SUMMARISED AUDITED RESULTS ANNOUNCEMENT AND DIVIDEND DECLARATION

for the year ended 30 June 2018

RMI OPTIMISE DIVERSIFY MODERNISE

Contents

ABOUT THE ARTIST IN THIS ANNOUNCEMENT

As part of its commitment to South Africa, over the years, RMI has collected and commissioned distinctive and unique works of art that are displayed at its registered office in Sandton.

This year, we feature Nkuli Mlangeni, an award-winning designer and multi-disciplinary collaborator, known for her creations that combine cultures, tradition and modernity. Passionate about Southern Africa's under-told narratives and visual story-telling, she founded The Ninevites – a platform that connects like-minded creatives and explores textiles, photography, archival material and design. The Ninevites is famed for its arresting rugs which are rich in history and tradition, and created from Karakul and Mohair wool. Their Sankara rug won the Most Beautiful Object award at the Design Indaba in 2017.

Nkuli's recent work is informed by her research project into cultural craft traditions, which she undertook while studying social entrepreneurship and creative leadership at the KaosPilots School in Switzerland. Engaging with artisan weavers in South America and Southern Africa, as well as extensive desktop research, she develops contemporary designs that simultaneously serve to evolve and promote a rich craft heritage.

We love that her style combines a traditional craft with modern Ndebele designs, which speaks well to our portfolio of traditional values and our 40-year legacy.

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

BASIS OF PREPARATION

These summarised, audited financial results of Rand Merchant Investment Holdings Limited (RMI) for the year ended 30 June 2018 have been prepared in accordance with:

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

The accounting policies applied are consistent with those applied in the previous financial year, except for changes required by the mandatory adoption of new and revised IFRS. None of the new accounting standards becoming effective in the current financial year had a significant impact on the group's results.

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

The summarised annual consolidated financial statements for the year ended 30 June 2018, contained in this booklet, have been audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon.

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

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

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

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

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

The forward-looking information was not reviewed or reported on by the group's external auditor.

Enduring value created

for the year ended 30 June 2018

COMPOUND SHAREHOLDERS' RETURN since listing in 2011	NORMALISED EARNINGS (from continuing operations)	HEADLINE EARNINGS (from continuing operations)
23.2% per annum	R4 473 million (2017: R3 927 million) (+12% to 295.1 cents per share)	R4 081 million (2017: R3 480 million) (+15% to 269.7 cents per share)
	+14%	+17%

Tribute to GT Ferreira

GT Ferreira retired as chairman on 31 March 2018, shortly before turning 70. He has been the only chairman of both RMI (since its listing in 2011) and its predecessor, RMB Holdings Limited (RMH) (since its listing in 1992). The group is extremely grateful for the valuable contribution he has made.

THE NUMBERS SPEAK FOR THEMSELVES

During his tenure as chairman, RMH and RMI have collectively delivered a compound return of almost 27% per annum. If you invested R10 000 in 1992, it would be worth approximately R4.6 million at the time that GT retired. Had you invested R10 000 in the JSE ALSI Index in 1992, you would have earned a compound return of almost 15% per annum and your R10 000 would be worth R363 000.

GT AS FOUNDER AND NEGOTIATOR-IN-CHIEF

The group was born out of Rand Consolidated Investments Limited, which was formed by GT, Laurie Dippenaar and Paul Harris in July 1977. The initial success in undertaking project finance for public utilities was built on GT's knowledge and experience of public utilities such as municipalities and water boards and the strong relationships he had built.

In the evolution of the larger group, there were three major milestones, namely:

- The merger of Rand Consolidated Investments with Rand Bank in 1985;
- The acquisition of Momentum Life Insurance in 1992; and
- The formation of the FirstRand Group in 1998 with the merger of RMB, Momentum, Southern Life and FNB.

All these transactions, which have been vital and critical building blocks in the establishment of the group as it is today, involved very complex and intricate negotiations, which were handled by GT with diplomacy, charm and masterful tactical instinct.

GT THE CHAIRMAN

GT's fellow board members have benefitted from his unique qualities, which include his even-handedness, his total acceptance of criticism and dissent, his complete absence of dominance from the chair, always keeping meetings focused and on track, his ability to create a collegial and participative atmosphere, his diplomacy and his respect for the principles of good governance.

GT has always been a superb and wise sounding board. With his ability to think laterally, he has provided simple, key solutions to what often appeared to be insoluble problems. Management has always enjoyed his total support and encouragement and found this to be invaluable. His leadership has been exemplary.

We thank GT for his immense contribution to creating enduring value in the group and instilling strong values that will endure long after his departure. We wish him well in his retirement.

About RMI

Rand Merchant Investment Holdings Limited (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.

CREATING ENDURING VALUE

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

INVESTMENT PORTFOLIO

RMI's investments include:

- Discovery Limited (Discovery);
- Hastings Group Holdings plc (Hastings);
- MMI Holdings Limited (MMI);
- OUTsurance Holdings Limited (OUTsurance);
- RMI Investment Managers Group Proprietary Limited (RMI Investment Managers); and
- AlphaCode Proprietary Limited (AlphaCode), with its next-generation investments:
  - Entersekt Proprietary Limited (Entersekt);
  - Merchant Capital Advisory Services Proprietary Limited (Merchant Capital);
  - Prodigy Investments Limited (Prodigy); and
  - Luno Limited (Luno).

The portfolio strikes a balance between growth and return and will evolve further in line with RMI's strategy.

INVESTMENT POLICY

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

DIVIDEND POLICY

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

RMI's investments

RMI is a strategic, active manager of a R57 billion financial services portfolio:

RMI

RMI's effective interest in these group entities is different from the actual interest due to consolidation adjustments in respect of treasury shares. See page 21.

- 25.0% → Discovery
- 26.2% → MMI HOLDINGS
- 88.6% → OUTSURANCE
- 29.9% → Hastings
- 100% → RMI INVESTMENT MANAGERS
- 100% → ALPHA CODE

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 operates in South Africa, the UK, China, Singapore, Australia, Japan, Europe and the USA through various business lines.

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

HASTINGS

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 2.7 million live client policies and is a multi-award-winning business.

MMI

MMI is an insurance-based financial services group which is listed on the JSE Limited.

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

UNLISTED INVESTMENTS

OUTSURANCE

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

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

RMI INVESTMENT MANAGERS

RMI Investment Managers' affiliate model enables the company to access a differentiated part of the investment management industry by investing in and partnering with independent investment managers, as well as specialist investment teams. RMI Investment Managers has taken minority equity stakes in boutique investment managers which span the asset class spectrum across active, passive, traditional and alternative. While the team is currently 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 company builds its share of the South African investment management market.

ALPHACODE

AlphaCode identifies, partners and grows extraordinary next-generation financial services entrepreneurs.

Prior year investments:

- **Merchant Capital** is a provider of alternative sources of working capital for small and medium enterprises in South Africa; and
- **Entersekt** is 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.

During the year, two further investments were made:

- **Prodigy** is an international fintech platform that offers loans to postgraduate students attending top universities; and
- **Luno** makes it safe and easy to buy, store and learn about digital currencies like Bitcoin and Ethereum in South Africa.

It is actively seeking to fund new and disruptive, sustainable, scalable business models.

Performance and outlook

EXTERNAL ENVIRONMENT

South Africa's new president, Mr Cyril Ramaphosa, took office in February and promised to revive the economy, clamp down on corruption and attract $100 billion in new investments. The change in the political environment marked an initial positive turning point for business and consumer confidence. In addition, rating agencies have refrained from further downgrades since November 2017.

The South African economy is experiencing:

- A more stable political environment;
- Stable inflation and interest rates;
- Continued high unemployment rates; and
- A lack of growth.

Despite the improved political environment, policy uncertainties remain, such as the financial turnaround of state enterprises and the revival of the mining sector. In addition, potential land reform policy, allowing land expropriation without compensation, raises uncertainty about property rights, which could lead to a decline in investment into South Africa.

OVERVIEW OF RESULTS

Despite the low economic growth environment across most markets, the RMI group delivered a pleasing 14% increase in normalised earnings from continuing operations for the year ended 30 June 2018.

Discovery delivered a strong performance, with normalised earnings increasing by 16% to R5.4 billion. The established businesses delivered combined growth in operating profit of 14%, which is well above the target of CPI + 5%, with Discovery Vitality (132% growth), VitalityHealth (108% growth) and Discovery Invest (19% growth) being the main drivers of earnings growth. In addition, the emerging businesses exceeded their targeted earnings growth of CPI + 30%, with both Discovery Insure (excluding the newly launched commercial offering) and the Vitality Group turning a loss position in the prior year into profits. In total, 7% of earnings was invested in new initiatives, including Discovery Bank, the recently launched UK investment business, Vitality Invest, the commercial offering in Discovery Insure and the Umbrella Fund offering in Discovery Invest. The core new business annualised premium income (excluding the take-on of new closed medical schemes and gross revenue of the Vitality Group) increased by 10% to R16.1 billion. The Discovery group maintained a within-guidance cash buffer of R1.7 billion as at 30 June 2018 and the financial leverage ratio of 25.8% remained below the limit set at 28%.

RMI included normalised earnings of R778 million from **Hastings** for the year ended 30 June 2018. Hastings announced its interim results for the six months ended 30 June 2018 on 8 August 2018. Gross written premiums increased by 5% and normalised earnings by 22% in Pound Sterling terms for the six-month period. The claims ratio of 73.8% was better than the target range of 75% to 79%, despite the impact of adverse weather conditions experienced in the first quarter of the calendar year. Hastings recorded a sustained increase in clients, with live client policies increasing by 6% to 2.7 million and market share growing to 7.5% of the UK private car insurance market. The Solvency II coverage ratio strengthened to 171% (31 December 2017: 167%) and the reduction in the net debt leverage multiple continued to improve to 1.1 times adjusted operating profit (31 December 2017: 1.4 times). Hastings declared an interim dividend of 4.5 pence per share, an increase of 10% on the interim dividend in the prior year of 4.1 pence per share.

Although the continued challenging macroeconomic environment negatively impacted **MMI's** financial results for the year ended 30 June 2018, operational shortcomings also played a part in the disappointing set of results. MMI recorded a 12% decrease in normalised earnings to R2.8 billion, despite strong improvements in Momentum Corporate's group underwriting results, solid mortality and disability results across the group and improved results from the international operations. These positive factors were more than offset by increased investment in client engagement activities and specific technology investments to improve intermediary and client experience, the impact of a reinsurance loss, including an allowance for higher future reinsurance premiums on Momentum Retail risk products, lower profits from the Momentum Retail legacy life products and a weaker early duration lapse experience in Metropolitan Retail. MMI's share of losses from its new initiative investments in India and aYo increased by R90 million, in line with business plans. MMI's capital position remains strong, with a buffer of R2.4 billion on an internal basis and a capital adequacy requirement (CAR) cover ratio of 2.6 times as at 30 June 2018.

Normalised earnings from **OUTsurance**, including its shareholding in Hastings, increased by 22% to R3 billion, mainly due to favourable claims conditions throughout all major operations and higher associate earnings from its indirect interest in Hastings. Excluding Hastings, normalised earnings increased by 7% to R2.6 billion. The cost-to-income ratio improved from 25.8% to 25.6%, primarily attributable to cost-efficiency in Youi. OUTsurance achieved a normalised return on equity of 31.4% and a claims ratio of 49.8%. The claims ratio benefitted from lower motor claims and favourable weather conditions. Youi Australia will be paying its maiden dividend. The adoption of the new Solvency Assessment and Management (SAM) prudential regulations, effective from 1 July 2018, is beneficial to the South African regulated entities. Youi is unaffected as the Australian prudential regulations enjoy Solvency II equivalence.

RMI Investment Managers is in its third year of operations, with overall financial performance in line with expectations. Revenue improved across the affiliate portfolio, despite the challenging economic and political environment in South Africa. The affiliates continued to strengthen their investment and operational capabilities and are close to reaching operating leverage. Assets under management across the portfolio remained consistent over the past six months at R105 billion. This is a positive outcome in the face of South Africa being impacted by the global “risk-off” sentiment.

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

The **net funding and holding company costs** amounted to R684 million, compared to R389 million in the prior year due to the debt incurred to fund the acquisition of the group’s 29.9% stake in Hastings. The net funding and holding company costs were positively impacted by the return on higher cash balances compared to the prior year following the scrip dividend and cash proceeds on the sale of 49% of the group’s stake in Hastings to OUTsurance.

SOURCES OF NORMALISED EARNINGS

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

	For the year ended 30 June		
R MILLION	2018	2017	% change
Continuing operations			
Discovery	**5 401**	4 656	16
Hastings[1]	**2 758**	1 918	44
MMI	**2 809**	3 208	(12)
OUTsurance (excluding Hastings)	**2 639**	2 463	7
– OUTsurance (including Hastings)	**3 012**	2 476	22
– Hastings included in OUTsurance	**(373)**	(13)	>(100)
Other[2]	**(25)**	(5)	>(100)
Discontinued operation			
RMB Structured Insurance (excluding Truffle)	**–**	(38)	100

1. The comparative for Hastings presents its normalised earnings for the year ended 30 June 2017. Its normalised earnings for the period from 1 March 2017 (the acquisition date of RMI’s 29.9% equity stake) to 30 June 2017 were R828 million
2. Other includes RMI Investment Managers and AlphaCode investments.

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

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

R MILLION	For the year ended 30 June 2018	2017	% change
Continuing operations	**4 473**	3 927	14
Discovery	**1 356**	1 167	16
Hastings	**778**	246	>100
MMI	**715**	816	(12)
OUTsurance (excluding Hastings)	**2 333**	2 092	12
– OUTsurance (including Hastings)	**2 661**	2 103	27
– Hastings included in OUTsurance	**(328)**	(11)	>(100)
Other[1]	**(25)**	(5)	>(100)
Funding and holding company costs	**(684)**	(389)	(76)
Discontinued operation			
RMB Structured Insurance (excluding Truffle)	**–**	(30)	>100
Normalised earnings	**4 473**	3 897	15
Normalised earnings per share (cents) (continuing operations)	**295.1**	263.6	12
Normalised earnings per share (cents) (continuing and discontinued operations)	**295.1**	261.6	13

1. Other includes RMI Investment Managers and AlphaCode investments.

A reconciliation of the adjustments made to headline earnings to derive normalised earnings is presented on page 24.

MARKET VALUE OF INVESTMENTS

During the 2018 financial year, RMI's share price decreased by 4% (2017: decreased by 5%), compared to a 14% increase in the life insurance index and a 23% increase in the non-life insurance index. RMI has delivered a total annual compound return to shareholders of 23.2% since its listing in March 2011.

The individual investment performances during the 2018 financial year are outlined below:

- **Discovery's** share price increased by 15% (2017: increased by 4%);
- **Hastings'** share price decreased by 19% in Pound Sterling terms and by 14% in Rand terms; and
- **MMI's** share price decreased by 13% (2017: decreased by 11%).

On a "look-through" basis, based on share prices as at 30 June 2018, the value attributed to RMI's unlisted investments decreased by 9% (2017: decreased by 12%) to R27.2 billion (2017: R29.8 billion). These unlisted investments include OUTsurance (excluding OUTsurance's 49% stake in the group's holding in Hastings) (88.6% held), RMI Investment Managers (100% held) and the AlphaCode investments.

R MILLION	2018	2017	% change
Market value of listed investments[1]	**39 540**	38 690	2
Discovery	**23 887**	20 716	15
Hastings (RMI's effective holding)	**8 566**	9 857	(13)
– 29.9% holding	**9 072**	10 491	(14)
– Attributable to non-controlling interest of OUTsurance	**(506)**	(634)	20
MMI	**7 087**	8 117	(13)
Market value of unlisted investments	**27 195**	29 806	(9)
RMI Investment Managers and AlphaCode at cost	**834**	619	35
Implied market value of RMI's stake in OUTsurance (excluding Hastings)	**26 361**	29 187	(10)
Gross market value of portfolio	**66 735**	68 496	(3)
Net liabilities of holding company	**(9 709)**	(9 789)	1
RMI market capitalisation	**57 026**	58 707	(3)
RMI closing share price (cents)	**3 745**	3 899	(4)

1. The market value of these listed investments increased to R45 384 million on 7 September 2018.

FINAL DIVIDEND FOR THE 2018 FINANCIAL YEAR

As conveyed in our interim results announcement, MMI has reviewed its dividend policy to ensure that it remains consistent with its capital deployment plans and the need to maintain steady capital ratios under the SAM regime. MMI opted to buy back shares of up to R2 billion in 2018 in lieu of paying out dividends, given that its shares are valued at a discount to embedded value (EV). MMI has subsequently bought back 47 million shares, valued at R974 million, between March 2018 and June 2018. RMI has not sold any of its MMI shares, thereby increasing its holding in MMI from 25.5% to 26.2%.

MMI expects the current buyback programme to be finalised by December 2018. The decision to continue with the share buyback programme, rather than paying a cash dividend, will be reviewed during MMI's next interim results cycle and will depend on the price-to-EV rating, the capital position and shareholder requirements at the time.

OUTsurance increased its final dividend by 45% to 33 cents per share, mainly due to Youi paying its maiden dividend. RMI will also receive a further R236 million special dividend from OUTsurance, being surplus capital arising from the implementation of the SAM regime.

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

The RMI board resolved to declare a final dividend of 65.0 cents (2017: 65.0 cents) per ordinary share with an option to elect scrip in lieu of cash or to reinvest all or part of the cash dividend (net of any applicable taxes) in RMI ordinary shares. The total dividend for the year of 104.0 cents (2017: 118.0 cents) per ordinary share is covered 2.8 times (2017: 2.2 times) by the normalised earnings of 295.1 cents (2017: 261.6 cents) per share.

Since 2014, RMI has actively pursued a strategy to optimise, diversify and modernise its portfolio of financial services assets. Its ambition to diversify geographically, add to its existing portfolio of significant stakes in financial services companies and to facilitate ongoing growth initiatives in its existing portfolio companies, imply additional investment and use of financial leverage. The RMI board has decided that, in addition to the cash dividend, it would offer the scrip distribution alternative and a reinvestment option to prudently manage RMI's capital structure. The RMI board will continuously assess RMI's dividend policy through its investment phase and may, if appropriate, continue to utilise the scrip distribution alternative and the reinvestment option to support investment activity.

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

Events after the reporting period

The directors are not aware of any material adjusting or non-adjusting events relating to the 2018 financial year that have occurred between the date of the statement of financial position and the date of this report.

Update on RMI's strategy

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

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

Optimise	RMI focuses on continuously improving the value of its investee companies to create **better enduring value** for its shareholders.
Diversify	RMI is constantly evaluating opportunities to expand the services and reach of its existing investees companies or to add new investments, thereby creating **more enduring value**.
Modernise	RMI is well aware of renewal in its industries and will acquire proven businesses or invest in start-ups with special opportunities and drivers, which can create **new enduring value**.

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

Investments with the following attributes will be of interest:

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

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

Optimise

OPTIMISATION OF OUR ESTABLISHED INVESTMENTS

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

MAJOR MILESTONES

- Increased shareholding in OUTsurance and MMI;
- Exploration of new products and strategic projects to diversify revenue streams for OUTsurance; and
- Ongoing strategic dialogue with Discovery, MMI and Hastings.

Diversify

DIVERSIFICATION OF INCOME STREAM AND DISTRIBUTION OF ASSETS

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

MAJOR MILESTONES

- Supported Discovery in diversifying into banking and short-term insurance;
- Acquired the following affiliates in RMI Investment Managers in the year:
  - 30% in Ethos Private Equity
  - 30% in Balondolozi Investment Services; and
- Continuing to evaluate later-stage, capital-light business models with organic growth potential.

Modernise

MODERNISATION

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

MAJOR MILESTONES

- Ongoing substantial investment by Discovery, Hastings, MMI and OUTsurance in latest technology;
- AlphaCode has established itself as a centre of fintech excellence in South Africa and a source of innovation and next-generation thinking for the broader RMI portfolio;
- Acquired the following investments during the year:
  - 3.5% in Prodigy Finance
  - 7.5% in Luno; and
- Pipeline of potential future investment opportunities created.

Outlook and future value creation

EXISTING PORTFOLIO

Discovery has built a strong portfolio of businesses at different maturity levels, all meeting stringent actuarial, market competitiveness and client service metrics. The established businesses are of significant scale and continue to grow, with Discovery Health leading in open scheme market share, Discovery Life leading in new business market share, Discovery Invest in the top ten retail asset takers and VitalityHealth and VitalityLife in the top five market leaders. In addition, these businesses entered adjacent industries over the year, manifesting in the launch of Discovery for Business in South Africa and the introduction of the long-term savings business, VitalityInvest in the UK, further building the Vitality UK composite model.

The emerging businesses of Discovery Insure, Vitality Group and Ping An Health, while taking longer than expected to grow, all turned profitable over the year and demonstrated their potential. Discovery Insure is the fastest-growing short-term insurer in South Africa, Vitality Group is building a leading global behavioural insurance platform and Ping An Health is the leading private health insurer in China. All three businesses continued to scale and innovate while maintaining positive actuarial dynamics, offering substantial value to the Global Vitality Platform.

Due to the scale and growth rate of the established businesses, the growth model is proving to be less linear as time progresses. This is driving the need to invest in large strategic initiatives with significant growth potential, which is the rationale behind launching Discovery Bank and VitalityInvest. Excluding the effect of the Bank, Discovery expects continued growth without recourse to additional capital. The Bank will flatten earnings for the 2019 year, as post-launch, the amortisation of the build cost will emerge. Thereafter, organic growth is expected.

A fast-moving and increasingly digital landscape plays to **Hastings'** strengths. Its capabilities in agile pricing, analytics and anti-fraud combined with its disciplined underwriting and strong capital position means it is well-placed to continue to identify and grow in profitable parts of the market. These core attributes have transformed the business from a small disruptor in 2011 into a household name in the UK short-term insurance market, a market with over 50 million car and home policies.

Looking forward, Hastings will continue to invest in technology. It is continuing with the phased roll-out of the next-generation Guidewire platform, with home policies now live on selected price comparison websites and car renewals migration underway. Guidewire will enable continued delivery of operational efficiencies. Hastings also developed new digital capabilities over the last few months and launched a new Hastings mobile app. Hastings is continuously developing its pricing and anti-fraud platforms and announced its participation in a mobility and vehicle technology research programme, alongside a range of other partners from the automotive and mobility sectors.

MMI's vision is to be the preferred lifetime financial wellness partner with a reputation for innovation and trustworthiness. The group strategy, which focuses on client-centricity, growth and excellence, remains intact. However, the specific strategic objectives will be set in more practical and meaningful terms, with an increased focus on execution and delivery. To this end, MMI has made good progress during the year. The reset in priorities was done to enable improved performance and future growth. Key activities include encouraging a more entrepreneurial culture, increased focus on successfully growing core businesses in South Africa and exiting marginal operations outside South Africa. MMI has simplified its operating model and empowered its businesses with end-to-end accountability from sales to service. Centralised functions need to demonstrate clear efficiency or standardisation benefits. MMI will also be increasingly vigilant in not attempting too many new initiatives at any given time.

The maturity of the South African insurance markets and modest short-term macroeconomic growth prospects continue to put pressure on MMI's revenue growth expectations. MMI will therefore also focus on financial discipline, cost-efficiencies and streamlining infrastructure. Building the foundation for longer-term prosperity will depend on a strong distribution and service culture and relevant digital enablement.

OUTsurance's strategic focus includes:

- Growing its market share and product range in Australia. Over the last two years, Youi's new business growth has slowed, resulting in a stagnating market share. The successful delivery of various operational improvements and product innovation can steer the business back to growth. Youi's entry into the bodily injury market has been successful and continues to grow its commercial insurance capability, which is an exciting long-term growth proposition;
- Enhancing digital capabilities and infrastructure. OUTsurance has materially increased its investment in the group's technological capability and digital skills as it aims to more rapidly digitise its client experience across all products;
- Establishing a leading tied-agent distribution capability. The commercial insurance strategy is the primary growth initiative of the South African operation and will continue to receive significant focus in 2019 and beyond. The agency-force is also expected to make a significant contribution to the distribution of personal lines products;
- Grow the product footprint of OUTsurance Life. OUTsurance has recently entered the South African funeral insurance market, which is large, competitive and profitable. The team is also working to refocus the underwritten life operation to ensure its competitiveness and strength of its client proposition;

- Earnings diversification. The disruptive threat of autonomous vehicles, ride-sharing and continuous improvements in vehicle safety is material to the size of the vehicle insurance profit pool. Although this threat is of a long-term nature, it is important that the group's future dependency on motor insurance is reduced. OUTsurance will continue to consider various opportunities to expand within the financial services sector; and
- Regulatory environment. Regulatory changes within the financial services landscape remain a constant. OUTsurance remains well-positioned to adopt new regulations and to contribute positively to the design thereof.

OUTsurance remains confident that Youi's growth will recover in the near term and that it will deliver on the exciting growth initiatives of the South African operation. Expansion in the South African economy is expected to remain challenging, which, coupled with historically low premium inflation, will contain the growth prospects of the OUTsurance personal lines operation in the near term. The group will continue to maintain strict adherence to its underwriting discipline and invest in its operational capability to drive world-class client service.

RMI Investment Managers face a challenging South African market. However, the appetite to allocate assets to boutique managers remains in place, with a positive upward trend over the past two quarters. Many affiliates have been able to raise long-only mandates, with hedge funds remaining under pressure.

Affiliates across the portfolio remained focused on delivering good investment performance for their clients while continuing to strengthen their businesses with a well-diversified client base and adding to their investment and operational capabilities. RMI Investment Managers has implemented a new shareholder value map which will enhance the team's focus on six functional areas including strategic support, asset raising, thought leadership, marketing, industry 4.0 and operations, risk and finance. These aim to add targeted value to affiliates in an innovative, focused and transparent manner.

The RMI Investment Managers team is currently concentrating on the growth phase of the business, which includes the implementation of strategic growth initiatives at each affiliate. The portfolio is largely complete but the team will remain opportunistic and add potential affiliates to either solve additional or underexposure in certain asset classes or to further add value to the portfolio. RMI Investment Managers will ensure that its reputation as a trusted, value-adding but non-interfering shareholder of choice for the independent asset management industry remains a core philosophy.

The team and its partners in MMI and RBH are excited and committed to work with all its affiliates and support their growth paths over time to create a more diversified and transformed business. Alida de Swardt has settled in well as the new CEO and the shareholders remain committed over the long-term to see the success of the affiliate business model.

NEW INVESTMENTS

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

TRADITIONAL FINANCIAL SERVICES

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

NEXT-GENERATION FINANCIAL SERVICES

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

During the year under review, AlphaCode participated in a large capital raise in **Prodigy Finance**, an international fintech platform that offers loans to postgraduate students accepted into business, engineering and law at the world's top universities, alongside one of Europe's leading venture capital fintech investors, Balderton Capital. In August 2017, RMI invested in **Luno**, a crypto-currency platform that enables clients to buy, sell and store Bitcoin and Ethereum. Luno is a global platform with operations in South Africa, Nigeria, Malaysia, Singapore and 35 countries across Europe. AlphaCode has a strong pipeline of investment opportunities and will continue to invest in this space.

AlphaCode remains committed to building the broader entrepreneurial sector in South Africa by supporting high-impact next-generation financial services entrepreneurs, with a strong emphasis on transforming financial services and partnering with young, black entrepreneurs. As part of this commitment, AlphaCode has launched three new programmes to identify, partner and grow entrepreneurs at all stages of their journey. AlphaCode Explore is a 12-month learnership programme which will develop and upskill 20 data scientists and enable them to build and proto-type fintech businesses. AlphaCode Incubate seeks to identify and reward early-stage, high-potential black-owned financial services businesses. Each year, eight businesses will be selected to complete a customised 12-month programme and benefit from an entrepreneurial package worth R2 million each. Lastly, AlphaCode Accelerate is a 24-month scale-up programme that provides mentorship, expert guidance and support services to financial services businesses in the growth phase, on the path to scale and job creation.

After year-end, Andile Maseko was appointed as the new AlphaCode eco-system manager.

There are several factors that could strain RMI's earnings growth in the 2019 financial year:

- The group had an exceptionally low claims experience in the 2018 financial year, especially in the South African and Australasian operations of OUTsurance. This also contributes to lower premium inflation;
- Cyclical movements, regulatory reform and the impact of Brexit on the environment in which Hastings operates;
- MMI being in the process of repositioning its business, with a focus on getting the fundamentals in place for longer-term growth; and
- Investments into new initiatives like Discovery Bank are expected to result in significant additional expenses for Discovery in the following financial year.

Over the longer term, RMI remains confident that its clear strategy, in conjunction with its solid investment portfolio that is underpinned by unwavering values, will allow it to continue delivering on its primary objective of creating enduring value for shareholders.

Jannie Durand
Chairman

Herman Bosman
Chief executive

Sandton
11 September 2018

Dividend declaration

Cash dividend or, as an alternative, an election to either:
(i) Receive a scrip distribution; or
(ii) Reinvest the cash dividend.

1. INTRODUCTION

The board of directors (RMI board) of Rand Merchant Investment Holdings Limited (RMI) has declared a final cash dividend of 65 cents per RMI ordinary share for the year ended 30 June 2018 (cash dividend). The RMI board has resolved to make a maximum of 26 046 512 fully paid RMI ordinary shares of R0.0001 cents each (RMI shares) available to RMI shareholders as (a) capitalisation shares (having an aggregate notional issue price of up to R989 767 483.90) (capitalisation shares) and/or (b) reinvestment shares (having an aggregate notional issue price of the cash dividend reinvested (net of any applicable taxes)) (reinvestment shares).

The RMI board has resolved to:

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

as may be elected by RMI shareholders in respect of all or a part of their shareholding recorded in RMI's securities register at 12:00 on the record date, being Friday, 19 October 2018 (record date).

2. RATIONALE

Since 2014, RMI has actively pursued a strategy to optimise, diversify and modernise its portfolio of financial services assets. RMI's ambitions to diversify geographically, add to its existing portfolio of significant stakes in financial services companies and to facilitate ongoing growth initiatives in its existing portfolio companies imply additional investment and use of financial leverage. The RMI board has decided that, in addition to the cash dividend, it would offer the scrip distribution alternative and the reinvestment option to prudently manage RMI's capital structure. The RMI board will continuously assess RMI's dividend policy through its investment phase and may, if appropriate, continue to utilise the scrip distribution alternative and the reinvestment option to support investment activity.

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

3. TERMS OF THE SCRIP DISTRIBUTION ALTERNATIVE AND REINVESTMENT OPTION

Each of the scrip distribution alternative and reinvestment option applies to the final gross cash dividend of 65 cents per RMI share for the year ended 30 June 2018 declared on Tuesday, 11 September 2018. This will result in the payment of a net cash dividend of 52 cents per RMI share to RMI shareholders liable for the full local 20% dividends tax and 65 cents per RMI share to RMI shareholders exempt from dividends tax. Non-resident RMI shareholders may qualify for a reduced rate of dividends tax, depending on whether or not there is an applicable agreement for the avoidance of double taxation between South Africa and the country in which a non-resident RMI shareholder is resident for tax purposes.

The issue price for the capitalisation and reinvestment shares is R38.00 per RMI share, being a 4.3% discount to the closing share price of RMI shares on the JSE as at 7 September 2018. The number of capitalisation shares which RMI shareholders may elect to receive under the scrip distribution alternative has been determined in the ratio of 1.71053 fully paid RMI shares for every 100 RMI shares held on the record date.

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

The ratio of the scrip distribution alternative and reinvestment option has been determined with reference to such RMI shareholder's ordinary shareholding in RMI (at 12:00 on the record date) in relation to the ratio that 65 cents or the cash dividend (net of any applicable taxes), in the scrip distribution alternative or reinvestment option, respectively, bears to the issue price being R38.00 per share, which is a 4.3% discount to the closing price on Friday, 7 September 2018 for RMI shareholders electing such option.

A circular setting out the terms of the cash dividend, scrip distribution alternative and the reinvestment option, including a form of election, will be posted to RMI shareholders by Friday, 5 October 2018.

The election to receive either the scrip distribution alternative or the reinvestment option is optional. RMI shareholders may elect to participate in either (i) the scrip distribution alternative; or (ii) the reinvestment option, in respect of all or part of their shareholding on the record date. RMI shareholders not electing to participate in the scrip distribution alternative or the reinvestment option in respect of all or part of their shareholding will be deemed, by default, to have elected to receive the cash dividend. RMI shareholders recorded in the securities register of RMI at 12:00 on the record date, who have not elected to receive the capitalisation shares or the reinvestment shares, will be paid the cash dividend in respect of their entire shareholding on the record date.

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

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

The weighted average traded price for RMI shares on Wednesday, 17 October 2018 less 10% of such weighted average traded price shall be used as the cash value for fractional entitlements to be paid to RMI shareholders in accordance with the JSE Listings Requirements. RMI will release an announcement on Thursday, 18 October 2018 in respect of the cash value determined on this basis.

4. CIRCULAR AND SALIENT DATES

A circular providing RMI shareholders with the full information on the cash dividend, the scrip distribution alternative and the reinvestment option, including a form of election to participate in either (i) the scrip distribution alternative or (ii) the reinvestment option, will be distributed to RMI shareholders by Friday, 5 October 2018.

The salient dates of events thereafter are as follows:

Event	2018
Circular and form of election posted to RMI shareholders	**No later than Friday, 5 October**
Last day to trade in order to be eligible to participate in the cash dividend/scrip distribution alternative/reinvestment option (cum cash dividend/scrip distribution alternative/reinvestment option)	**Tuesday, 16 October**
RMI shares trade ex the entitlement to the cash dividend/scrip distribution alternative/reinvestment option	**Wednesday, 17 October**
Listing of maximum possible number of new RMI shares that could be issued in terms of the scrip distribution alternative and reinvestment option	**Wednesday, 17 October**
Cash value in respect of the RMI shares for determination of fractional entitlements to RMI shares, based on the volume weighted average price on Wednesday, 17 October 2018, discounted by 10%, released on SENS by 11:00 on	**Thursday, 18 October**
Last day to elect (i) the scrip distribution alternative in lieu of the cash dividend; or (ii) to reinvest the cash dividend in terms of the reinvestment option. Forms of election to reach the Transfer Secretaries by 12:00 on	**Friday, 19 October**
Record date in respect of the cash dividend/scrip distribution alternative/reinvestment option	**Friday, 19 October**
Share certificates in respect of the scrip distribution alternative, posted and/or electronic funds transfers and CSDP/broker accounts credited/updated	**Monday, 22 October**
Announcement regarding the results of the cash dividend/scrip distribution alternative/reinvestment option released on SENS	**Monday, 22 October**
Announcement regarding the results of the cash dividend/scrip distribution alternative/reinvestment option published in the press	**Tuesday, 23 October**
Share certificates in respect of the reinvestment option posted and CSDP/broker accounts credited/updated	**Wednesday, 24 October**
Maximum number of new RMI shares listed adjusted to reflect the actual number of new RMI shares issued in respect of the scrip distribution alternative and the reinvestment option on or about	**Friday, 26 October**

Notes:
1 All times provided are South African standard time quoted on a 24-hour basis, unless specified otherwise. The above dates and times are subject to change. If applicable, any changes will be released on SENS.
2 Share certificates may not be dematerialised or rematerialised between Wednesday, 17 October 2018 and Friday, 19 October 2018, both days inclusive.

RMI's tax reference number is 9469/826/16/9. Its issued share capital at the declaration date comprises 1 522 719 206 ordinary shares.

By order of the RMI board.

Schalk Human
Company secretary

Sandton
11 September 2018

Portfolio review

Discovery

ENDURING VALUE

MARKET CAPITALISATION

R95.4 billion

2017: R82.7 billion

+15%

NORMALISED EARNINGS

R5 401 million

2017: R4 656 million

+16%

DIVIDENDS PAID

215 cents per share

2017: 186 cents per share

+16%

2018 PERFORMANCE

- Gross inflows under management increased by 9% to R125.6 billion;
- Net insurance premium revenue was R32.3 billion, an increase of 9%;
- Total new business annualised premium income (excluding new closed schemes and gross revenue from the Vitality Group) increased by 10% to R16.1 billion;
- Normalised profit from operations is up 17% to R8.3 billion;
- Normalised headline earnings is up 16% to R5.4 billion;
- Embedded value increased by 15% to R65.6 billion; and
- The total dividend for the year increased by 16% to 215 cents per share.

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

Discovery Bank's license was approved subject to the condition that FirstRand Bank's shareholding be reduced over five years. In response to this, Discovery and FirstRand have reached an agreement, subject to regulatory approvals, that Discovery will acquire:

- The remaining 25.01% of the economic interest in the Discovery Card joint venture;
- The rights to the Discovery Card book and related assets, which will be transferred to Discovery Bank; and
- The remaining 25.01% ultimate shareholding that FirstRand would have retained in Discovery Bank.

The purchase consideration payable in relation to this acquisition is R1.8 billion.

Discovery's credit card base is less sensitive to negative market conditions due to a substantially better risk profile. Both its percentage of non-performing loans and cost-to-income ratio are significantly below the average of other South African banks. This bodes well for the Bank.

RMI included R1 356 million of Discovery's earnings in its normalised earnings (2017: R1 167 million).

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

Hastings

ENDURING VALUE

MARKET CAPITALISATION

£1 674 million

2017: £2 063 million

(19%)

NORMALISED EARNINGS

£81.9 million

Six months ended 30 June 2017: £66.9 million

+22%

DIVIDENDS PAID

4.5 pence per share

Six months ended 30 June 2017: 4.1 pence per share

+10%

2018 PERFORMANCE

Hastings posted strong results and continued profitable growth in a competitive market, demonstrating its agility, digital focus and underwriting discipline:

- Continued growth, with gross written premiums up 5% to £485.6 million (2017: £462.0 million) and net revenue up 9% to £376.3 million (30 June 2017: £345.2 million);
- Sustained increases in clients, with live client policies up by 6% to 2.7 million (2017: 2.54 million);
- Growing market share to 7.5% of UK private car insurance (2017: 7.0%);
- Loss ratio of 73.8% is below the target range of between 75% and 79% (30 June 2017: 73.4%);
- Consistent growth in profitability, with normalised earnings increasing by 22% to £81.9 million (30 June 2017: £66.9 million);
- Ongoing cash generated from operating activities of £80.2 million (30 June 2017: £121.9 million) and net debt leverage multiple reduced to 1.1 times adjusted operating profit (31 December 2017: 1.4 times);
- Diversification of debt structure, with a successful seven-year £250 million investment grade senior bond issue, replacing funds drawn under the revolving credit facility and providing longer-term financing and protection from interest rate increases;
- Strong solvency position, with a Solvency II coverage ratio of 171% (31 December 2017: 167%);
- Interim dividend for 2018 of 4.5 pence per share (2017: 4.1 pence per share);
- Introduction of a new mobile app and enhanced functionality on its client portal, enabling 80% of policy changes to be made online as of May 2018. Digital client contacts now exceed telephone contacts; and
- Additional digital capability for total loss claims processing rolled out as the client journey continues to be simplified. Electronic claims notification is currently in testing.

RMI included R778 million of Hastings' earnings in its normalised earnings (2017: R246 million).

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

MMI HOLDINGS

ENDURING VALUE

MARKET CAPITALISATION

R27.0 billion

2017: R31.9 billion

(15%)

NORMALISED EARNINGS

R2 809 million

2017: R3 208 million

(12%)

DIVIDENDS PAID

0 cents per share

2017: 157 cents per share

(100%)

2018 PERFORMANCE

MMI returned disappointing results due to the continued challenging macroeconomic environment and operational shortcomings, which are being addressed:

- New business volumes are up 1% to R42.2 billion on a present value of new business premiums basis;
- The value of new business decreased by 45% to R301 million. New business margins declined from 1.3% to 0.7%, due to additional expenses relating to initiatives aimed at improving client and intermediary experience during the new business process;
- Diluted core headline earnings of R2 809 million were down 12%;
- Diluted headline earnings were R1 341 million lower than diluted core headline earnings, with R685 million arising from changes to actuarial assumptions and R77 million from the decision to reduce the footprint in Africa and the UK;
- At 30 June 2018, 47 million shares have been bought back for R974 million, thereby acquiring R1.2 billion in embedded value; and
- Group embedded value declined by 7% to R39.6 billion (2017: R42.5 billion) or R25.43 per share (2017: R26.51 per share). MMI's capital position remains strong on the current statutory basis, with a buffer of R2.4 billion (2017: R3.7 billion). The CAR cover ratio was 2.6x (2017: 2.7x). On a SAM basis, MMI is also well-capitalised after considering all capital deployment initiatives and planned capital distributions.

RMI included R715 million of MMI's earnings in its normalised earnings (2017: R816 million).

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

ENDURING VALUE

NET ASSET VALUE

R11.1 billion

2017: R9.8 billion

+13%

NORMALISED EARNINGS

R3 012 million

2017: R2 476 million

+22%

DIVIDENDS PAID

53.5 cents per share

2017: 40.2 cents per share

+33%

2018 PERFORMANCE

OUTsurance delivered 22% growth in normalised earnings to R3 012 million, driven by favourable claims conditions throughout all major operations and higher associate earnings from its indirect interest in Hastings:

- Net earned premiums grew by 1% to R14.2 billion, of which the Australasian operations contributed 43%;
- The claims ratio decreased from 51.3% to 49.8%;
- The cost-to-income ratio decreased from 25.8% to 25.6%; and
- The total dividend for the year increased by 33% to 53.5 cents per share. In addition to this, OUTsurance will pay a special dividend of 7 cents per share.

OUTsurance's South African short-term operations increased normalised earnings by 7% to R1 909 million. The motor book recorded historically low premium inflation, impacted by reduced claims frequencies. The 5% higher gross written premium revenue was largely due to volume growth, as all business units delivered good policy growth. Business OUTsurance continues to benefit from the incremental expansion of its tied-agent capability and achieved 10% growth. The claims ratio benefitted from lower motor claims and favourable weather conditions to decrease from 49.2% to 46.9%. The cost-to-income ratio increased from 19.1% to 21.1% as a result of low premium inflation, increased IT spend and the impact of the expansion of the Business OUTsurance tied-agency force.

Youi grew normalised earnings by 39% to R803 million, driven by a favourable claims environment and cost efficiency. New business volume growth remained contained in both the Australian and New Zealand operations. Premium inflation was at a record low as premium adjustments reflected low claims cost inflation, rating optimisations and the favourable weather environment. The cost-to-income ratio reduced from 30.4% to 30.2% and the claims ratio reduced from 55.5% to 53.2%, benefitting from lower natural perils claims. Youi New Zealand generated an operating profit of R7 million on the back of reduced costs.

OUTsurance Life grew gross written premium income by 7% to R469 million amid challenging macroeconomic conditions. Normalised earnings was 53% lower at R53 million, impacted by yield volatility and higher than expected lapses.

OUTsurance Namibia increased normalised earnings by 5% to R41 million on the back of a claims ratio improvement from 53.8% to 49.7%.

Normalised earnings from **associates** increased from R32 million to R385 million, of which R333 million is attributable to the 14.7% effective stake in Hastings. The group acquired a 30% interest in AutoGuru Australia, a new Australian online car service booking platform, in February 2018.

The new SAM prudential regulations became effective on 1 July 2018. Overall, OUTsurance achieved a ratio of 2.4 (2017: 2.5) against a target of 1.2, with all operations exceeding their targets.

RMI included R2 661 million of OUTsurance's earnings in its normalised earnings (2017: R2 103 million).

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

Financial review

EFFECTIVE INTEREST

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

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

As at 30 June 2018, the effective interest held by RMI can be compared to the actual interest in the statutory issued share capital of the companies as follows:

	30 June 2018		30 June 2017	
AUDITED	**Effective**	**Actual**	Effective	Actual
Discovery	**25.1%**	**25.0%**	25.1%	25.0%
Hastings	**29.9%**	**29.9%**	29.9%	29.9%
MMI	**26.5%**	**26.2%**	25.7%	25.5%
OUTsurance	**89.7%**	**88.6%**	88.5%	87.7%
RMI Investment Managers	**100.0%**	**100.0%**	100.0%	100.0%
Merchant Capital	**25.1%**	**25.1%**	25.1%	25.1%
Entersekt	**25.1%**	**25.1%**	25.1%	25.1%

Summarised consolidated income statement

for the year ended 30 June

R MILLION	2018 Audited	2017 Audited	% change
Continuing operations			
Earned premiums net of reinsurance	**14 173**	14 064	1
Commission and other income	**124**	135	(8)
Investment income	**760**	688	10
Profit on sale of subsidiary and other realised gains	**3**	1	>100
Net fair value losses on financial assets	**(66)**	(43)	53
Income	**14 994**	14 845	1
Net claims paid	**(6 535)**	(6 783)	(4)
Fair value adjustment to investment contracts and insurance contract provisions	**(521)**	(427)	22
Fair value adjustment to financial liabilities	**(193)**	(199)	(3)
Acquisition, marketing and administration expenses	**(3 905)**	(3 886)	–
Profit before finance costs, share of after-tax results of associates and taxation	**3 840**	3 550	8
Net finance costs	**(765)**	(414)	85
Share of after-tax results of associates	**2 328**	1 702	37
Profit before taxation	**5 403**	4 838	12
Taxation	**(1 136)**	(1 084)	5
Profit for the year from continuing operations	**4 267**	3 754	14
Discontinued operation			
Loss for the year from discontinued operation	**–**	(49)	100
Profit for the year	**4 267**	3 705	15
Attributable to:			
Equity holders of RMI	**3 897**	3 327	17
Non-controlling interests	**370**	378	(2)
Profit for the year	**4 267**	3 705	15

Summarised consolidated statement of comprehensive income

for the year ended 30 June

R MILLION	2018 Audited	2017 Audited	% change
Profit for the year	**4 267**	3 705	15
Other comprehensive income for the year			
Items that may subsequently be reclassified to income			
Exchange differences on translation of foreign operations	**44**	(248)	>100
Fair value gains and losses on available-for-sale financial assets	**93**	(9)	>100
Deferred taxation relating to available-for-sale financial assets	**(21)**	2	>(100)
Share of other comprehensive income of associates	**314**	(417)	>100
Items that may subsequently be reclassified to income, after taxation	**277**	(448)	>100
Items that will not be reclassified to income, after taxation	**37**	31	19
Other comprehensive income for the year	**430**	(672)	>100
Total comprehensive income for the year	**4 697**	3 033	55
Total comprehensive income attributable to:			
Equity holders of RMI	**4 310**	2 707	59
Non-controlling interests	**387**	326	18
Total comprehensive income for the year	**4 697**	3 033	55

Computation of headline earnings

for the year ended 30 June

R MILLION	2018 Audited	2017 Audited	% change
Earnings attributable to equity holders	**3 897**	3 327	17
Adjustment for:			
Intangible asset impairments	**86**	91	
Loss on dilution of shareholding	**80**	28	
Loss/(profit) on sale of subsidiary	**5**	(20)	
Impairment of available-for-sale financial assets	**17**	9	
Impairment of owner-occupied building to below cost	**–**	7	
Realised profit on sale of available-for-sale financial assets	**(5)**	(2)	
Loss on disposal of property and equipment	**5**	1	
Release of foreign currency translation reserve	**(4)**	–	
Headline earnings attributable to equity holders	**4 081**	3 441	19

Computation of normalised earnings

for the year ended 30 June

R MILLION	2018 Audited	2017 Audited	% change
Headline earnings attributable to equity holders	**4 081**	3 441	19
RMI's share of normalised adjustments made by associates:	**416**	456	
Amortisation of intangible assets relating to business combinations	**332**	238	
Basis and other changes and investment variances	**167**	117	
Non-recurring and restructuring expenses	**38**	63	
Deferred tax timing difference related to new adjusted IFRS tax basis	**(30)**	–	
Unrealised gains on foreign exchange contracts not designated as a hedge	**(19)**	–	
Rebranding and business acquisition expenses	**–**	25	
Net realised and fair value losses on shareholders' assets	**10**	13	
Deferred tax on assessed losses	**(88)**	–	
BBBEE cost	**6**	–	
Group treasury shares	**(24)**	–	
Normalised earnings attributable to equity holders	**4 473**	3 897	15

Computation of earnings and dividend per share

for the year ended 30 June

R MILLION	2018 Audited	2017 Audited	% change
Earnings attributable to equity holders	**3 897**	3 327	17
Headline earnings attributable to equity holders	**4 081**	3 441	19
Normalised earnings attributable to equity holders	**4 473**	3 897	15
Number of shares in issue (millions)	**1 523**	1 506	1
Weighted average number of shares in issue (millions)	**1 513**	1 486	2
Continuing operations			
Earnings per share (cents)	**257.6**	226.5	14
Diluted earnings per share (cents)	**252.9**	223.0	13
Headline earnings per share (cents)	**269.7**	234.2	15
Diluted headline earnings per share (cents)	**265.0**	230.6	15
Normalised earnings per share (cents)	**295.1**	263.6	12
Diluted normalised earnings per share (cents)	**290.0**	259.7	12
Continuing and discontinued operations			
Earnings per share (cents)	**257.6**	223.9	15
Diluted earnings per share (cents)	**252.9**	220.4	15
Headline earnings per share (cents)	**269.7**	231.5	17
Diluted headline earnings per share (cents)	**265.0**	227.9	16
Normalised earnings per share (cents)	**295.1**	261.6	13
Diluted normalised earnings per share (cents)	**290.0**	257.7	13
Dividend per share			
Interim dividend (cents)	**39.0**	53.0	(26)
Final dividend (cents)	**65.0**	65.0	–
Total dividend	**104.0**	118.0	(12)

Summarised consolidated statement of financial position

as at 30 June

R MILLION	2018 Audited	2017 Audited
Assets		
Property and equipment	**1 109**	1 000
Intangible assets	**124**	90
Investments in associates	**26 413**	24 455
Financial assets	**11 262**	9 846
Loans and receivables (including insurance receivables)	**2 634**	2 536
Deferred acquisition cost	**307**	338
Reinsurance contracts	**286**	672
Deferred taxation	**220**	176
Taxation	**3**	–
Cash and cash equivalents	**2 417**	2 302
Total assets	**44 775**	41 415
Equity		
Share capital and premium	**14 986**	14 328
Reserves	**7 386**	4 947
Capital and reserves attributable to equity holders of the company	**22 372**	19 275
Non-controlling interests	**1 332**	1 215
Total equity	**23 704**	20 490
Liabilities		
Financial liabilities	**12 608**	12 479
Insurance contracts	**6 725**	6 841
Share-based payment liability	**134**	165
Payables and provisions	**1 347**	1 263
Deferred taxation	**54**	53
Taxation	**203**	124
Total liabilities	**21 071**	20 925
Total equity and liabilities	**44 775**	**41 415**

Statement of changes in equity

for the year ended 30 June

AUDITED R MILLION	Share capital and premium	Equity accounted reserves	Transactions with non–controlling interests	Other reserves	Retained earnings	Non–controlling interests	Total equity
Balance as at 1 July 2016	13 526	3 939	(2 097)	493	2 695	1 170	19 726
Profit per income statement	–	–	–	–	3 327	378	3 705
Other comprehensive income	–	(417)	–	(203)	–	(52)	(672)
Dividend paid	–	–	–	–	(1 753)	(253)	(2 006)
Shares issued	760	–	–	–	–	–	760
Income of associates retained	–	770	–	–	(770)	–	–
BBBEE cost	–	1	–	–	–	–	1
Change in non-distributable reserves							
Movement in treasury shares	37	6	–	–	3	–	46
Transactions with non-controlling interests	–	1	(902)	–	11	44	(846)
Issue of share capital to non-controlling interests by subsidiaries	–	–	–	–	–	71	71
Share-based payment reserve	–	3	–	5	(165)	(23)	(180)
Sale of subsidiary	5	(3)	10		(7)	(120)	(115)
Balance as at 30 June 2017	**14 328**	**4 300**	**(2 989)**	**295**	**3 341**	**1 215**	**20 490**
Profit per income statement	**–**	**–**	**–**	**–**	**3 897**	**370**	**4 267**
Other comprehensive income	**–**	**311**	**–**	**102**	**–**	**17**	**430**
Dividend paid	**–**	**–**	**–**	**–**	**(1 571)**	**(189)**	**(1 760)**
Shares issued	**669**	**–**	**–**	**–**	**–**	**–**	**669**
Income of associates retained	**–**	**1 181**	**–**	**–**	**(1 181)**	**–**	**–**
BBBEE cost	**–**	**3**	**–**	**–**	**–**	**–**	**3**
Movement in treasury shares	**(11)**	**5**	**–**	**–**	**–**	**–**	**(6)**
Transactions with non-controlling interests	**–**	**58**	**(356)**	**–**	**2**	**(132)**	**(428)**
Issue of share capital to non-controlling interests by subsidiaries	**–**	**–**	**–**	**–**	**–**	**54**	**54**
Share-based payment reserve	**–**	**31**	**–**	**–**	**(35)**	**(4)**	**(8)**
Reserve adjustment of associates	**–**	**(8)**	**–**	**–**	**–**	**1**	**(7)**
Balance as at 30 June 2018	**14 986**	**5 881**	**(3 345)**	**397**	**4 453**	**1 332**	**23 704**

Consolidated statement of cash flows

for the year ended 30 June

R MILLION	2018 Audited	2017 Audited
Cash flows from operating activities		
Cash generated from operations	**3 287**	2 638
Interest income	**590**	503
Dividends received	**1 285**	1 085
Income tax paid	**(1 101)**	(1 130)
Cash flows from discontinued operation	**–**	190
Net cash generated from operating activities	**4 061**	3 286
Cash flows from investing activities		
Additions to property and equipment	**(255)**	(484)
Disposal of property and equipment	**5**	2
Additions to investments	**(9 689)**	(9 215)
Disposals of investments	**8 436**	9 572
Investments in associates	**(216)**	(9 040)
Proceeds on sale of subsidiary	**–**	165
Net cash outflow in investing activities	**(1 719)**	(9 000)
Cash flows from financing activities		
Proceeds from issue of shares	**493**	760
Issue of preference share debt	**–**	9 710
Redemption of preference share debt	**–**	(2 298)
(Borrowings repaid)/cash raised from borrowings incurred	**(50)**	2 367
Cost of funding	**(91)**	(59)
Dividends paid on preference shares in issue	**(677)**	(271)
Dividends paid by subsidiaries to non-controlling interests	**(189)**	(253)
Additional shares acquired in subsidiary	**(360)**	(912)
Cash dividends paid to shareholders	**(1 394)**	(1 753)
Proceeds on issue of shares to non-controlling interest	**54**	71
Net cash (outflow)/inflow from financing activities	**(2 214)**	7 362
Net increase in cash and cash equivalents for the year	**128**	1 648
Unrealised foreign currency translation adjustment on cash and cash equivalents	**(13)**	43
Cash and cash equivalents at the beginning of the year	**2 302**	611
Cash and cash equivalents at the end of the year	**2 417**	2 302

Segmental report

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

AUDITED R MILLION	Discovery	MMI	OUTsurance	Hastings	Other[1]	RMI group
Year ended 30 June 2018						
Net income	–	–	14 757	–	237	14 994
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 056)	–	–	(7 056)
Depreciation	–	–	(136)	–	(4)	(140)
Amortisation	–	–	(99)	–	(2)	(101)
Other expenses	–	–	(3 506)	–	(158)	(3 664)
Finance costs	–	–	–	–	(765)	(765)
Fair value adjustment to financial liabilities	–	–	(193)	–	–	(193)
Share of after-tax results of associates	1 418	280	305	370	(45)	2 328
Profit/(loss) before taxation	1 418	280	4 072	370	(737)	5 403
Taxation	–	–	(1 108)	–	(28)	(1 136)
Result for the year	1 418	280	2 964	370	(765)	4 267
Hastings included in OUTsurance	–	–	(294)	294	–	–
Profit/(loss) for the year	1 418	280	2 670	664	(765)	4 267
Normalised earnings	1 356	715	3 012	405	(1 015)	4 473
Hastings included in OUTsurance	–	–	(373)	373	–	–
Normalised earnings	1 356	715	2 639	778	(1 015)	4 473
As at 30 June 2018						
Assets	–	–	15 254	–	2 984	18 238
Investments in associates	10 268	5 964	4 125	5 367	689	26 413
Intangible assets	–	–	124	–	–	124
	10 268	5 964	19 503	5 367	3 673	44 775
Hastings included in OUTsurance	–	–	(3 996)	3 996	–	–
Total assets	10 268	5 964	15 507	9 363	3 673	44 775
Total liabilities	–	–	8 359	–	12 712	21 071

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

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

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

Geographical segments

AUDITED R MILLION	South Africa	Australia	New Zealand	United Kingdom	Total
Year ended 30 June 2018					
Net income	8 694	6 152	148	–	14 994
Policyholder benefits and transfer to policyholder liabilities	(3 795)	(3 226)	(35)	–	(7 056)
Other expenses	(2 927)	(1 830)	(106)	–	(4 863)
Share of after-tax results of associates	1 413	–	–	915	2 328
Profit before taxation	3 385	1 096	7	915	5 403
Taxation	(822)	(314)	–	–	(1 136)
Profit for the year	2 563	782	7	915	4 267
As at 30 June 2018					
Assets					
Property and equipment	392	714	3	–	1 109
Investments in associates	17 050	–	–	9 363	26 413
Financial assets	6 680	6 925	291	–	13 896
Other assets	2 170	816	371	–	3 357
Total assets	26 292	8 455	665	9 363	44 775
Liabilities					
Insurance contract liabilities	2 069	4 494	162	–	6 725
Other liabilities	10 603	924	99	2 720	14 346
Total liabilities	12 672	5 418	261	2 720	21 071
Year ended 30 June 2017					
Net income	8 220	6 432	193	–	14 845
Policyholder benefits and transfer to policyholder liabilities	(3 658)	(3 514)	(38)	–	(7 210)
Other expenses	(2 355)	(1 927)	(217)	–	(4 499)
Share of after-tax results of associates	1 367	–	–	335	1 702
Profit/(loss) before taxation	3 574	991	(62)	335	4 838
Taxation	(779)	(305)	–	–	(1 084)
Profit/(loss) from continuing operations	2 795	686	(62)	335	3 754
Discontinued operations	(49)	–	–	–	(49)
Profit/(loss) for the year	2 746	686	(62)	335	3 705
As at 30 June 2017					
Assets					
Property and equipment	941	41	18	–	1 000
Investments in associates	15 554	–	–	8 901	24 455
Financial assets	5 346	6 722	314	–	12 382
Other assets	2 181	1 157	240	–	3 578
Total assets	24 022	7 920	572	8 901	41 415
Liabilities					
Insurance contract liabilities	1 961	4 697	183	–	6 841
Other liabilities	10 588	828	117	2 551	14 084
Total liabilities	12 549	5 525	300	2 551	20 925

Financial instruments measured at fair value

The group's activities expose it to a variety of financial risks. The table below analyses financial instruments carried at fair value by level in the fair value hierarchy. The different levels are based on the extent that quoted prices are used in the calculation of the fair value of the financial instruments. These levels are defined as follows:

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

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

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

AUDITED R MILLION	Level 1	Level 2	Level 3	Total carrying amount
As at 30 June 2018				
Financial assets				
Equity securities				
– Exchange traded funds	**713**	**–**	**–**	**713**
– Listed preference shares	**354**	**–**	**–**	**354**
– Collective investment schemes	**–**	**110**	**–**	**110**
– Listed equity securities	**166**	**–**	**–**	**166**
– Unlisted equity securities	**–**	**–**	**130**	**130**
Debt securities				
– Unsecured loans	**–**	**–**	**34**	**34**
– Unlisted preference shares	**–**	**102**	**–**	**102**
– Zero-coupon deposits	**–**	**346**	**–**	**346**
– Term deposits	**–**	**5 261**	**–**	**5 261**
– Government, municipal and public utility securities	**–**	**560**	**–**	**560**
– Money market securities	**–**	**2 793**	**–**	**2 793**
– Collective investment schemes	**–**	**31**	**–**	**31**
– Other debt securities at fair value through profit or loss	**–**	**28**	**634**	**662**
Total financial assets measured at fair value	**1 233**	**9 231**	**798**	**11 262**
As at 30 June 2017				
Financial assets				
Equity securities				
– Exchange traded funds	619	–	–	619
– Listed preference shares	377	–	–	377
– Collective investment schemes	–	99	–	99
– Listed equity securities	129	–	–	129
– Unlisted equity securities	–	–	1	1
Debt securities				
– Unlisted preference shares	–	105	–	105
– Zero-coupon deposits	–	208	–	208
– Term deposits	–	4 429	–	4 429
– Government, municipal and public utility securities	–	457	–	457
– Money market securities	–	2 551	–	2 551
– Collective investment schemes	–	45	–	45
– Other debt securities at fair value through profit or loss	–	7	813	820
Derivative asset	–	6	–	6
Total financial assets measured at fair value	1 125	7 907	814	9 846

AUDITED R MILLION	2018	2017
Reconciliation of movement in Level 3 assets		
Balance at the beginning of the year	**814**	643
Additions in the current year	**192**	281
Disposals (sales and redemptions)	**(187)**	(106)
Fair value movement	**(15)**	–
Investment income accrued	**66**	64
Dividends received	**(72)**	(68)
Balance at the end of the year	**798**	814

The level 3 financial assets at fair value through profit or loss include loans and preference share investments, the value of which is not significantly sensitive to an increase or decrease in the counterparty credit rating due to the collateralised nature of the transaction.

AUDITED R MILLION	Level 1	Level 2	Level 3	Total carrying amount
As at 30 June 2018				
Financial liabilities				
Financial liabilities at fair value through profit or loss	**–**	**–**	**132**	**132**
Derivative liability	**–**	**36**	**–**	**36**
Total financial liabilities recognised at fair value	**–**	**36**	**132**	**168**
As at 30 June 2017				
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	150	150
Derivative liability	–	8	–	8
Total financial liabilities recognised at fair value	–	8	150	158

AUDITED R MILLION	2018	2017
Reconciliation of movement in level 3 liabilities		
Balance at the beginning of the year	**150**	144
Preference dividends charged to the income statement in respect of profit sharing arrangements on ring-fenced insurance business	**193**	199
Preference dividends paid	**(211)**	(193)
Balance at the end of the year	**132**	150

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

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

LEVEL 1

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

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

The fair values of these investments are calculated based on the quoted closing prices of the individual investments on the reporting date. These instruments are included in Level 1 and comprise mainly equity and debt instruments classified as trading securities. The investment in the exchange traded funds track the performance of the top 40 and 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. Fair value is determined based on a discounted cash flow valuation.

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

LEVEL 3

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

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

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

Independent auditor's report on the summarised consolidated financial statements

To the shareholders of RMI Holdings Limited

OPINION

The summary consolidated financial statements of RMI Holdings Limited, set out on pages 22 to 34, which comprise the summary consolidated statement of financial position as at 30 June 2018, the summary consolidated income statement, the summary consolidated statements of other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of RMI Holdings Limited for the year ended 30 June 2018.

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

SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

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

THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 11 September 2018. That report also includes the communication of key audit matters. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

PricewaterhouseCoopers Inc.

Director: Francois Prinsloo
Registered Auditor

Johannesburg
11 September 2018

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 (CEO and FD), 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 DR Wilson.

Messrs GT Ferreira, JW Dreyer and KC Shubane retired on 31 March 2018 and Mr PM Goss retired on 10 April 2018. Mr JJ Durand became chairman on 31 March 2018.

Messrs RT Mupita and JA Teeger and Ms Mahlare were appointed as independent non-executive directors and Mr DA Frankel as an alternate non-executive director on 31 March 2018.

SECRETARY AND REGISTERED OFFICE

JS Human

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

SPONSOR

(in terms of JSE Limited Listings Requirements)

Rand Merchant Bank (a division of FirstRand Bank Limited)

Physical address:	1 Merchant Place, corner of Fredman Drive and Rivonia Road, Sandton, 2196

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited

Physical address:	Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
Postal address:	PO Box 61051, Marshalltown, 2107
Telephone:	+27 11 370 5000
Telefax:	+27 11 688 5221

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