created a debt programme;
- Invested in Hastings;
- Supported Discovery in diversifying into short-term insurance and banking; and
- RMI continues to evaluate later-stage, capital-lite business models with organic growth potential.

## MODERNISE

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

### MAJOR MILESTONES OVER PAST FIVE YEARS

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

# Outlook and enduring value creation

**Discovery** has set a bold ambition for 2023 of being a leading financial services organisation globally, positively influencing 100 million lives, with 10 million directly insured, and being a powerful force for social good. Achieving this ambition will require continued execution of market-specific strategies:

- South Africa: a disruptive composite model, with market-leading businesses and a successful entry into banking;
- United Kingdom: a differentiated offering through a composite Vitality Shared-Value model;
- Ping An Health: the leading health insurer in China with over 50 million clients; and
- Vitality Group: a sophisticated global behaviour-change platform linked to financial services.

The globalisation of Discovery's Vitality Shared-Value model is being enabled by Vitality1, the globally unified systems platform. Vitality1 is live in nine markets after 18 months of operating, touching two million members and creating efficiencies in rolling out in new markets. Every day the platform logs more than four million workouts and allocates more than 35 000 rewards.

Discovery is well positioned for growth over its planning horizon to 2023, with the capital plan intact. Key priority areas are:

- Execute on VitalityLife's stated plans to manage in the low interest rate environment, stabilise experience variances and return to robust profit in the 2021 financial year;
- Achieve significant traction in new initiatives, most notably Discovery Bank, and ensure short-term new business thresholds are achieved for each initiative;
- Ensure the established businesses retain their insurgency; and
- Capitalise on emerging businesses' unique attributes and positioning to achieve scale and materiality.

**Hastings** will be looking to build on its operational highlights of its 2019 financial year:

- Pricing discipline has remained a priority and it continued to increase rates during 2019 ahead of the market, alongside continued development of enhanced risk selection and pricing capabilities;
- The 2020 reinsurance programme was placed successfully with strong demand;
- Client retention increased by five percentage points over the last year, reflecting the benefits of the new pricing models and operational initiatives implemented. The successful transition to new repair service and mobility providers supported improved client service;
- A next-generation anti-fraud platform has been able to detect sophisticated types of policy and claims fraud through using social network analytics and new data point connections, with a 96% increase in the number of fraud cases identified; and
- A continued focus on digital investments and strategic initiatives has contributed towards an 18% reduction in client service calls.

The board and management of Hastings are confident in the group's profitable growth opportunities and its ability to deliver on its vision to become the best and biggest digital insurance provider, with growth in the right market conditions. This will be driven by its competitive advantages of agile pricing, anti-fraud capabilities and digital distribution. Consumer switching is set to continue and digital channels, including price comparison websites in particular, continue to grow at the expense of more traditional distribution models. This plays to Hastings' core strategy of providing good value products in an accessible way for clients, enabled by digital technology. Trading in 2020 has started in line with expectations. Hastings remains focused on pricing discipline, targeting a 75% – 79% loss ratio on written business, supported by advanced risk selection and claims initiatives. Hastings does not expect any material impact on its operations following the UK's withdrawal from the European Union.

In pursuit of its Reset and Grow strategy, **Momentum Metropolitan** made great strides in several important aspects:

- Embedding a culture of financial discipline with a commitment to disciplined financial management by carefully managing the discretionary and overhead expense levels;
- Effective deployment of capital and maintaining a strong balance sheet. The financial position and sustainability of the group have been strengthened through the share buy-back, a prudent dividend policy and investments in technology;
- Scaling its short-term business by concluding the acquisition of Alexander Forbes Insurance;
- Delivering innovative products and improving client service;
- New Initiatives performing in line with expectations with the share of losses on new initiatives reducing; and
- Retaining its Level 1 B-BBEE status.

Momentum Metropolitan will continue to focus on its Reset and Grow strategy, a roadmap that has served it well up to now. It will continue to invest carefully in new revenue generating opportunities and in improved ways of work, while maintaining a clear focus on running the core South African life insurance operations optimally. Consumers are under strain from the continued slow growth in disposable income and uncertain economic environment. This could have a moderating impact on the group's operational performance in the second half of the 2020 financial year. Momentum Metropolitan remains cautiously optimistic that it will successfully deliver on its Reset and Grow target of normalised headline earnings between R3.6 billion and R4.0 billion in the 2021 financial year.

**OUTsurance's** medium-term strategic focus is to expand its insurance product range and widen the distribution footprint to include multiple sales and service channels. During the six months under review, it continued to expand the size and capability of its tied-agency force. A new motor warranty offering was added to bolster the comprehensive motor product. OUTsurance entered into a partnership arrangement with Shoprite Holdings Limited. This partnership will allow it to distribute long-term and short-term insurance products to the various client bases of the Shoprite group's operating brands and will commence with the distribution of a funeral insurance product during the second quarter of 2020. During the six months under review, both OUTsurance and Youi continued to roll out innovative digital service features, in line with the group's strategic priority of digitising service delivery.

Growth in the OUTsurance Personal operation is expected to be maintained within the current range unless there is a real improvement in the South African economy in the near term. Product expansion, face-to-face distribution and distribution partnerships will play an important future role in supporting the growth of this segment.

OUTsurance Business is a key growth catalyst and will benefit from the continued investment to expand distribution capacity and build on the success achieved to date.

Youi is expected to continue to improve its organic growth trajectory, aided by the expansion of the product range, coupled with the new distribution partnership with Blue Zebra Insurance, a young managing general agent equipped with leading technology and a large independent broker footprint.

The bushfires continued to rage subsequent to 31 December 2019, albeit at a lower severity. The estimated net loss for bushfire claims subsequent to 31 December 2019 is A$4 million. In addition to the continued bushfire exposure, a net loss of A$9.5 million was incurred in January 2020 relating to hailstorms which will impact second half earnings. Youi's reinsurance protection for the remainder of the financial year remains adequate. The group will review the terms of its reinsurance arrangements, where possible, specifically in relation to natural catastrophe events resulting from the effects of climate change. Reinsurance treaties only covered seven days of claim events in respect of the recent Australian bushfires.

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

The asset raising environment remains difficult. Low economic growth and the resultant job losses have put most pension funds into annual deficits. As the size of the institutional asset pool has remained stagnant, growth for the group's affiliates has had to come at the expense of other managers. South African investors have continued to support retail Collective Investment Schemes (CIS) portfolios throughout 2019. Total net flow into CIS portfolios was R123 billion in 2019. The group's affiliates have grown their retail assets by 22% during the same period, albeit off a low base. Investors' return expectations for local equities remained subdued. Flows into CIS equity and multi-asset portfolios (excluding income) were negative for the year (R30 billion), whereas CIS fixed income and money market portfolios received R151 billion during 2019. The CIS multi-asset income category received the largest net inflows of all the categories with R70.5 billion. The fact that the largest beneficiaries in this category are not bank or insurance-linked businesses was another confirmation that independent boutiques have a role to play in the fixed income market.

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

**AlphaCode** is building on the entrepreneurial legacy record of financial innovation in RMI. AlphaCode identifies, partners and grows the next-generation of financial services entrepreneurs through incubation, acceleration, collaboration and investment. The flagship initiative, AlphaCode Incubate, has identified and supported 40 black-owned next-generation financial services businesses over the past four years and provided more than R50 million in grant capital to these businesses. AlphaCode also trained 38 students on the fundamentals of data science and entrepreneurship through the AlphaCode Explore learnership.

As part of the mandate of investing in disruptive, innovative financial services businesses, AlphaCode grew its investment portfolio by deploying additional equity funding into one of its existing investee companies, Entersekt. Entersekt is a provider of multi-factor authentication services to financial services companies globally. Entersekt has partnered with global payments giant, Mastercard, to rapidly deploy its technology. The follow-on capital was provided to fund further research and development in the business and expand its regional presence in Europe and North America.

For and on behalf of the board.

| | |
|---|---|
| **JJ Durand** | **HL Bosman** |
| *Chairman* | *Chief executive officer* |

Sandton
12 March 2020

# Cash dividend declaration

Notice is hereby given that a gross interim cash dividend of 45.0 cents per ordinary share, payable out of income reserves, was declared on 12 March 2020 in respect of the six months ended 31 December 2019.

The dividend will be subject to Dividend Withholding Tax at a rate of 20%, which will result in a net dividend of 36.0 cents per ordinary share for those shareholders who are not exempt.

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

Shareholders' attention is drawn to the following important dates:

| | |
|---|---|
| • Last day to trade in order to participate in this dividend | Tuesday, 31 March 2020 |
| • Shares commence trading ex-dividend on | Wednesday, 1 April 2020 |
| • The record date for the dividend payment will be | Friday, 3 April 2020 |
| • Dividend payment date | Monday, 6 April 2020 |

No dematerialisation or rematerialisation of share certificates may be done between Wednesday, 1 April 2020 and Friday, 3 April 2020 (both days inclusive).

By order of the RMI board.

**Schalk Human**
*Company secretary*

Sandton

12 March 2020

# Investor call

Herman Bosman (chief executive officer) invites you to join him in a conversation about RMI's performance for the six months ended 31 December 2019.

He will be joined by Jan Hofmeyr, chief financial officer and Marthinus Visser, chief executive officer of OUTsurance.

This investor call will take place on Thursday, 12 March 2020 at 13:00 (SAST).

Participants can register for the conference by navigating to http://www.diamondpass.net/2845908.

Please note that registered participants will receive their dial in number upon registration.

VALUE CREATED

MARKET CAPITALISATION

R79.4 billion

2018: R105.2 billion

(25%)

NORMALISED EARNINGS

R2 117 million

2018: R2 376 million

(11%)

DIVIDENDS PAID

101 cents per share

2018: 101 cents per share

Unchanged

# Portfolio review

Discovery

**WHY RMI INVESTS IN DISCOVERY**

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

## HOW DISCOVERY PERFORMED DURING THE SIX MONTHS

- Core new business annualised premium income increased by 5% to R9.5 billion;
- Normalised profit from operations before investment in new initiatives increased by 5% to R4.6 billion;
- Normalised earnings decreased by 11% to R2.1 billion;
- Gross inflows under management increased by 11% to R74.8 billion;
- Embedded value increased by 8% to R73.2 billion, with an annualised return on embedded value of 8%; and
- The interim dividend for the six months remained unchanged at 101.0 cents per share.

As at 18 February 2020, **Discovery Bank** had 78 000 clients with 180 000 accounts, nearly half of which had never held a Discovery card before; deposits had grown strongly to R1.2 billion; total credit card spend was R2.6 billion and total credit limits granted was R2.5 billion – with over R1 billion in credit facility used. Early member engagement is positive and the client base is exhibiting appealing spend, credit, arrears and deposit behaviour, better than the performance of the previous Discovery card and considerably better than the market.

**Discovery Life** remains well capitalised with an above-target SCR coverage of 172% and generated cash in line with plan.

In response to the environment, **VitalityLife** implemented the interest rate hedge, adapted the legal structure of the business, optimised its capital position and deferred the Part VII transfer of the VitalityLife back book written on the Prudential Assurance Company's license by three years. The impact of low interest rates is expected to remain a feature of the profits for the remainder of the year.

**Ping An Health** had a remarkable period, with total revenue growing by 56% to R11.1 billion and new business premium growing over 27% to R5.5 billion. It exceeded its written premium target of R21 billion for the 2019 calendar year. Discovery's share of after-tax operating profit grew by 467% to R68 million.

RMI included **R527 million** of Discovery's earnings in its normalised earnings (2018: R597 million).

For a detailed review of Discovery's performance, RMI's shareholders are referred to **www.discovery.co.za.**

# Hastings

## VALUE CREATED

MARKET CAPITALISATION

£1 181 million

2018: £1 229 million

(4%)

NORMALISED EARNINGS for the year

£71.5 million

2018: £148.5 million

(52%)

DIVIDENDS PAID for the year

10.0 pence per share

2018: 13.5 pence per share

(26%)

**WHY RMI INVESTS IN HASTINGS**

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

## HOW HASTINGS PERFORMED DURING THE LAST YEAR

Hastings has a 31 December year-end. The latest published results are for the year ended 31 December 2019. All the numbers and commentary below relate to the year ended 31 December 2019.

- Gross written premiums remained stable at £961.6 million (2018: £958.3 million);
- Sustained increase in clients, with live client policies up by 5% to 2.85 million (2018: 2.71 million);
- Further growth in home insurance, reflecting a 27% increase to 209 000 policies;
- Loss ratio of 81.6% (pre-Ogden rate change) for the year ended 31 December 2019, above the target range of between 75% and 79% (2018: 75%). The increase in the loss ratio is due to claims inflation exceeding premium inflation;
- Free cash generation of £141.0 million (2018: £167.7 million); and
- Final dividend of 5.5 pence per share (2018: 9.0 pence per share). The total dividend for the financial year ended 31 December 2019 is 10.0 pence per share (2018: 13.5 pence per share).

Hastings remains highly cash generative. Net debt has remained stable in 2019, with funding secured by the long-term fixed rate bonds issued in 2018. Hastings' underwriting business, AICL, is well capitalised and its Solvency II capital ratio of 151% continues to track the target range of 140%-160%.

Hastings remains supportive of the Financial Conduct Authority's Market Pricing Study and has provided input and insight throughout the process. The study is well progressed and conclusions are expected to be available during the first quarter of 2020. Hastings is well placed to respond to the conclusions which aim to further protect clients.

Hastings is supportive of the whiplash reforms and is working with the Motor Insurance Bureau, which is aiming to introduce the reforms by April 2020.

RMI included **R170 million** of Hastings' earnings in normalised earnings for the six months ended 31 December 2019

(2018: R348 million).

For a detailed review of Hastings's performance, RMI shareholders are referred to **www.hastingsplc.com.**

## VALUE CREATED

MARKET CAPITALISATION

**R32.7 billion**

2018: R25.7 billion

**+27%**

NORMALISED EARNINGS

**R1 772 million**

2018: R1 618 million

**+10%**

DIVIDENDS PAID

**40 cents per share**

2018: 35 cents per share

**+14%**

# Momentum Metropolitan

### WHY RMI INVESTS IN MOMENTUM METROPOLITAN

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

## HOW MOMENTUM METROPOLITAN PERFORMED DURING THE SIX MONTHS

- New business volumes decreased by 9% to R26.2 billion, due to lower new business volumes in Momentum Corporate;
- The value of new business decreased by 52% to R160 million, also as a result of Momentum Corporate;
- The South African retail operations delivered growth in new business volumes and value of new business of 13% and 24% respectively;
- The embedded value per share increased by 7% to R28.56, with an annualised return on embedded value per share of 10.6%;
- Momentum Metropolitan's normalised earnings increased by 10% to R1.8 billion;
- Diluted normalised earnings per share increased by 12%, benefitting from the impact of the share buy-back programme completed in November 2018;
- The interim dividend of 40 cents per ordinary share is at the upper limit of the dividend cover range; and
- Momentum Metropolitan maintained its Level 1 B-BBEE rating.

Momentum Corporate's new business volumes reduced by 51% to R4.8 billion due to the R5 billion single premium with-profit annuity transaction recorded in the prior period not recurring. The value of new business deteriorated from R198 million to -R12 million in the first half of the year, driven by the lower new business volumes and a change in new business mix towards lower margin products, both within FundsAtWork and the group risk portfolio. The lumpy nature of new business flows in this market causes volatility in the new business volumes and value of new business.

The acquisition of the Alexander Forbes Insurance business was concluded on 31 January 2020. The successful migration and integration of this business into Momentum Short-term Insurance will be a key focus area over the next two years. The desired end state is a single, fully integrated business operating under one insurance license.

RMI included **R479 million** of Momentum Metropolitan's earnings in its normalised earnings

(2018: R429 million).

For a detailed review of Momentum Metropolitan's performance, RMI's shareholders are referred to **www.momentummetropolitan.co.za.**

## WHY RMI INVESTS IN OUTSURANCE

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

## HOW OUTSURANCE PERFORMED DURING THE SIX MONTHS

- Group normalised earnings decreased by 12% to R1.2 billion, caused mainly by an increase in the claims ratio resulting from the Australian bushfires and two natural catastrophe events in South Africa;
- Annualised new business premiums written increased by 15% to R2.1 billion;
- Gross written premiums increased by 6% to R8.6 billion, of which the Australasian operations contributed 45%;
- The claims ratio increased to 53.4%;
- The cost-to-income ratio increased from 27.3% to 28.1%; and
- Despite the lower operating earnings generated by the group, the strong capital position of the operating entities supports the unchanged interim dividend of 24.7 cents per share.

Considering the large natural perils claims and the investment made to expand the tied-agency force, **OUTsurance's South African operations** delivered a satisfactory operating and financial performance for the six months under review, with headline earnings down by less than 1% to R862 million. Gross written premium increased by 8%, supported by improved growth from both the Personal and Business segments. The claims ratio increased from 49.5% to 51.9% as a result of increased exposure to natural catastrophe events in the six months under review. The cost-to-income ratio increased from 22.8% to 23.2%. The OUTsurance Personal cost-to-income ratio has levelled off following a period of material investment in new business growth. The continued investment in OUTsurance Business is the primary contributor to the higher cost-to-income ratio.

**Youi** continues to experience an incremental recovery in revenue growth with gross written premium growing by 6% in Australian Dollar and 4% in Rand terms. The improved growth is attributed to increased marketing spend and improved operational execution. Premium inflation adjustments on the motor book registered below general inflation whereas the home book experienced a recovery in inflation. Youi's claims ratio increased from 56.2% to 57.9%.

On 25 September 2019 OUTsurance agreed to transfer the New Zealand insurance portfolio business to Tower Insurance Limited, New Zealand's third largest general insurer for consideration of N$12.6 million. Following a regulatory approval by the Reserve Bank of New Zealand, the transfer was effected on 31 December 2019. The sale provides an opportunity for Youi to unlock value on favourable terms and, going forward, will allow the Youi group to focus on its Australian business where the greater scale and diversity of the market offers more growth opportunities for a challenger brand.

**OUTsurance Life** increased gross written premiums by 10%, with headline earnings decreasing by 4% to R78 million. Since June 2019, the embedded value increased by 4% to R1.2 billion. Growth in the underwritten life segment remained slow as the difficult economic conditions impacted new business volumes. The funeral segment, which was launched in June 2018, gained more traction through a traditional inbound advertising and a call centre distribution strategy.

RMI included **R1 058 million** of OUTsurance's earnings in its normalised earnings

(2018: R1 193 million).

For a detailed review of OUTsurance's performance, RMI's shareholders are referred to **www.outsurance.co.za.**

## VALUE CREATED

NET ASSET VALUE

R10 billion

2018: R10.8 billion

(7%)

NORMALISED EARNINGS

R1 169 million

2018: R1 329 million

(12%)

NORMAL DIVIDENDS PAID

24.7 cents per share

2018: 24.7 cents per share

Unchanged

# Financial review

## EFFECTIVE INTEREST

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

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

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

| | **As at 31 December 2019** | | As at 31 December 2018 | |
|---|---|---|---|---|
| R MILLION | **Effective** | **Actual** | Effective | Actual |
| Discovery | **25.1%** | **25.0%** | 25.1% | 25.0% |
| Hastings | **29.8%** | **29.8%** | 29.9% | 29.9% |
| Momentum Metropolitan | **27.7%** | **27.3%** | 27.6% | 27.3% |
| OUTsurance | **90.7%** | **89.1%** | 90.3% | 89.1% |
| RMI Investment Managers | **100.0%** | **100.0%** | 100.0% | 100.0% |
| Merchant Capital | **25.9%** | **25.9%** | 25.1% | 25.1% |
| Entersekt | **29.6%** | **29.6%** | 25.1% | 25.1% |
| Guidepost | **25.1%** | **25.1%** | – | – |

The group's interests in Prodigy Finance and Luno are treated as financial assets at fair value through profit or loss, as the sizes of these shareholdings do not enable the group to exercise significant influence, which is the criterion for classifying an investment as an investment in associate.

# Summary consolidated income statement

| R MILLION | Six months ended 31 December<br>2019 Unaudited | Restated 2018 Unaudited | % change | Restated Year ended 30 June 2019 Audited |
|---|---|---|---|---|
| Earned premiums net of reinsurance | **7 939** | 7 467 | 6 | 15 012 |
| Commission and other income | **26** | 15 | 73 | 35 |
| Investment income | **141** | 111 | 27 | 211 |
| Interest income on financial assets using the effective interest rate method | **241** | 313 | (23) | 587 |
| Net fair value (losses)/gains on financial assets | **(90)** | (49) | 84 | 33 |
| **Net income** | **8 257** | 7 857 | 5 | 15 878 |
| Net claims paid | **(4 011)** | (3 603) | 11 | (7 143) |
| Provision for cash bonuses | **(243)** | (227) | 7 | (451) |
| Fair value adjustment to investment contracts and insurance contract provisions | **12** | (24) | >100 | (122) |
| Fair value adjustment to financial liabilities | **(74)** | (104) | (29) | (169) |
| Acquisition, marketing and administration expenses | **(2 341)** | (2 111) | 11 | (4 415) |
| **Profit before finance costs, results of associates and taxation** | **1 600** | 1 788 | (11) | 3 578 |
| Finance costs | **(346)** | (379) | (9) | (729) |
| Share of after-taxation results of associates | **984** | 1 139 | (14) | 2 612 |
| **Profit before taxation** | **2 238** | 2 548 | (12) | 5 461 |
| Taxation | **(495)** | (547) | (10) | (1 096) |
| **Profit for the period from continuing operations** | **1 743** | 2 001 | (13) | 4 365 |
| Profit for the period from discontinued operation | **104** | 2 | >100 | 9 |
| **Profit for the period** | **1 847** | 2 003 | (8) | 4 374 |
| **Attributable to:** | | | | |
| Equity holders of the company | **1 679** | 1 851 | (9) | 4 047 |
| Non-controlling interests | **168** | 152 | 11 | 327 |
| **Profit for the period** | **1 847** | 2 003 | (8) | 4 374 |

# Summary consolidated statement of comprehensive income



| R MILLION | Six months ended 31 December 2019 Unaudited | Six months ended 31 December 2018 Unaudited | % change | Year ended 30 June 2019 Audited |
|---|---|---|---|---|
| **Profit for the period** | **1 847** | 2 003 | (8) | 4 374 |
| **Other comprehensive income for the period** | | | | |
| *Items that may subsequently be reclassified to profit or loss* | | | | |
| – Fair value (losses)/gains on other comprehensive income financial instruments | **(19)** | (5) | | 53 |
| – Deferred tax on fair value (losses)/gains on other comprehensive income financial instruments | **1** | 2 | | (12) |
| – Exchange differences on translation of foreign operations | **(16)** | 20 | | (78) |
| *Share of comprehensive income/(loss) of associates* | **126** | 5 | | (82) |
| – Items that may subsequently be reclassified to profit or loss, after taxation | **122** | 41 | | (59) |
| – Items that will not be reclassified to profit or loss, after taxation | **4** | (36) | | (23) |
| **Other comprehensive income/(loss) for the period** | **92** | 22 | >100 | (119) |
| **Total comprehensive income for the period** | **1 939** | 2 025 | (4) | 4 255 |
| **Attributable to:** | | | | |
| Equity holders of the company | **1 773** | 1 872 | (5) | 3 949 |
| Non-controlling interests | **166** | 153 | 8 | 306 |
| **Total comprehensive income for the period** | **1 939** | 2 025 | (4) | 4 255 |

# Computation of headline earnings

| R MILLION | Six months ended 31 December 2019 Unaudited | Six months ended 31 December 2018 Unaudited | % change | Year ended 30 June 2019 Audited |
|---|---|---|---|---|
| **Earnings attributable to equity holders** | **1 679** | 1 851 | (9) | 4 047 |
| Adjustment for: | | | | |
| – Profit on sale of business unit | **(111)** | – | | (2) |
| – Loss/(profit) on dilution and disposal of equity accounted investments | **57** | 26 | | (129) |
| – Release of foreign currency translation reserve | **12** | – | | – |
| – Impairment of owner-occupied building to below cost | **3** | 12 | | 14 |
| – Impairment of goodwill | **2** | – | | 4 |
| – Impairment relating to held for sale entities | **1** | 14 | | 24 |
| – Impairment of intangible assets | **–** | 9 | | 23 |
| – Loss on disposal of property and equipment | **–** | 1 | | 5 |
| – Gain on previously-held interests in DiscoveryCard business | **–** | – | | (191) |
| – Impairment of fixed assets | **–** | – | | 6 |
| **Headline earnings attributable to equity holders** | **1 643** | 1 913 | (14) | 3 801 |

# Computation of normalised earnings

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

| R MILLION | Six months ended 31 December 2019 | Six months ended 31 December 2018 | % change | Year ended 30 June 2019 |
|---|---|---|---|---|
| **Headline earnings attributable to equity holders** | **1 643** | 1 913 | (14) | 3 801 |
| RMI's share of normalised adjustments made by associates | **158** | 190 | | 286 |
| – Amortisation of intangible assets relating to business combinations | **147** | 172 | | 329 |
| – Transaction costs related to VitalityLife interest rate derivatives | **5** | – | | – |
| – Initial expenses related to Prudential Book transfer | **4** | 3 | | 6 |
| – Unrealised losses on foreign exchange contracts not designated as a hedge | **2** | 7 | | 24 |
| – Debt restructuring costs resulting from DiscoveryCard joint venture | **–** | 8 | | 8 |
| – Deferred tax raised on assessed losses | **–** | – | | (82) |
| – Policyholder funds assessed loss | **–** | – | | (9) |
| – B-BBEE cost | **–** | – | | 6 |
| – Costs relating to disposal of equity accounted investments | **–** | – | | 4 |
| Group treasury shares | **3** | (9) | | (6) |
| **Normalised earnings attributable to equity holders** | **1 804** | 2 094 | (14) | 4 081 |

# Computation of earnings per share

| R MILLION | Six months ended 31 December 2019 Unaudited | Six months ended 31 December 2018 Unaudited | % change | Year ended 30 June 2019 Audited |
|---|---|---|---|---|
| **Earnings attributable to equity holders – Continuing and discontinued operations** | **1 679** | 1 851 | (9) | 4 047 |
| **Earnings attributable to equity holders – Continuing operations** | **1 599** | 1 849 | (14) | 4 040 |
| **Headline earnings attributable to equity holders – Continuing and discontinued operations** | **1 643** | 1 913 | (14) | 3 801 |
| **Headline earnings attributable to equity holders – Continuing operations** | **1 642** | 1 911 | (14) | 3 794 |
| Number of shares in issue (millions) | **1 532** | 1 532 | – | 1 532 |
| Weighted average number of shares in issue (millions) | **1 529** | 1 524 | – | 1 526 |
| **Earnings per share – Continuing and discontinued operations** | | | | |
| Earnings per share (cents) | **109.8** | 121.5 | (10) | 265.1 |
| Diluted earnings per share (cents) | **109.2** | 120.9 | (10) | 264.0 |
| Headline earnings per share (cents) | **107.5** | 125.6 | (14) | 249.0 |
| Diluted headline earnings per share (cents) | **106.8** | 124.9 | (14) | 247.8 |
| **Earnings per share – Continuing operations** | | | | |
| Earnings per share (cents) | **104.6** | 121.4 | (14) | 264.6 |
| Diluted earnings per share (cents) | **104.0** | 120.8 | (14) | 263.5 |
| Headline earnings per share (cents) | **107.4** | 125.4 | (14) | 248.5 |
| Diluted headline earnings per share (cents) | **106.8** | 124.8 | (14) | 247.4 |

# Computation of normalised earnings per share

| R MILLION | Six months ended 31 December 2019 | Six months ended 31 December 2018 | % change | Year ended 30 June 2019 |
|---|---|---|---|---|
| **Normalised earnings attributable to equity holders – Continuing and discontinued operations** | **1 804** | 2 094 | (14) | 4 081 |
| **Normalised earnings attributable to equity holders – Continuing operations** | **1 803** | 2 092 | (14) | 4 074 |
| Number of shares in issue (millions) | **1 532** | 1 532 | – | 1 532 |
| Weighted average number of shares in issue (millions) | **1 532** | 1 526 | – | 1 529 |
| **Earnings per share – Continuing and discontinued operations** | | | | |
| Normalised earnings per share (cents) | **117.8** | 137.2 | (14) | 266.9 |
| Diluted normalised earnings per share (cents) | **117.0** | 136.5 | (14) | 265.5 |
| **Earnings per share – Continuing operations** | | | | |
| Normalised earnings per share (cents) | **117.7** | 137.1 | (14) | 266.4 |
| Diluted normalised earnings per share (cents) | **117.0** | 136.4 | (14) | 265.0 |

# Dividend per share

| R MILLION | Six months ended 31 December 2019 | 2018 | % change | Year ended 30 June 2019 |
|---|---|---|---|---|
| **Dividend per share** | | | | |
| Interim | **45.0** | 45.0 | – | 45.0 |
| Final | **–** | – | – | 65.0 |
| **Total dividend** | **45.0** | 45.0 | – | 110.0 |
| Dividend cover (relative to headline earnings) | **2.4** | 2.8 | | 2.3 |
| Dividend cover (relative to normalised earnings) | **2.6** | 3.0 | | 2.4 |

# Summary consolidated statement of financial position

| R MILLION | As at 31 December 2019 Unaudited | 2018 Unaudited | As at 30 June 2019 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| Property and equipment | **1 011** | 1 065 | 1 041 |
| Intangible assets | **77** | 91 | 101 |
| Right-of-use assets | **81** | – | – |
| Investments in associates | **29 148** | 27 385 | 28 337 |
| Financial assets | **11 344** | 10 747 | 11 459 |
| Insurance and other receivables | **2 701** | 2 686 | 2 771 |
| Deferred acquisition cost | **353** | 336 | 360 |
| Reinsurance contracts | **1 078** | 508 | 691 |
| Deferred taxation | **200** | 175 | 220 |
| Taxation | **212** | 191 | 120 |
| Cash and cash equivalents | **1 860** | 2 875 | 1 602 |
| **Total assets** | **48 065** | 46 059 | 46 702 |
| **EQUITY** | | | |
| Share capital and premium | **15 343** | 15 348 | 15 359 |
| Reserves | **9 876** | 7 870 | 9 180 |
| Total shareholders' equity | **25 219** | 23 218 | 24 539 |
| Non-controlling interests | **1 545** | 1 428 | 1 602 |
| **Total equity** | **26 764** | 24 646 | 26 141 |
| **LIABILITIES** | | | |
| Financial liabilities | **11 612** | 12 627 | 11 480 |
| Insurance contracts | **8 062** | 7 244 | 7 457 |
| Lease liabilities | **84** | – | – |
| Share-based payment liability | **100** | 105 | 103 |
| Payables and provisions | **1 384** | 1 321 | 1 428 |
| Deferred taxation | **55** | 39 | 69 |
| Taxation | **4** | 77 | 24 |
| **Total liabilities** | **21 301** | 21 413 | 20 561 |
| **Total equity and liabilities** | **48 065** | 46 059 | 46 702 |

# Summary consolidated statement of changes in equity

| AUDITED<br>R MILLION | Share capital | Equity accounted reserves | Transactions with non-controlling interests | Other reserves | Retained earnings | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 July 2018** | 14 986 | 5 881 | (3 345) | 397 | 4 453 | 1 332 | 23 704 |
| Change in accounting policy – *IFRS 9* | – | (32) | – | (114) | 70 | (5) | (81) |
| Change in accounting policy – *IFRS 15* | – | 2 | – | – | – | – | 2 |
| Income statement | – | – | – | – | 1 851 | 152 | 2 003 |
| Other comprehensive income | – | 5 | – | 19 | (3) | 1 | 22 |
| Dividends paid | – | – | – | – | (990) | (245) | (1 235) |
| Issue of shares | 345 | – | – | – | – | – | 345 |
| Income of associates retained | – | 759 | – | – | (759) | – | – |
| Movement in treasury shares | 17 | – | – | – | – | – | 17 |
| Transactions with non-controlling interests | – | (280) | (179) | – | (24) | (37) | (520) |
| Issue of share capital to non-controlling interests by subsidiaries | – | – | – | – | – | 212 | 212 |
| Share-based payment reserve | – | 2 | – | (4) | 162 | 18 | 178 |
| Reserve adjustment of associate entities | – | (1) | – | – | – | – | (1) |
| **Balance as at 31 December 2018** | **15 348** | **6 336** | **(3 524)** | **298** | **4 760** | **1 428** | **24 646** |
| **Balance as at 1 July 2019** | **15 359** | **7 107** | **(3 637)** | **275** | **5 435** | **1 602** | **26 141** |
| Change in accounting policy – *IFRS 16* | **–** | **(8)** | **–** | **–** | **–** | **–** | **(8)** |
| Income statement | **–** | **–** | **–** | **–** | **1 679** | **168** | **1 847** |
| Other comprehensive income | **–** | **125** | **–** | **(31)** | **–** | **(2)** | **92** |
| Dividends paid | **–** | **–** | **–** | **–** | **(996)** | **(202)** | **(1 198)** |
| Income of associates retained | **–** | **466** | **–** | **–** | **(466)** | **–** | **–** |
| Movement in treasury shares | **(16)** | **1** | **–** | **–** | **–** | **–** | **(15)** |
| Transactions with non-controlling interests | **–** | **(9)** | **(80)** | **–** | **(1)** | **(30)** | **(120)** |
| Issue of share capital to non-controlling interests by subsidiaries | **–** | **–** | **–** | **–** | **–** | **8** | **8** |
| Share-based payment reserve | **–** | **15** | **–** | **3** | **3** | **1** | **22** |
| Reserve adjustment of associate entities | **–** | **(5)** | **–** | **–** | **–** | **–** | **(5)** |
| **Balance as at 31 December 2019** | **15 343** | **7 692** | **(3 717)** | **247** | **5 654** | **1 545** | **26 764** |

# Summary consolidated statement of cash flows

| R MILLION | Six months ended 31 December 2019 Unaudited | Six months ended 31 December 2018 Unaudited | Year ended 30 June 2019 Audited |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | **1 467** | 1 373 | 3 174 |
| Interest income | **272** | 335 | 603 |
| Dividends received | **657** | 458 | 1 149 |
| Cash flows on assets backing policyholder liabilities | **(106)** | – | (233) |
| Purchase of financial assets | **(6 302)** | (4 657) | (7 867) |
| Proceeds on disposal of financial assets | **6 715** | 4 952 | 8 078 |
| Income tax paid | **(601)** | (831) | (1 380) |
| **Net cash generated from operating activities** | **2 102** | 1 630 | 3 524 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | **(35)** | (37) | (100) |
| Proceeds on disposal of property and equipment | **2** | – | 1 |
| Purchase of financial assets | **(400)** | (33) | (290) |
| Proceeds on disposal of financial assets | **140** | 154 | 187 |
| Investments in associates | **(115)** | (4) | (693) |
| Convertible loan to associate | **(12)** | – | – |
| Proceeds on disposal of insurance business | **119** | – | – |
| **Net cash (outflow)/inflow from investing activities** | **(301)** | 80 | (895) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | **–** | 304 | 304 |
| Proceeds from issue of preference share debt | **934** | – | – |
| Redemption of preference share debt | **–** | – | (1 130) |
| Borrowings repaid | **(951)** | (10) | (11) |
| Cost of funding | **(42)** | (47) | (89) |
| Dividends paid on preference shares in issue | **(296)** | (331) | (650) |
| Dividends paid by subsidiaries to non-controlling interests | **(202)** | (245) | (362) |
| Additional shares acquired in subsidiary | **–** | (190) | (201) |
| Cash dividends paid to shareholders | **(996)** | (949) | (1 638) |
| Proceeds on issue of shares to non-controlling interests | **8** | 212 | 278 |
| **Net cash outflow into financing activities** | **(1 545)** | (1 256) | (3 499) |
| Net increase/(decrease) in cash and cash equivalents for the period | **256** | 454 | (870) |
| Unrealised foreign currency translation adjustment of cash and cash equivalents | **2** | 4 | 55 |
| Cash and cash equivalents at the beginning of the period | **1 602** | 2 417 | 2 417 |
| **Cash and cash equivalents at the end of the period** | **1 860** | 2 875 | 1 602 |

# Segmental report

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

| UNAUDITED<br>R MILLION | Discovery | Hastings | Momentum Metropolitan | OUTsurance | Other[1] | RMI |
|---|---|---|---|---|---|---|
| **Six months ended 31 December 2019** | | | | | | |
| Net income | – | – | – | 8 186 | 71 | 8 257 |
| Policyholder benefits and transfer to policyholder liabilities | – | – | – | (4 242) | – | (4 242) |
| Depreciation | – | – | – | (77) | (1) | (78) |
| Amortisation | – | – | – | (48) | – | (48) |
| Other expenses | – | – | – | (2 118) | (97) | (2 215) |
| Finance costs | – | – | – | (2) | (344) | (346) |
| Fair value adjustment to financial liabilities | – | – | – | (74) | – | (74) |
| Share of after-tax results of associates | 510 | 79 | 418 | 34 | (57) | 984 |
| **Profit/(loss) before taxation** | 510 | 79 | 418 | 1 659 | (428) | 2 238 |
| Taxation | – | – | – | (487) | (8) | (495) |
| **Profit/(loss) for the period from continuing operations** | 510 | 79 | 418 | 1 172 | (436) | 1 743 |
| Profit from discontinued operation | – | – | – | 104 | – | 104 |
| **Profit/(loss) for the period** | 510 | 79 | 418 | 1 276 | (436) | 1 847 |
| Hastings included in OUTsurance (net of GBP funding costs) | – | 33 | – | (33) | – | – |
| **Profit/(loss) for the period** | 510 | 112 | 418 | 1 243 | (436) | 1 847 |
| **Normalised earnings** | 527 | 104 | 479 | 1 169 | (475) | 1 804 |
| Hastings included in OUTsurance (net of GBP funding costs) | – | 66 | – | (66) | – | – |
| **Normalised earnings** | 527 | 170 | 479 | 1 103 | (475) | 1 804 |
| Assets | – | – | – | 16 395 | 2 445 | 18 840 |
| Investments in associates | 12 048 | 5 856 | 6 675 | 3 618 | 951 | 29 148 |
| Intangible assets | – | – | – | 77 | – | 77 |
| | 12 048 | 5 856 | 6 675 | 20 090 | 3 396 | 48 065 |
| Hastings included in OUTsurance | – | 3 520 | – | (3 520) | – | – |
| **Total assets** | 12 048 | 9 376 | 6 675 | 16 570 | 3 396 | 48 065 |
| **Total liabilities** | – | – | – | 9 598 | 11 703 | 21 301 |

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

# Segmental report continued

| UNAUDITED R MILLION | Discovery | Hastings | Momentum Metropolitan | OUTsurance | Other[1] | RMI |
|---|---|---|---|---|---|---|
| **Six months ended 31 December 2018** | | | | | | |
| Net income | – | – | – | 7 728 | 129 | 7 857 |
| Policyholder benefits and transfer to policyholder liabilities | – | – | – | (3 854) | – | (3 854) |
| Depreciation | – | – | – | (69) | (1) | (70) |
| Amortisation | – | – | – | (43) | – | (43) |
| Other expenses | – | – | – | (1 927) | (71) | (1 998) |
| Finance costs | – | – | – | – | (379) | (379) |
| Fair value adjustment to financial liabilities | – | – | – | (104) | – | (104) |
| Share of after-tax results of associates | 574 | 164 | 298 | 114 | (11) | 1 139 |
| **Profit/(loss) before taxation** | 574 | 164 | 298 | 1 845 | (333) | 2 548 |
| Taxation | – | – | – | (532) | (15) | (547) |
| **Profit/(loss) for the period from continuing operations** | 574 | 164 | 298 | 1 313 | (348) | 2 001 |
| Profit from discontinued operation | – | – | – | 2 | – | 2 |
| **Profit/(loss) for the period** | 574 | 164 | 298 | 1 315 | (348) | 2 003 |
| Hastings included in OUTsurance (net of GBP funding costs) | – | 118 | – | (118) | – | – |
| **Profit/(loss) for the period** | 574 | 282 | 298 | 1 197 | (348) | 2 003 |
| **Normalised earnings** | 597 | 191 | 429 | 1 329 | (452) | 2 094 |
| Hastings included in OUTsurance | – | 157 | – | (157) | – | – |
| **Normalised earnings** | 597 | 348 | 429 | 1 172 | (452) | 2 094 |
| Assets | – | – | – | 15 616 | 2 967 | 18 583 |
| Investments in associates | 10 864 | 5 453 | 6 239 | 4 154 | 675 | 27 385 |
| Intangible assets | – | – | – | 91 | – | 91 |
| | 10 864 | 5 453 | 6 239 | 19 861 | 3 642 | 46 059 |
| Hastings included in OUTsurance | – | 4 052 | – | (4 052) | – | – |
| **Total assets** | 10 864 | 9 505 | 6 239 | 15 809 | 3 642 | 46 059 |
| **Total liabilities** | – | – | – | 8 693 | 12 720 | 21 413 |

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

# Geographical segments

| UNAUDITED<br>R MILLION | South Africa | Australia | United Kingdom | Discontinued operation | Total |
|---|---|---|---|---|---|
| **Six months ended 31 December 2019** | | | | | |
| Net income | **4 898** | **3 359** | **–** | **–** | **8 257** |
| Policyholder benefits and transfer to policyholder liabilities | **(2 324)** | **(1 918)** | **–** | **–** | **(4 242)** |
| Other expenses | **(1 633)** | **(1 088)** | **(40)** | **–** | **(2 761)** |
| Share of after-tax results of associates | **799** | **-** | **185** | **–** | **984** |
| **Profit before taxation** | **1 740** | **353** | **145** | **–** | **2 238** |
| Taxation | **(385)** | **(110)** | **-** | **–** | **(495)** |
| **Profit for the period from continuing operations** | **1 355** | **243** | **145** | **–** | **1 743** |
| Profit for the period from discontinued operation | **–** | **–** | **–** | **104** | **104** |
| **Profit for the period** | **1 355** | **243** | **145** | **104** | **1 847** |
| **Assets** | | | | | |
| Property and equipment | **273** | **738** | **–** | **–** | **1 011** |
| Investments in associates | **19 772** | **–** | **9 376** | **–** | **29 148** |
| Financial assets | **6 870** | **4 474** | **–** | **–** | **11 344** |
| Other assets | **2 915** | **3 647** | **–** | **–** | **6 562** |
| **Total assets** | **29 830** | **8 859** | **9 376** | **–** | **48 065** |
| **Liabilities** | | | | | |
| Insurance contract liabilities | **2 794** | **5 268** | **–** | **–** | **8 062** |
| Other liabilities | **10 161** | **1 221** | **1 857** | **–** | **13 239** |
| **Total liabilities** | **12 955** | **6 489** | **1 857** | **–** | **21 301** |
| **Six months ended 31 December 2018** | | | | | |
| Net income | 4 634 | 3 223 | – | – | 7 857 |
| Policyholder benefits and transfer to policyholder liabilities | (2 073) | (1 781) | – | – | (3 854) |
| Other expenses | (1 574) | (975) | (45) | – | (2 594) |
| Share of after-tax results of associates | 694 | – | 445 | – | 1 139 |
| **Profit before taxation** | 1 681 | 467 | 400 | – | 2 548 |
| Taxation | (403) | (144) | – | – | (547) |
| **Profit for the period from continuing operations** | 1 278 | 323 | 400 | – | 2 001 |
| Profit for the period from discontinued operation | – | – | – | 2 | 2 |
| **Profit for the period** | 1 278 | 323 | 400 | 2 | 2 003 |
| **Assets** | | | | | |
| Property and equipment | 363 | 699 | – | 3 | 1 065 |
| Investments in associates | 17 880 | – | 9 505 | – | 27 385 |
| Financial assets | 5 510 | 4 793 | – | 444 | 10 747 |
| Other assets | 3 362 | 3 297 | – | 203 | 6 862 |
| **Total assets** | 27 115 | 8 789 | 9 505 | 650 | 46 059 |
| **Liabilities** | | | | | |
| Insurance contract liabilities | 2 241 | 4 852 | – | 151 | 7 244 |
| Other liabilities | 10 185 | 1 165 | 2 749 | 70 | 14 169 |
| **Total liabilities** | 12 426 | 6 017 | 2 749 | 221 | 21 413 |

# 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.

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

| UNAUDITED<br>R MILLION | Level 1 | Level 2 | Level 3 | Total carrying amount |
|---|---|---|---|---|
| **As at 31 December 2019** | | | | |
| **Financial assets** | | | | |
| Equity securities | | | | |
| – Exchange traded funds | 912 | – | – | 912 |
| – Listed preference shares | 391 | – | – | 391 |
| – Collective investment schemes | – | 117 | – | 117 |
| – Listed equity securities | 175 | – | – | 175 |
| – Unlisted equity securities | – | – | 554 | 554 |
| Debt securities | | | | |
| – Unsecured loans | – | – | 40 | 40 |
| – Unlisted preference shares | – | – | 18 | 18 |
| – Zero-coupon deposits | – | 698 | – | 698 |
| – Government, municipal and public utility securities | – | 293 | – | 293 |
| – Money market securities | – | 2 591 | – | 2 591 |
| – Collective investment schemes | – | 11 | – | 11 |
| – Other debt securities | – | 9 | 394 | 403 |
| Derivative asset | – | 37 | – | 37 |
| **Total financial assets recognised at fair value** | **1 478** | **3 756** | **1 006** | **6 240** |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | – | – | 113 | 113 |
| Derivative liability | – | 118 | – | 118 |
| Investment contracts | – | 9 | – | 9 |
| **Total financial liabilities recognised at fair value** | **–** | **127** | **113** | **240** |

| UNAUDITED<br>R MILLION | Six months ended 31 December<br>2019 | 2018 |
|---|---|---|
| **Reconciliation of movement in Level 3 assets** | | |
| Balance at the beginning of the period | **696** | 798 |
| Additions in the current period | **403** | 3 |
| Disposal (sales and redemptions) | **(46)** | (51) |
| Fair value movement | **(22)** | – |
| Investment income accrued | **17** | 30 |
| Dividends received from the OUTsurance share trusts | **(42)** | (37) |
| **Balance at the end of the period** | **1 006** | 743 |
| **Reconciliation of movement in Level 3 liabilities** | | |
| Balance at the beginning of the period | **104** | 132 |
| Preference dividends charged to the income statement | **74** | 104 |
| Preference dividends paid | **(65)** | (93) |
| **Balance at the end of the period** | **113** | 143 |

| UNAUDITED<br>R MILLION | Level 1 | Level 2 | Level 3 | Total carrying amount |
|---|---|---|---|---|
| **As at 31 December 2018** | | | | |
| **Financial assets** | | | | |
| Equity securities | | | | |
| – Exchange traded funds | 689 | – | – | 689 |
| – Listed preference shares | 366 | – | – | 366 |
| – Collective investment schemes | – | 106 | – | 106 |
| – Listed equity securities | 172 | – | – | 172 |
| – Unlisted equity securities | – | – | 133 | 133 |
| Debt securities | | | | |
| – Unsecured loans | – | – | 35 | 35 |
| – Zero-coupon deposits | – | 451 | – | 451 |
| – Government, municipal and public utility securities | – | 410 | – | 410 |
| – Money market securities | – | 2 547 | – | 2 547 |
| – Collective investment schemes | – | 19 | – | 19 |
| – Other debt securities | – | 37 | 575 | 612 |
| – Collateral swaps | – | 11 | – | 11 |
| Derivative asset | – | 16 | – | 16 |
| **Total financial assets recognised at fair value** | 1 227 | 3 597 | 743 | 5 567 |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | – | – | 143 | 143 |
| Derivative liability | – | 48 | – | 48 |
| **Total financial liabilities recognised at fair value** | – | 48 | 143 | 191 |

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

## LEVEL 1

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

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

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

## LEVEL 2

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

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

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

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

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

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

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

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

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

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

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; and
- 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.

# Discontinued operation

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

The New Zealand insurance portfolio has consequently been presented as a discontinued operation in the 31 December 2019 financial statements.

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

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

## Summary income statement

| R MILLION | Six months ended 31 December 2019 | Six months ended 31 December 2018 | Year ended 30 June 2019 |
|---|---|---|---|
| Earned premiums net of reinsurance | **25** | 25 | 51 |
| Commission and other income | **33** | 37 | 72 |
| Interest income on financial assets using the effective interest rate method | **1** | 1 | 1 |
| **Net income** | **59** | 63 | 124 |
| Net claims paid | **(14)** | (12) | (28) |
| Marketing and administration expenses | **(44)** | (49) | (87) |
| **Result of operating activities** | **1** | 2 | 9 |
| Profit on sale of business unit | **103** | – | – |
| **Net profit for the period from discontinued operation** | **104** | 2 | 9 |

## Summary cash flows from discontinued operation

| R MILLION | Six months ended 31 December 2019 | Six months ended 31 December 2018 | Year ended 30 June 2019 |
|---|---|---|---|
| Cash inflow from operating activities | **2** | 149 | 168 |
| Cash inflow/(outflow) from investing activities | **77** | (151) | (167) |
| Effect of exchange rates on cash and cash equivalents | **–** | 2 | (1) |
| **Increase in cash and cash equivalents** | **79** | – | – |

## Carrying value of assets and liabilities as at the date of sale

| R MILLION | 31 December 2019 |
|---|---|
| **Assets** | |
| Reinsurance share of insurance contract provisions | 23 |
| Financial assets at amortised cost | 42 |
| Insurance and other receivables | 92 |
| **Total assets** | **157** |
| **Liabilities** | |
| Insurance contract liabilities | 145 |
| Insurance and other payables | 12 |
| **Total liabilities** | **157** |

# Application of *IFRS 16*

*IFRS 16: Leases*, which replaced *IAS 17: Leases* and related interpretations, was applied effective from 1 July 2019. The *IFRS 16* classification, measurement, presentation and disclosure requirements are applied using the modified retrospective approach. Therefore, the cumulative effect of adopting *IFRS 16* was recognised as an adjustment to the opening balances of the statement of financial position, with no restatement of comparatives.

Agreements where the counterparty retains control of the underlying asset are classified as leases. The group leases various offices, motor vehicles and office equipment. Until the 2019 financial year, leases of property and equipment were classified as operating leases under the principles of *IAS 17*. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset with a corresponding lease liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest (the incremental borrowing rate) on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

Assets and liabilities arising from leases are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

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

For leases which had previously been classified as operating leases under *IAS 17*, the lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 ranged from 8.24% to 9.38%. The group previously had no finance leases under *IAS 17*.

The incremental borrowing rate utilised by the group is a risk-free rate with a market risk premium or spread added to it.

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

| R MILLION | 2019 |
|---|---|
| Operating lease commitments disclosed as at 30 June 2019 | 86 |
| Less: Contracts reassessed as service agreements | (4) |
| Add: Contracts reassessed under *IFRS 16* | 17 |
| **Restated operating lease commitments as at 30 June 2019** | **99** |
| Discounted using the lessee's incremental borrowing rate on 1 July 2019 | 92 |
| Less: Short-term leases recognised on a straight-line basis as an expense | (2) |
| **Lease liability recognised as at 1 July 2019** | **90** |
| Current lease liabilities | 25 |
| Non-current lease liabilities | 65 |
| **Lease liability recognised as at 1 July 2019** | **90** |

# Administration

## RAND MERCHANT INVESTMENT HOLDINGS LIMITED (RMI)

Registration number: 2010/005770/06

JSE ordinary share code: RMI

ISIN code: ZAE000210688

## DIRECTORS

JJ Durand (chairman), HL Bosman (chief executive officer and financial director), JP Burger, P Cooper, (Ms) SEN de Bruyn, LL Dippenaar, PK Harris, (Ms) A Kekana, P Lagerström, (Ms) MM Mahlare, MM Morobe, RT Mupita, O Phetwe and JA Teeger

## ALTERNATES

DA Frankel, F Knoetze and UH Lucht

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

The following changes to RMI's subcommittees were effective from 15 November 2019:

- Mr P Lagerström took over from Ms SEN de Bruyn as chairperson of the audit and risk committee. Ms SEN de Bruyn remains a member of this committee.
- Mr JP Burger took over from Ms SEN de Bruyn as chairperson of the remuneration committee. Ms SEN de Bruyn remains a member of this committee.
- Mr P Cooper resigned as a member of the investment committee.

## SECRETARY AND REGISTERED OFFICE

JS Human

| | |
|---|---|
| Physical address: | 3rd Floor<br>2 Merchant Place<br>Corner of Fredman Drive and Rivonia Road, Sandton<br>2196 |
| Postal address: | PO Box 786273<br>Sandton, 2146 |
| Telephone: | +27 11 282 8166 |
| Telefax: | +27 11 282 4210 |
| Web address: | **www.rmih.co.za** |

## SPONSOR

(in terms of JSE Listings Requirements)

Rand Merchant Bank (a division of FirstRand Bank Limited)

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

## TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited

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


Bongi Jwambi

RMI

OPTIMISE
DIVERSIFY
MODERNISE

www.rmih.co.za