RMI

ANNUAL INTEGRATED REPORT 2016

SCOPE AND BOUNDARIES OF THIS REPORT

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We are pleased to present our sixth annual integrated report, which covers the year ended 30 June 2016. This report is mainly aimed at providers of financial capital, being both our current and potential shareholders. In addition, we aim to inform all stakeholders of our ability to create value over time.

Rand Merchant Investment Holdings Limited (RMI) is a listed investment holding company with various investments in subsidiaries and associates. RMI consolidates entities where it exercises control over the financial and operating policies (subsidiaries) and equity accounts entities where it exercises significant influence (associates).

This report contains comprehensive information on our financial performance, stakeholders, governance, material issues, risks and opportunities and how these influence our strategic objectives. We show how we create value and how we will ensure that our value creation is sustainable. We also refer stakeholders to the annual integrated reports of our investee companies to gain a comprehensive understanding of these elements in their respective businesses.

CURRENT YEAR ENHANCEMENTS

We have refined the structure and flow of the information with a clear picture of the business model and value creation. We also provide more detail of our updated investment strategy and strategic initiatives.

The PERFORMANCE AND OUTLOOK section, which starts on **page 20**, provides a more detailed outlook of future plans and expectations, in addition to a critical evaluation of our performance over the past year, both at a group and major investee company level.

We examined our disclosure on governance and gave attention to detailing the efforts of each of the board committees. See the section OUR GOVERNANCE AND SUSTAINABILITY, which starts on **page 62**.

REPORTING PRINCIPLES AND ASSURANCE

This report is compiled and presented in accordance with the Listings Requirements of the JSE Limited (JSE Listings Requirements), the King Code of Governance Principles for South Africa 2009 (King III) and the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework (<IR> Framework). We have implemented the Framework as far as practical and our approach to integrated reporting will continue to evolve over time, in line with the Framework.

Our ANNUAL FINANCIAL STATEMENTS, presented on **pages 89** to **223**, were prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 71 of 2008, as amended (Companies Act). We received external assurance from our auditor, PricewaterhouseCoopers Inc., on the fair presentation of these annual financial statements. See the INDEPENDENT AUDITOR'S REPORT on **page 101**.

A summarised version of the annual financial statements is available as part of the results announcement on RMI's website at **www.rmih.co.za.**

ESTABLISHING MATERIALITY

We define material issues as those which have the potential to substantially impact our ability to create and sustain value for our stakeholders.

The process we adopted to determine the issues material to our business and our stakeholders is aligned with our organisational decision-making processes and strategies. By applying the principle of materiality, we determined which issues could influence the decisions, actions and performance of the group.

We describe our most material issues as our key priorities and refer to **pages 8** to **19** of this report, in which we describe the circumstances in which we operate, the key resources and relationships on which we depend, the key risks and opportunities we face and how our key priorities can affect our ability to create and sustain value over time.

FORWARD-LOOKING STATEMENTS

Certain statements in this annual integrated report may be regarded as forward-looking statements or forecasts. All forward-looking statements are based solely on the views and considerations of the directors. These statements have not been reviewed and reported on by the group's external auditor.

RESPONSIBILITY FOR THIS ANNUAL INTEGRATED REPORT

This report was prepared by Schalk Human MCom (Acc), CA(SA) under the supervision of the chief executive and financial director, Herman Bosman LLM, CFA.

The board is ultimately responsible for ensuring the integrity of the annual integrated report, assisted by the audit and risk committee and further supported by management, which convened and contracted the relevant skills and experience to undertake the reporting process and provide management oversight. The board, after applying its collective mind to the preparation and presentation of the report, concluded that it was presented in accordance with the <IR> Framework and approved it for publication.

We are committed to improving our reporting further and would appreciate constructive feedback. Our contact details can be found on the inside back cover.

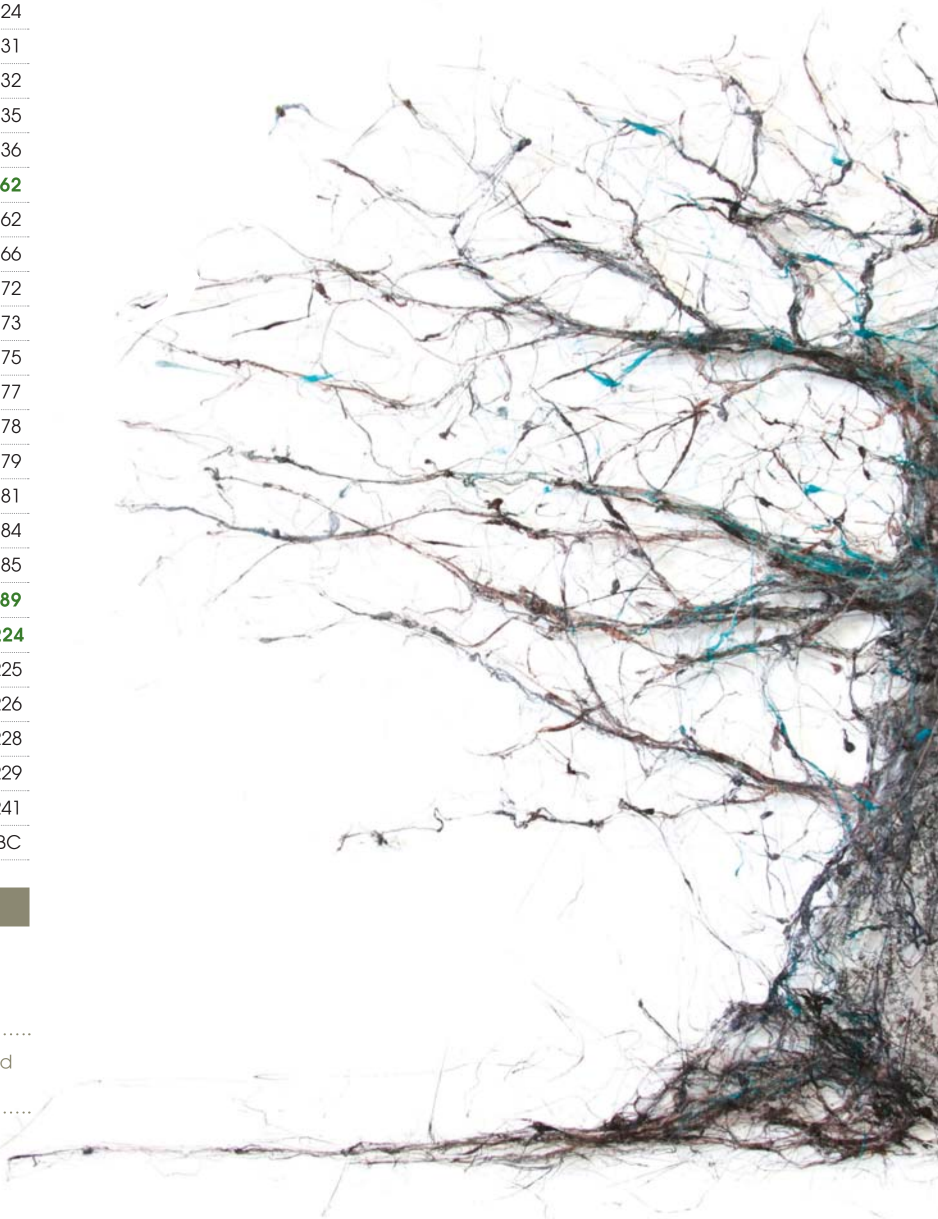
CONTENTS

GUIDE TO WHERE MORE INFORMATION CAN BE FOUND

This icon accompanies **page number** references of information contained elsewhere in this annual integrated report.

This icon indicates information that can be accessed on the referenced **website**.

RMI BELIEVES THAT THERE IS A STRONG CORRELATION BETWEEN THE INVESTMENT PROCESS AND THE CREATION OF A PIECE OF ART. IN LINE WITH THIS, WE REGULARLY SUPPORT ARTISTS. WE SELECTED MANDY COPPES-MARTIN AS OUR ARTIST OF THE YEAR. HER WORKS ARE FEATURED ON THE RMI WEBSITE AND IN OUR COMMUNICATION TO SHAREHOLDERS.



ABOUT THE ARTIST

MANDY COPPES-MARTIN

Mandy works with specific fibres, threads and silks – which are woven and which weave through her drawings and sculptures – to take the viewer on a journey through traces of the past.

"I am interested in working with notions of memory and the traces of life that exist beyond our stories. I began working with tree rings several years ago as I find them to be the most beautiful arrangements of natural life. Tree rings tell a story of events through mark making. They offer glimpses into the lost or forgotten stories of our natural environment."

She applies the traditional art of crocheting to paper thread and raw silk fibres to create forms and shapes that depict a life once lived, or an action once taken. Whether the resulting image is a depiction of an abstract mark of nature or an interpretation of a literal object, her art seeks to retrace the past and, in turn, create a new skeleton of memories.

ABOUT RMI

KEY FACTS

Information as at 30 June 2016

JSE SHARE CODE	FIRST LISTED	MARKET CAPITALISATION
RMI	*7 March 2011*	*R61.2 billion (down 3% from 2015)*

TOTAL INCOME	NORMALISED EARNINGS	HEADLINE EARNINGS
R14.1 billion (up 20% from 2015)	*R3 348 million (up 6% from 2015)*	*R2 934 million (down 10% from 2015)*

CHAIRMAN

GT Ferreira

CHIEF EXECUTIVE

Herman Bosman

HEAD OFFICE

Sandton, South Africa

SIGNIFICANT SHAREHOLDERS

Remgro	*30%*
Royal Bafokeng	*15%*
Allan Gray	*8%*
PIC	*8%*

WEBSITE

www.rmih.co.za

WHO WE ARE

RAND MERCHANT INVESTMENT HOLDINGS LIMITED (RMI) IS A JSE-LISTED INVESTMENT HOLDING COMPANY WITH AN INVESTMENT TEAM OF EXPERIENCED, ALTERNATIVE THINKING, FINANCIAL SERVICES SPECIALISTS WHO ACTIVELY PARTNER SMART AND INDUSTRY-CHANGING MANAGEMENT TEAMS BY BEING A SHAREHOLDER OF INFLUENCE.

VALUE CREATION

Our primary objective is to create value for our shareholders by optimising, diversifying and modernising our portfolio. We rely on a stable shareholder base.

An analysis of major shareholders appears on **page 225**.

THE RMI PORTFOLIO

RMI's investments include Discovery Limited (Discovery), MMI Holdings Limited (MMI), OUTsurance Holdings Limited (OUTsurance), RMB-SI Investments Proprietary Limited (RMB Structured Insurance), RMI Investment Managers Group Proprietary Limited (RMI Investment Managers) and Merchant Capital Advisory Services Proprietary Limited (Merchant Capital).

On 23 August 2016, RMI announced the sale of its investment in RMB Structured Insurance, excluding the stake in Truffle Capital Proprietary Limited (Truffle), subject to regulatory approval. The results of RMB Structured Insurance, excluding Truffle, are disclosed as a discontinued operation in the RMI group results.

Refer to **page 6** for a brief description of each of our existing investments which had an impact on the results from continuing operations for the year ended 30 June 2016.

The portfolio is intended to evolve over time to increase in size and geographic diversity and ensure the balance between growth- and return-focused investments.

We invest, build and divest depending on market opportunities to achieve our objectives of creating value and maintaining a solid financial structure. RMI typically invests for the long term.

DIVIDEND POLICY

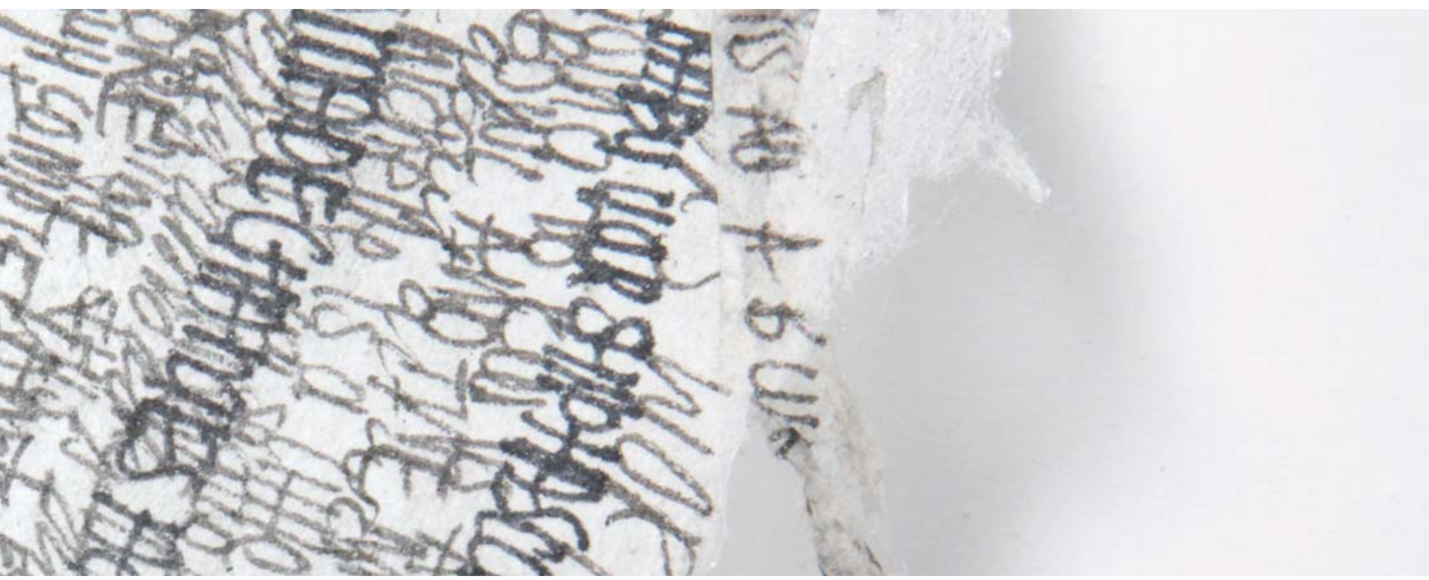
RMI's dividend policy is to pay out all dividends received from underlying investments after servicing any funding commitments at holding company level and considering its debt capacity and investment pipeline. This policy seeks to achieve a sound balance between providing an attractive yield to shareholders and achieving sustained growth.

INVESTMENT POLICY

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

The financial services landscape is a dynamic environment and whilst it is important to enhance the current market positions and business models of the underlying investments and evaluate traditional acquisition opportunities, it is equally important to be vigilant around the emergence of disruptive businesses and concepts and partner with industry-changing entrepreneurs. In line with this, we have a start-up business, AlphaCode, which focuses on growing new-generation businesses.

We invest in businesses that can deliver superior earnings and dividend growth over the long term. This involves the acquisition of meaningful interests in companies to have significant influence. Sound management is an important investment criterion. We forge strategic alliances on a partnership basis and endeavour to add value, where possible. The purpose is to ensure superior returns to shareholders by way of sustainable dividend and capital growth.



OUR INVESTMENTS

RMI is a strategic, active manager of a R63 billion financial services portfolio:

CONTINUING OPERATIONS

Discovery	25%
MMI HOLDINGS	25%
OUTSURANCE Holdings Limited	84%
RMI INVESTMENT MANAGERS	100%
ALPHA CODE	100%
→ MERCHANT CAPITAL	25%

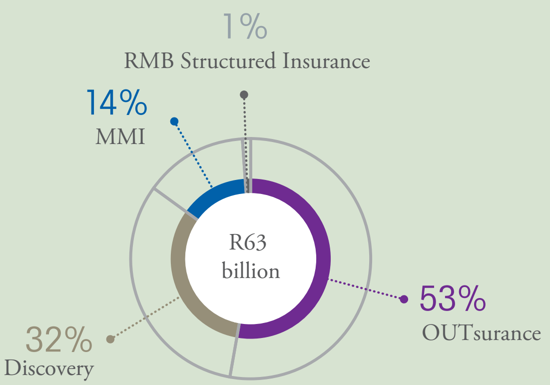
DISCONTINUED OPERATION

RMB STRUCTURED INSURANCE	76%

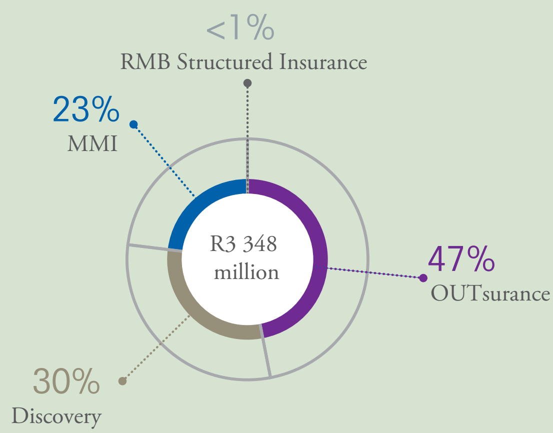
Our strategy, as discussed on **pages 10** to **12**, outlines our approach to expanding this portfolio.

RELATIVE CONTRIBUTION ANALYSIS

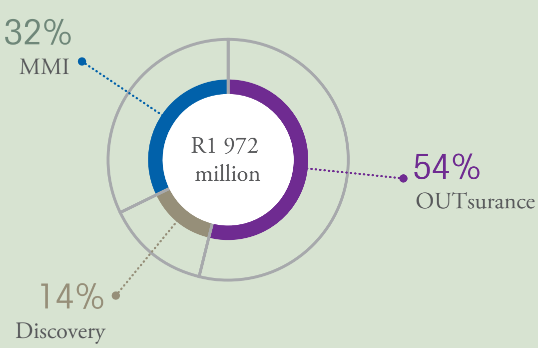
MARKET/IMPLIED VALUE



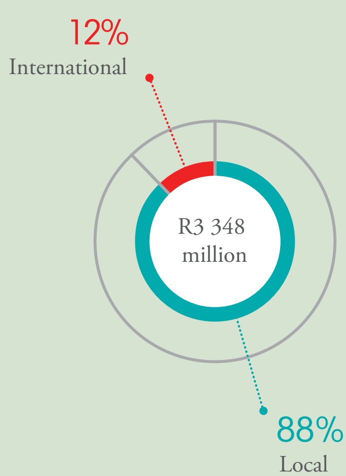
NORMALISED EARNINGS



DIVIDENDS RECEIVED



GEOGRAPHIC SPLIT OF NORMALISED EARNINGS



RMI's investments which contributed to the group results from continuing operations for the year ended 30 June 2016 include:

Listed or unlisted	JSE-listed	JSE-listed	Unlisted	Unlisted	Unlisted
	Discovery	MMI Holdings	OUTsurance Holdings Limited	RMI Investment Managers	Merchant Capital
Market capitalisation/implied value (100%)	R79.3 billion	R35.6 billion	R39.9 billion	R63 million	R22 million
RMI's interest	25.0%	25.5%	83.6%	100%	25.1%
RMI's ranking as shareholder	1st	1st	1st	1st	2nd
Market value/implied value of RMI's interest	R19.8 billion	R9.1 billion	R33.3 billion	R63 million	R22 million
Share of RMI portfolio based on value	32%	14%	53%	<1%	<1%
Normalised earnings (100%)	R4 312 million	R3 206 million	R1 985 million	(R11 million)	–
Embedded value/valuation (100%)	R53.1 billion	R42.9 billion	R29.5 billion	R63 million	R22 million
Full-time employees	11 811	17 560	4 285	13	28

INVESTMENT OVERVIEW

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

- In 1992, Fedsure and Medscheme had 70% of the health insurance market. Today Discovery has 53% of the open medical scheme market and has built a R79 billion company by creating a business that is centred around shared values. The group co-founded Discovery in 1992, when the Discovery management team had only the dream of doing things differently.
- In 1998, there was hardly any direct short-term insurance being sold in South Africa. Mutual and Federal and Santam had 80% of the vehicle market. Today, OUTsurance has 15% of this market and is a company with a value of around R40 billion. The group co-founded OUTsurance in 1998.

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. Founded in 1992 as a specialist health insurer, Discovery operates in South Africa, the UK, China, Singapore, Australia and the USA through various business lines. It has an innovative business model that makes people healthier and offers them protection products.

Refer to **page 36** for further information on Discovery and its performance, strategy and outlook.

MMI

MMI is one of the largest insurance-based financial services groups listed on the JSE Limited. Created in December 2010 from the merger of Metropolitan and Momentum, MMI conducts business in South Africa, 12 African countries outside South Africa and selected international countries. MMI's core businesses are short- and long-term insurance, asset management, savings, healthcare administration, health risk management, employee benefits, property management and rewards programmes.

Refer to **page 42** for further information on MMI and its performance, strategy and outlook.

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, with a client-centric ethos of providing value for money insurance solutions backed by so-called "awesome" client service.

Refer to **page 48** for further information on OUTsurance and its performance, strategy and outlook.

RMI INVESTMENT MANAGERS

RMI Investment Managers' new 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 equity stakes of up to 30% in boutique investment managers and will continue to search for opportunities that will complement RMI's existing suite of managers, as the company builds its share of the South African investment management market.

Refer to **page 54** for further information on RMI Investment Managers and its performance, strategy and outlook.

ALPHACODE

RMI's next-generation business platform, AlphaCode, continues to progress on its strategy of identifying, partnering and growing extraordinary next-generation financial services entrepreneurs. AlphaCode currently has 53 businesses as members operating across the financial services spectrum, with many using leading-edge technology to transform the delivery of financial services.

Refer to **page 58** for further information on AlphaCode.

RMI made its first investment in a disruptive, next-generation financial services business by taking a 25.1% stake in Merchant Capital, a provider of alternative sources of working capital for small and medium enterprises (SMEs) in South Africa in September 2015.

Refer to **page 59** for further information on Merchant Capital.

RMI's effective interest in these group entities is different from the actual interest as a result of certain consolidation adjustments.

Refer to **note 41** to the consolidated annual financial statements on **page 185** for an explanation of the difference between the effective and actual interests.

WHERETO NEXT WITH OUR INVESTMENTS?

We are keen to expand our portfolio and will remain open to opportunities in the financial services sector which combine exciting entrepreneurs, industry-changing approaches and the ability for us to add value.

We are not geographically or size-bound.

We consider the anticipated long-term trends in financial services (such as significant regulatory change and the speed of technological developments) and evaluate where we can either build or buy businesses.

We do not want to be blindsided by the dynamic evolution of financial services and will invest in new trends or businesses, even when they may compete with our current businesses.

OUR BUSINESS MODEL

OUR STRATEGIC RESOURCES

CAPITALS	DESCRIPTION	COMPRISING	STAKEHOLDERS	DESIRED OUTCOME
FINANCIAL CAPITAL	The capital from shareholders which is used to generate earnings and future value for shareholders.	▶ R61.2 billion market capitalisation ▶ R19.7 billion accounting net asset value	Shareholders	Constant and superior growth
HUMAN CAPITAL	Our people and the knowledge, skills and experience they provide to ensure that sound, sustainable investments are made in line with our strategy.	▶ Strong, ethical and experienced board ▶ Smart employees ▶ Owner-manager culture	Employees	Content and performing employees
MANUFACTURED CAPITAL	Our proven business culture, principles and processes, including our physical infrastructure which allow us to do business and create value.	▶ Comprehensive footprint ▶ Positioned in Africa's economic hub	Clients Suppliers	Expansion
INTELLECTUAL CAPITAL	Our knowledge-based intangible assets, such as our brand and the brands of our investee companies, our capacity to innovate and our strong reputation.	▶ Strong, reliable brand and reputation ▶ Leading investee company brands ▶ Actively seeking to fund and scale new and disruptive business models ▶ Strategic shareholders in Remgro, Royal Bafokeng and others	Shareholders AlphaCode development hub	Remaining innovative and up-to-date, successfully seizing opportunities
SOCIAL AND RELATIONSHIP CAPITAL	The strong relationships we have with our stakeholders, based on our shared values, and our ongoing commitment to the communities we live in.	▶ Open stakeholder engagement ▶ Long-standing reputation for ethical standards	Communities in which group companies operate	Upliftment
NATURAL CAPITAL	The renewable and non-renewable environmental resources and processes and our efforts to preserve them.	▶ Sound environmental policies ▶ Substantial corporate social investment	Communities in which group companies operate	Embracing sustainable, environmentally-friendly business practices

For more information on how we engage with our stakeholders, refer to **page 13**.

MANAGING OUR INVESTMENTS

We manage our investments on a decentralised basis and our involvement is concentrated mainly on the provision of support rather than on being involved in the day-to-day management of investee companies. Our board considers it in the best interest of all the parties concerned to respect the decentralised business model and the fact that these businesses are conducted in separate legal entities. The support provided to the investee companies can either be in the form of strategic, financial and managerial support, or the unlocking of value by means of creating the environment for possible corporate activity.

We have an interest in three operating subsidiaries, namely OUTsurance, RMI Investment Managers and RMB Structured Insurance, and one investment holding subsidiary, namely AlphaCode. In line with the philosophy of decentralised management, all of these companies have their own boards of directors and management structures and we exert our influence through non-executive representation on the boards of these companies.

This management philosophy is applied to all investee companies, irrespective of the level of control that can be exercised.

Our other investments comprise Discovery and MMI, both listed companies that are not controlled by RMI and treated as associates due to the significant influence exercised by us through our board representation.

As a shareholder of the investee companies, we exercise our shareholder rights to ensure, as far as possible, that the entities concerned adhere to all requirements in respect of matters such as governance, internal controls, financial management, risk management, legal compliance, safety, health and environmental management, internal audit, ethics management, information management, stakeholder relationships and sustainability.

We have consistently measured our performance in terms of normalised earnings, which adjusts headline earnings to take into account non-operational items and accounting anomalies.

For the calculation of normalised earnings in respect of the current and prior year, refer to **page 32**.

Our performance is further measured in terms of the increase in our market capitalisation, which measures the growth in the underlying value of the various investee companies.

Refer to the chief executive's review on **page 27** for an analysis of the movement in the market values of our listed investments and implied values of our unlisted investments.

DISTRIBUTIONS TO SHAREHOLDERS

Dividends to shareholders are funded from dividends received from investee companies, after servicing any funding commitments at holding company level and considering RMI's debt capacity and investment pipeline.

It is our objective to provide shareholders with a consistent annual dividend flow. In extraordinary circumstances, we will consider other distributions in the form of special dividends or the unbundling of investments to shareholders.

OUR STRATEGY

VISION

RMI's aim is to be an active, value-adding partner and enabler of innovation and leadership in financial services. Its founding members are highly influential in the industry and remain committed to achieving these objectives.

RMI strives to achieve this vision by actively pursuing opportunities that arise in the changing financial services landscape and which meet its stringent criteria and powerful values.

VALUES

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

It subscribes to a set of values which seek to foster integrity, innovation, individual empowerment and personal accountability.

STRATEGIC INITIATIVES

Our objective is to create value for our shareholders over the long term, through both an attractive dividend yield and an increase in intrinsic value. To achieve this, we have a three-tiered investment strategy which comprises:

OPTIMISE	Dynamically enhance our existing portfolio by actively engaging in strategic dialogue with our management partners
DIVERSIFY	Invest in and build traditional financial services assets
	Expand our geographic footprint independently and/or through the existing portfolio
MODERNISE	Identify, partner and grow the next-generation of financial services businesses

STRATEGIC INITIATIVES	WHAT THIS MEANS	DESIRED OUTCOME
OPTIMISE	**BEING AN ACTIVE AND RESPONSIBLE SHAREHOLDER OF INFLUENCE** We are a holding company with a long-term investment horizon. Investments are therefore held for as long as needed to optimise their value. Based on our track record, we believe that increasing the value and yield of our investments requires close collaboration with their management teams in the context of their boards of directors. We therefore invest in companies where we hold a position to fulfil our role as shareholder of influence. Our strategy is to position ourselves amid the key shareholders, have a long-term approach and play an active role within the governance bodies, particularly when it comes to strategic decision-making by the investee companies. We are sensitive to the environmental and social impact of our investee companies and encourage the use of sustainable development best practices. **MAINTAINING A SOLID AND FLEXIBLE FINANCIAL STRUCTURE** Our objective is to maintain a sound financial structure, with a solid liquidity profile throughout the group, ensuring readily-available resources and a limited net indebtedness in comparison to the portfolio value. This policy gives both RMI and its investees the flexibility required to seize investment opportunities. **VALUE CREATION THROUGH CONTINUOUS AND SUSTAINABLE GROWTH OF OUR INTRINSIC VALUE AND DIVIDENDS** We aim for financial performance of our underlying investments that exceeds industry benchmarks. Such performance should lead to an increase in underlying value and dividend flow. See **page 47** for a case study showing how MMI leveraged its merger for substantial cost savings.	Constantly growing superior intrinsic value of investments

STRATEGIC INITIATIVES	WHAT THIS MEANS	DESIRED OUTCOME
DIVERSIFY	**FURTHER DIVERSIFYING THE PORTFOLIO** Our strategy is to hold a set of investments that is diversified in terms of financial services sub-sectors and geography. To achieve this, we invest in two types of assets: ▶ Traditional assets, including asset management; and ▶ Next-generation financial services investments, encompassing a limited selection of smaller assets which have the potential to eventually become significant investments. To maintain a balance between growth and yield, the breakdown between these different types of assets will evolve, with larger and traditional investments remaining the bulk of the portfolio. We aim to expand our investment portfolio by taking positions in companies that are leaders in their markets and operate in sectors with potential for growth. Significant emphasis is placed on finding companies with entrepreneurial management teams with the ability to change the financial services landscape. See **page 41** for a case study demonstrating how Discovery is diversifying its business model to unlock further value.	Expanding into new markets and segments
MODERNISE	**REMAINING CURRENT AT ALL TIMES** We are actively participating in a rapidly-changing, dynamic financial services landscape. We will invest, either through our existing portfolio or through entrepreneur-led businesses that may be early in their life-cycle. To achieve this we will: ▶ Create a physical and digital environment that fosters innovation; ▶ Create processes and approaches to seek out, fund and scale new and disruptive business models; ▶ Leverage RMI's capabilities; and ▶ Focus on the entrepreneur as much as the opportunity. See **page 53** for a case study providing an example of how OUTsurance is modernising its service offerings.	Unlocking new avenues to grow value for shareholders

ENGAGING WITH OUR STAKEHOLDERS

We believe that the strength of our relationships with all our key stakeholders is critical to the achievement of our strategic objectives and creation of sustainable long-term value.

Stakeholder engagement involves gaining a thorough understanding of our key stakeholder groups and assessing the issues that are material to them to respond appropriately. The board of directors oversees the process, while management is responsible for the implementation and monitoring thereof. The following table provides an overview of our stakeholder engagement activities and how it impacted the formulation and delivery of our strategy:

KEY STAKEHOLDERS	MATERIAL REQUIREMENTS	INTERACTION AND IMPACT	DESIRED OUTCOME
SHAREHOLDERS AND ANALYSTS Including present and potential future investors	▶ Diversified growth ▶ Operational performance ▶ Group strategy ▶ Optimal finance structure ▶ Appropriate investments ▶ Compliance with regulatory capital requirements	RMI's communication practices are designed to allow investors to make decisions about the acquisition and ownership of shares. The company communicates formally with shareholders twice a year when it announces interim and year-end results. Comprehensive reports are sent to all shareholders and are accessible on the company's internet site **(www.rmih.co.za)**. The chief executive and investment team meet with investors and investment analysts from time to time. Significant shareholdings and an analysis of the RMI share price and trading data appear on **pages 225** and **226**.	Consistent and superior growth in share price and dividends
EMPLOYEES Permanent, temporary and contractors	▶ Inviting and supportive environment ▶ Encourage an innovative culture ▶ Employee engagement and communication ▶ Open and honest feedback	RMI, together with all its subsidiaries and associates, believe that employees have an important role to play in sustaining the positive performance of the group. The human resource strategy is to attract, develop and retain the best industry talent from South Africa's diverse population base. In particular, it seeks people with an entrepreneurial attitude and encourages an owner-manager culture. People are empowered, held accountable for their actions and rewarded accordingly. The group operates in a number of sectors within the broader financial services industry, each with its own distinct employment practices and unique human resource pressures. To recognise and address these divergent needs, the group follows a practice of evolving the design and implementation of appropriate remuneration structures through industry-specific structures. Within this divisional framework, remuneration structures comprise: ▶ basic salary plus benefits (all employees are required to belong to a medical aid) and, where appropriate; ▶ annual performance-related rewards; as well as ▶ share incentive schemes. Remuneration is based on both individual and business unit performance. Annual remuneration reviews encompass all three elements above.	Attract, develop and retain the best industry talent from the diverse population base in the markets we operate in

KEY STAKEHOLDERS	MATERIAL REQUIREMENTS	INTERACTION AND IMPACT	DESIRED OUTCOME
EMPLOYEES Permanent, temporary and contractors – continued		**EMPLOYMENT EQUITY** In line with the business philosophy of empowerment, each business unit in the group is charged with meeting its targets in terms of plans submitted to the Department of Labour as required by the Employment Equity Act, 55 of 1998. In addition to setting affirmative action targets aimed at raising the number of designated groups as a percentage of the total employee complement, these plans commit group companies to the following in pursuit of the appropriate employment equity in the organisation: ▶ increasing the overall racial diversity of the workforce; ▶ increasing the number of black and female managers; ▶ creating awareness of the need for employment equity and diversity amongst employees; ▶ the establishment of representative diversity forums; and ▶ awareness of employment opportunities for people with disabilities. **EMPLOYEE WELLNESS** The group is committed to the health and safety of employees and has implemented measures to ensure optimal health and safety conditions for employees. Of growing importance is the impact of HIV/Aids on the workforce and the South African economy in general. The group adopted an HIV/Aids policy that is based on education, communication, counselling and confidentiality.	
CLIENTS	▶ Excellent service ▶ Good value for money ▶ Ability to deliver on promises	The group companies provide a comprehensive range of financial products and services to South African corporates and individuals. In this regard, the integrity of its various brands, their image and reputation are paramount. To ensure the sustainability of their businesses, all companies in the group regularly engage with their clients to measure satisfaction levels and gain insight into their needs. All the group companies encourage innovation to ensure that clients' needs are addressed. In terms of the Financial Sector Charter, group companies are committed to providing financial products and services to previously disadvantaged communities.	Content clients

KEY STAKEHOLDERS	MATERIAL REQUIREMENTS	INTERACTION AND IMPACT	DESIRED OUTCOME
SUPPLIERS	▶ Prompt and accurate payment ▶ Broad-based black economic empowerment (B-BBEE)	The group established a set of procurement guidelines to assist group companies in meeting their commitment to place business with B-BBEE suppliers. One of the main focus areas of the procurement function within the various group companies is ensuring that all suppliers are appropriately accredited.	Reliable and content suppliers
DEVELOPMENT HUB (AlphaCode)	▶ Mentorship ▶ Financial investment ▶ Business support and advice	Communication primarily through personal interaction, telecommunications and electronic communications.	Breakthrough businesses
COMMUNITIES in which group companies operate	▶ Enterprise development ▶ Responsible corporate citizenship ▶ Financial inclusion	All group companies are committed to uplifting the societies in which they operate by following sound employment practices and meeting the needs of the communities. The Discovery Fund provides ongoing financial support to various community healthcare organisations and projects across South Africa, with many of these organisations and projects situated in remote and rural areas. The Discovery Foundation aims to increase capacity in healthcare provision by supporting over 300 healthcare specialists and institutions. Since 2006, grants amounting to R160 million have been awarded in this regard. At MMI, a decision was made to combine the work of the respective corporate social investment initiatives of Momentum and Metropolitan in the MMI Foundation. The focus areas are health, education, disability and sport development. Total corporate social investment spend amounted to R33 million in 2016. The most notable community projects at OUTsurance are the "pointsmen project" and "staff helping South Africa OUT" (total spend of R33 million). The group is committed to reduce both the direct and indirect impacts its business activities have on the natural environment. Both impacts are regulated through application of relevant legislation, subscription to voluntary external regulations and ongoing internal self-regulation.	No harm done/ Responsible corporate citizenship

KEY STAKEHOLDERS	MATERIAL REQUIREMENTS	INTERACTION AND IMPACT	DESIRED OUTCOME
GOVERNMENT and regulatory bodies	▶ Comply with laws and regulations ▶ Pay tax accurately and timeously ▶ Communicate openly ▶ Adhere to statutory capital requirements	We engage with government and regulatory bodies in a proactive and transparent manner. We are committed to playing an active role in shaping the South African financial services industry by working with industry partners and regulators. The group is subject to the independent oversight of South African regulatory authorities. Group company representatives interact with a wide spectrum of regulatory bodies, including the Financial Services Board and the JSE Limited. The relationship sought is one of compliance and constructive participation in committees, with a view to ensuring that South African industry practice remains amongst the best in the world.	Compliance

Also refer to the value-added statement on **page 35** to see how RMI added value to stakeholders.

MANAGING OUR RISKS AND OPPORTUNITIES

Risks are monitored by the board and other governance structures in line with the board-approved risk appetite and risk management strategy.

Our principal risks are summarised below:

A more comprehensive analysis of our risk management process, insurance and financial risks is disclosed in the management of insurance and financial risk on **pages 126** to **144**.

RISKS	CONTEXT AND IMPACT	WHAT WE DO IN MITIGATION
STRATEGIC RISKS		
Risk related to the determination of an appropriate strategy and the implementation thereof	The strategy must reflect a clear vision which addresses shareholders' expectations. It must be implemented through operational action plans, based on appropriate assumptions, to avoid the risk of inefficient implementation and failure to comply with the value creation objectives.	RMI's strategy is determined by an experienced board of directors after consideration of all the relevant information. The board monitors progress made in respect of the implementation of the strategy on a quarterly basis and through its sub-committees, especially the investment committee, which meets more often.
Portfolio risk	This risk relates to the loss of value or opportunity to create value due to inefficient or ineffective identification of new investments or disinvestment from existing investments. The composition of the portfolio, determined by the investment decisions, may involve a particular exposure to certain industrial sectors, certain geographic areas or certain regulations.	Portfolio investments are chosen with a view to create value for our shareholders. We seek to mitigate the portfolio risk by diversifying our portfolio and by following a rigorous investment process comprising various phases. Investment team discussions and debates are conducted prior to the recommendation of any new or additional investment or disposal of an existing investment to the investment committee. The investment committee consists of board members with a wealth of investment experience. All new or additional investments or disposals of investments are considered by the investment committee, and depending on the size of the proposed transaction, also by the board of directors. Corporate finance, accounting, tax and legal specialists are contracted to assist with due diligence processes before final investment decisions are made.
Investment performance risk	The value of our portfolio will be adversely affected by downward movements in markets, resulting in poor investment performance. This risk also relates to the destruction of value due to poor management of existing investments.	The successful management of investments is dependent on a full understanding of the businesses of investee companies. The chief executive and his management team continuously analyse and monitor investee company performance with the findings tabled at board meetings. Senior RMI management also regularly meet with the management of investee companies to discuss performance and RMI is represented on investee company boards and committees. We manage market risk through a structured investment philosophy and process.

RISKS	CONTEXT AND IMPACT	WHAT WE DO IN MITIGATION
Reputational risk	The risk that an action, event or transaction may compromise the brand. Our brand and reputation are important to us. Our stakeholders should associate our name with a credible, long-term, sustainable and trustworthy investment holding company.	We operate with a philosophy that seeks to protect and enhance our brand, our reputation and our ability to conduct business with the highest ethical standards. We recognise the importance of the group's reputation and devote considerable effort to manage all aspects of that reputation.
Disruptive technology and competitor risk	Disruptive technology, trends and changes in the financial services industry can adversely affect us. Changes in the competitive environment can put pressure on our group to invest in disruptive business models and for our existing investee companies to make changes to product offerings, processes, systems and policies.	RMI has established AlphaCode, a next-generation financial services business platform, to help identify and enable investments that could change the landscape of the financial services industry. We maintain our innovative focus, monitor technological and other trends closely and adapt our products and services accordingly.
OPERATIONAL RISKS		
Human resource risk	This risk refers to the group's ability to attract and retain the human resources required to ensure that it operates effectively and achieves its objectives.	The group recognises the importance of attracting and retaining appropriate employees to achieve its objectives. A considerable amount of effort is applied in developing our people and their careers and creating a workplace in which our employees can thrive. The remuneration policy is designed to attract and retain skills and talent.
Process and systems risk	Operational risk refers to the exposure to potential losses caused by internal shortcomings and/or failures of processes, people and systems, which include errors and fraud.	This risk is managed through various processes and procedures to identify, mitigate and report on operational risks. The internal control environment is subject to reviews by internal audit, quality assurance and risk management functions.
Information technology risk	There are various risks linked to information technology (IT), our networks and our business operating systems. Information security and cyber-attacks are main risks, as well as the possible disruption of operating systems.	We have numerous policies and processes in place to ensure the continuity and stability of our IT systems, recovery in a possible disaster situation, the security of data and that our operating systems are aligned with business objectives and strategy.
Fraud risk	Insurance-related fraud, internal and external fraud, dishonesty, collusion with third parties and syndicates, as well as unauthorised activities.	The group employs a significant number of resources tasked with the prevention and detection of fraud.

RISKS	CONTEXT AND IMPACT	WHAT WE DO IN MITIGATION
Disaster recovery and business continuity	The risk of the business being unable to operate due to an unforeseen event or disaster.	A comprehensive business continuity plan has been developed and tested. The plan provides guidance to employees for the complete restoration of the core business functions and IT facilities. In the event of a disaster, we have alternative facilities where key management and employees are able to resume our most critical business functions.
FINANCIAL RISKS		
Underwriting risk	RMI has significant investments in insurance companies. Due to the unpredictable nature of insurance business and the many factors that can affect business volumes, profitability and claim incidents, underwriting risk is a major consideration to ensure long-term sustainability and protecting the interests of policyholders.	The underwriting processes of RMI's investee companies in the insurance sector are based on a trusted and robust underwriting philosophy of prudent consideration of risk factors. We have a documented underwriting risk policy and underwriting risk indicators are monitored closely and regularly.
Counterparty default risk	The risk of losses resulting from the default of other parties such as a reinsurer where payments are due. Our reinsurance arrangements are very important, especially during times of increased frequency of extreme weather events.	The risk is managed through the compliance with the reinsurance policy and placing reinsurance treaties with reputable reinsurers with a prescribed minimum credit rating, as well as the diversification of our treaties amongst multiple reinsurers.
Treasury risk	Any loss of control over cash inflows and outflows may have significant financial consequences.	Treasury transactions are subject to documented limits and rules, formal delegations of authority and segregation of duties.
Liquidity risk	The risk that we will not be able to meet our payment obligations as they fall due, or that we may be forced to liquidate our positions under adverse conditions to meet that obligation.	We have controls and processes in place to ensure that future liquidity requirements are met. Forecasting is conducted on a regular basis to determine liquidity requirements.
REGULATORY RISKS		
Regulatory compliance risk	Regulatory compliance describes the goal to ensure that we are aware of and take the necessary steps to comply with the relevant laws and regulations. Regulatory changes also affect business processes and procedures and increase costs.	The group provides continuous training and awareness programmes. The governance processes are proactive in identifying and acting on legislative changes, supported by compliance assessments of business practices. We have complied with all regulatory capital adequacy requirements during the year.

We continue to evaluate and improve our management techniques and processes to build our reputation as a trusted and reliable holding company.

OUR PERFORMANCE AND OUTLOOK

CHAIRMAN'S STATEMENT

GT FERREIRA *Chairman*

DURING THE YEAR, RMI CONTINUED TO ACTIVELY PURSUE NEW INVESTMENTS TO ADD TO AND PROTECT ITS EXISTING STRATEGIC INVESTMENTS, STILL WITH A FOCUS ON FINANCIAL SERVICES.

INTRODUCTION

RMI is an investment holding company with an investment team of experienced, alternative thinking, financial services specialists who actively partner smart and industry- changing people by being a shareholder of influence.

RMI's investments include Discovery, MMI, OUTsurance, RMB Structured Insurance, RMI Investment Managers and Merchant Capital.

On 23 August 2016, RMI announced the sale of its investment in RMB Structured Insurance, excluding the stake in Truffle, subject to regulatory approval. The results of RMB Structured Insurance, excluding Truffle, are disclosed as a discontinued operation in the RMI group results.

During the year, RMI continued to actively pursue new investments to add to and protect its existing strategic investments, still with a focus on financial services.

For more information on our new investments, refer to the chief executive's review on **page 24**.

Investing in RMI provides investors with an opportunity to participate in long-term strategic partnerships and significant interests in some of South Africa's leading insurance and financial service groups.

ECONOMIC ENVIRONMENT

The economic environment for the year under review remained challenging and was characterised by:

- a sharper deterioration in South Africa's GDP than expected, together with downward revisions to forecasts as a result of a slowdown in mining activity and the retail sector;
- headline inflation exceeding the Reserve Bank's upper band, stemming from food and fuel increases placing pressure on disposable income;
- a 4% increase in the local equity market;
- contractions in local employment data with continued softening in household credit growth;
- a significant decrease in new vehicle sales and a weaker and more volatile currency;
- the South African government avoiding a sovereign rating downgrade in June 2016;
- increased USD oil and gold prices, partially offset by USD weakness towards the latter half of the financial year; and
- the outcome of the Brexit referendum, which resulted in significant global economic uncertainty.

Real growth in South Africa is contingent of both local and global factors with risk on the downside. The economy remains vulnerable to a more aggressive rate hike approach from the central bank if capital inflows slow down further or reverse.

FINAL DIVIDEND FOR THE 2016 FINANCIAL YEAR

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 board is of the opinion that RMI is adequately capitalised and that the company will be able to meet its obligations in the foreseeable future, after payment of the final dividend.

The board resolved to declare a final dividend of 65.0 cents per ordinary share (2015: 64.0 cents). The total dividend for the year of 118.0 cents (2015: 116.0 cents) per ordinary share is covered 1.9 times (2015: 1.8 times) by the normalised earnings of 225.3 cents (2015: 212.7 cents) per share.

STRATEGY AND OUTLOOK

EXISTING PORTFOLIO

South Africa is experiencing a tough macro-economic environment, characterised by high inflation and weak growth. Consumers are impacted by a rising interest rate cycle and increased pressure on disposable income. Capital markets remain volatile, responding to the dynamics of economic and social uncertainty. Against the background of an increasingly complex regulatory environment, local growth in new business volumes and profit at RMI's existing investments is expected to be affected.

In parallel to the South African market, the international markets in which RMI's portfolio companies operate are also expected to face growth and stability issues. The June 2016 UK referendum has negatively impacted GDP forecasts, with increased uncertainty leading to capital flight. However, given the low base of market shares in these international markets, growth will pivot on product traction rather than the general economic conditions.

Against this demanding backdrop, RMI believes that its investee companies have appropriate strategies in place to continue producing resilient operational performances.

NEW INVESTMENTS

As previously outlined to the market, in addition to its active involvement in the existing portfolio, RMI plans to expand, diversify and modernise its investment portfolio through opportunities across a wide spectrum of scale and lifecycles of financial services businesses.

Traditional financial services

RMI is evaluating the addition of a significant "traditional" financial services business to the existing portfolio. 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. There were no impending investments at year-end.

Next-generation financial services

With the rise of financial technology (fintech) in South Africa, a number of investors and players have positioned themselves in the market to support and fund entrepreneurs. RMI's next-generation business platform, AlphaCode, continues to progress on its strategy of identifying, partnering and growing extraordinary next-generation financial services entrepreneurs.

AlphaCode is committed to building the broader entrepreneurial sector by supporting high-impact, mainly black entrepreneurs, providing mentorship, free office space and support facilities and actively engaging with higher learning institutions and entrepreneurial industry organisations and lobby groups.

AlphaCode has become an innovation hub for the RMI portfolio companies and has created value by facilitating and hosting projects and proof of concepts between its members and RMI's portfolio companies. RMI has also built a strong pipeline of potential investment opportunities from the member base, with the goal remaining to build a diversified portfolio of superior entrepreneur-led, early-stage fintech businesses that have achieved market traction and are poised for rapid growth.

GT Ferreira
Chairman

Sandton
12 September 2016

FINANCIAL HIGHLIGHTS
for the year ended 30 June 2016

NORMALISED EARNINGS
from continuing operations

+8%
to 225.0 cents

NORMALISED EARNINGS
from continuing and discontinued operations

+6%
to 225.3 cents

ORDINARY DIVIDEND

+2%
to 118.0 cents

CHIEF EXECUTIVE'S REVIEW

HERMAN BOSMAN *Chief executive*

IN THIS DIFFICULT ECONOMIC AND BUSINESS ENVIRONMENT, AND INCLUDING THE IMPACT OF CONTINUED INVESTMENT IN STRATEGIC GROWTH INITIATIVES ACROSS THE RMI PORTFOLIO, THE GROUP DELIVERED AN 8% INCREASE IN NORMALISED EARNINGS FROM CONTINUING OPERATIONS FOR THE YEAR.

OVERVIEW OF RESULTS

As indicated to the market during the group's interim results in March 2016, the disposable income of South African consumers remains under pressure due to the rising inflation and interest rate cycles and muted GDP growth. In this difficult economic and business environment, and including the impact of continued investment in strategic growth initiatives across the RMI portfolio, the group delivered an 8% increase in normalised earnings from continuing operations for the year ended 30 June 2016.

Discovery's 7% increase in normalised earnings was driven by the performance of its three established South African businesses; Discovery Health (up 12%), Discovery Life (up 14%) and Discovery Invest (up 22%), as well as VitalityLife in the UK (up 25%). However, in line with Discovery's investment for growth strategy, overall earnings growth was strained by a 73% increase in investments in new initiatives (13% of earnings), including a continued roll-out of the Vitality Shared-Value Insurance model across several markets and investments into Discovery Insure and the new banking initiative.

MMI recorded a disappointing 16% decrease in normalised earnings, mainly as a result of significantly lower underwriting profits, muted equity investment growth affecting asset-based fees and discretionary margin releases, as well as operational challenges in certain non-life businesses. Offsetting some of these challenges, MMI maintained flat expense growth while continuing to make progress on a number of strategic initiatives. Despite the decline in earnings, new business volumes remained buoyant and the return on embedded value was satisfactory at 12.8%.

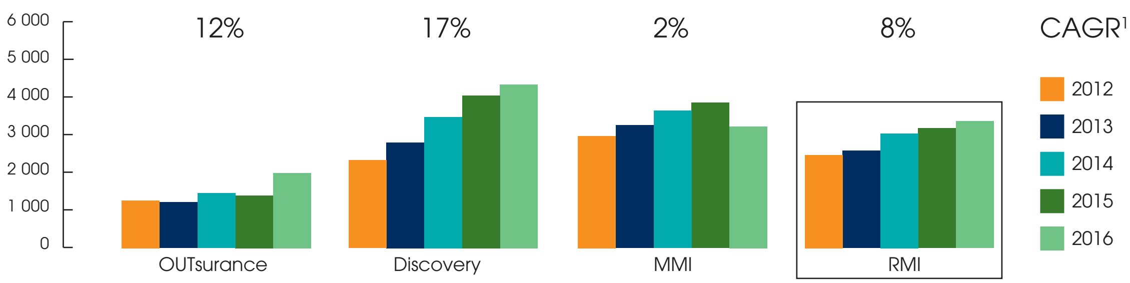
Normalised earnings from **OUTsurance** increased by a better than expected 43%. This performance can be attributed to the significant improvement in the contribution from the Youi group and pleasing results from the South African operations. The prior year's results for Youi were negatively impacted by numerous weather-related catastrophes in Australia. Gross written premiums for the OUTsurance group increased by 18% to R14.8 billion, the claims ratio decreased from 55.5% to 54.4% and the cost-to-income ratio decreased from 28.2% to 26.2%. OUTsurance achieved a 38.4% return on equity.

RMI Investment Managers completed its first year of operations. The financial performance of the business remains on track, with the operational performance ahead of plan. This included the appointment of a distribution and operations team, obtaining the required corporate structure and regulatory approvals, the creation of an asset management operating platform and the establishment of Royal Investment Managers (Royal) with Royal Bafokeng Holdings (RBH). The affiliate asset managers that RMI Investment Managers has invested in, performed in line with expectations, including a strong period of investment performance across most of the affiliates over the last six months.

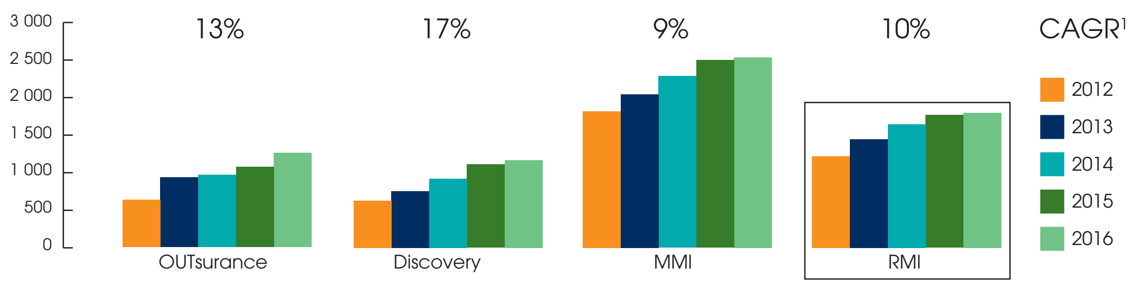
Merchant Capital, in which the group purchased a 25.1% shareholding in September 2015, continued its strong operational performance, as well as investing in its core operations and product development.

Normalised earnings from **RMB Structured Insurance**, excluding Truffle, decreased by 90% to R8 million.

EARNINGS HISTORY (R million)



DIVIDEND HISTORY[2] (R million)



1. *Percentages denote compound annual growth rate (CAGR).*
2. *Excludes special dividends.*

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:

R million	For the year ended 30 June 2016 Audited	2015 Audited	% change
Continuing operations			
Discovery	4 312	4 027	7
MMI	3 206	3 836	(16)
OUTsurance	1 985	1 388	43
Other[1]	(11)	1	>(100)
Discontinued operation			
RMB Structured Insurance (excluding Truffle)	8	81	(90)

1. Other includes RMI Investment Managers, Truffle and Merchant Capital.

A reconciliation of the adjustments made to derive normalised earnings is presented on **page 32**.

The consolidated group normalised earnings for the year ended 30 June 2016 from continuing and discontinued operations amounted to R3.3 billion, an increase of 6% on the comparative year.

The table below provides a breakdown of this number:

R million	For the year ended 30 June 2016 Audited	2015 Audited	% change
Continuing operations	3 342	3 097	8
Discovery	1 079	1 012	7
MMI	805	956	(16)
OUTsurance	1 664	1 166	43
Other[1]	(11)	1	>(100)
Funding and holding company costs	(195)	(38)	>(100)
Discontinued operation			
RMB Structured Insurance (excluding Truffle)	6	63	(90)
NORMALISED EARNINGS	3 348	3 160	6
Normalised earnings per share (cents) (continuing operations)	225.0	208.4	8
Normalised earnings per share (cents) (continuing and discontinued operations)	225.3	212.7	6

1. Other includes RMI Investment Managers, Truffle and Merchant Capital.

The funding and holding company costs include the funding and operational expenses carried at the RMI corporate centre. This includes the investment in AlphaCode. Funding costs increased due to the additional R1.25 billion in cumulative, redeemable preference shares issued to fund the additional shares taken up in Discovery as part of its rights issue offer in March 2015. The comparative number also included the underwriting income of R44 million after taxation that RMI earned for underwriting the Discovery rights issue offer.

MARKET VALUE OF INVESTMENTS

During the 2016 financial year, RMI's share price decreased by 3%, compared to a 6% decrease in the life insurance index and a 6% increase in the non-life insurance index. RMI has delivered a total annual compounded return to shareholders of 33.1% since its listing in March 2011.

The individual investment performances during the 2016 financial year are outlined below:

- Discovery's share price decreased by 3%.
- MMI's share price decreased by 25%, with a dividend yield of 6.8% (based on an assumed share price of R23). RMI acquired an additional 8.1 million MMI shares in the 2016 financial year.
- On a "look-through" basis, based on share prices as at 30 June 2016, the value attributed to RMI's unlisted investments increased by 6% to R33.8 billion. These unlisted investments include OUTsurance (83.6% held) and RMB Structured Insurance (75.5% held), as well as new investments made during the year under review in RMI Investment Managers (100% held) and Merchant Capital (25.1% held).

	For the year ended 30 June		
R million	2016	2015	% change
Market value of interest in:			
– Discovery	19 838	20 481	(3)
– MMI	9 080	11 849	(23)
Market value of listed investments	28 918	32 330	(11)
Implied market value of unlisted investments	33 779	31 875	6
Gross market value of portfolio	62 697	64 205	(2)
Net liabilities of holding company	(1 487)	(1 108)	34
RMI MARKET CAPITALISATION	61 210	63 097	(3)
RMI closing share price (cents)	4 120	4 247	(3)

The movement in the net liabilities of the holding company was mainly due to the acquisition of additional MMI shares, the capitalisation of RMI Investment Managers and the acquisition of the 25.1% stake in Merchant Capital.

STRATEGY

During the year, we have clarified our strategic initiatives and made significant progress against them:

STRATEGIC INITIATIVE	DESIRED OUTCOME	PROGRESS MADE
OPTIMISE	Enhanced involvement with portfolio companies Growth in insurance revenues Leadership stability and succession planning Portfolio rationalisation	▶ Inception of MMI incentive scheme ▶ Extension of OUTsurance incentive scheme ▶ Sale of RMB Structured Insurance to Santam (pending regulatory approval) ▶ Purchase of shares in MMI and OUTsurance ▶ Exploration of new products and strategic projects to diversify revenue streams for OUTsurance ▶ Ongoing strategic dialogue with Discovery and MMI
DIVERSIFY	Focus on international markets (5th pillar) Diversification of asset management affiliate model	▶ Assessed significant international UK investment opportunities; withdrew due to macro-economic factors ▶ Continue to evaluate later stage, capital lite business models with organic growth potential ▶ Investment into eight affiliates with assets under management more than R50 billion and various asset and investment classes
MODERNISE	Increased traction between AlphaCode and portfolio companies	▶ 53 businesses in the AlphaCode hub generating future potential investment opportunities ▶ AlphaCode recognised as one of the top 11 co-working hubs in the world (Uproxx) ▶ Successful conclusion and implementation of investment into Merchant Capital

RMI's strategic initiatives of optimisation, diversification and modernisation are outlined on **pages 10** to **12**.

OUTLOOK

Discovery remains committed to its core strategic plans, which focus on distribution, innovation and operational efficiency. Discovery's primary operating performance, product and market diversification, coupled with market expansion and investment into new initiatives will provide the impetus to create sustainable long-term growth.

MMI is focusing on efficiencies, growth initiatives and client-centricity. The MMI board believes that growth in new business volumes and profits will, however, be impacted by many factors in the South African economy, including challenging markets, the level of unemployment and disposable income.

OUTsurance expects reasonable premium growth from a higher base over the next financial year for its Australasian operations. The incremental scale of the Australasian business is expected to drive further cost efficiencies. The management team will focus on growing Youi New Zealand into a profitable insurance business which can deliver on its potential as a growth driver for the group. The South African business is exploring diversification of revenue streams by introducing complementary products and will expand its commercial insurance sales footprint. OUTsurance continues to monitor the use of new technology, including the launch of a value-adding telematics product.

Youi has been subject to recent negative media reports in both New Zealand and Australia in respect of unauthorised sales practices. Although these incidents relate to a very small proportion of overall quotes and sales, OUTsurance does not condone this behaviour, which is contrary to the values and culture of the group. Strong disciplinary action was instituted against the employees involved, including a number of dismissals. Remedial action was taken to prevent and identify any remaining unacceptable sales practices. These preventative measures have been highly effective and no client was financially disadvantaged by any of these practices.

RMI Investment Managers continues to expand its portfolio of affiliate asset managers as it seeks to identify, partner and grow world-class asset managers. In addition to the acquisition of a 30% equity stake in Sentio Capital, an active equities and absolute return manager, announced during the RMI interim results in March 2016, RMI Investment Managers successfully concluded two more acquisitions. The acquisition of RMB Structured Insurance's 22.4% equity stake in Truffle is currently subject to the finalisation of terms. Truffle is an active equity and multi-asset boutique asset manager with a strong long-term performance track record, managing client assets of R20 billion.

In addition, in September 2016, RMI Investment Managers acquired a 25% equity stake in Polar Star Management (Polar Star). Polar Star is a commodity arbitrage hedge fund, managing client assets of R4 billion with an excellent long-term performance track record of returns in excess of 20% per annum since inception in 2010. Polar Star's unique skills and investment strategy are important and complementary diversifiers to RMI Investment Managers' existing long only affiliates that are more exposed to the returns of the equity market. This will bring the number of affiliates to six active managers, one passive manager and one alternative manager. The investments in affiliates that were announced as part of the 30 June 2015 results include Coreshares, a smart beta and passive exchange-traded fund (ETF) and index fund manager; Northstar Asset Management, an active equity and multi-asset manager; Perpetua Investment Managers, a value equity and multi-asset manager; Tantalum Capital, a multi-strategy hedge fund and absolute return-focused active asset manager and RMI Specialist Managers, currently a fixed income, credit and money market active manager which launched its first three unit trust funds in April 2016. The combined assets under management (AUM) of these affiliates are over R50 billion (R66 billion including Royal affiliates), spread across a diversified range of asset classes, investment styles and clients.

Other important developments include the appointment of the RMI Investment Managers team, a high calibre team of six distribution and operations employees focused on partnering and growing the affiliates. The team has been active in raising the profile of RMI Investment Managers and its affiliates.

RMI Investment Managers and RBH have established Royal under the leadership of Kabelo Rikhotso. Royal's aim is to build an affiliate asset management business that will play a significant role in the transformation of the South African asset management sector by acquiring minority stakes in independent asset managers that require a black partner with knowledge and experience in the asset management industry. Royal has signed heads of agreement during August 2016 to acquire a 25% equity stake in Sesfikile Capital, a highly-rated active listed property manager with AUM of R16 billion.

Merchant Capital's short-term strategy entails solidifying its South African core business and operating platform. The business continues to launch new products and partnerships to further differentiate the product and grow the client base.

A review of **RMB Structured Insurance** was performed within the context of a changing regulatory and operating environment and the evolving strategic objectives of RMB Structured Insurance. RMI believes that the business would be more optimally positioned within a large insurance group. To this end, RMI reached an agreement on the sale of its shareholding in RMB Structured Insurance to Santam after the financial year-end. The sale agreement excludes the 22.4% interest in Truffle, which will be sold to RMI Investment Managers. The sale is subject to regulatory approvals and was concluded at market-related terms.

At a corporate level, our focus will be on the following:

	OUTCOME	PROGRESS MADE
ALPHACODE	▶ AlphaCode continues to grow ▶ Established a B-BBEE centre of excellence to support high-impact black entrepreneurs through free office space, enterprise development and mentorship ▶ Support the broader entrepreneurial ecosystem through key partnerships ▶ Actively engages its members to facilitate meaningful conversations between members, portfolio companies and the RMI investment team	▶ Understanding of what AlphaCode should be and the needs it is trying to meet became clearer as engagement with the community and entrepreneurs continued ▶ Key focus is to identify, partner and grow extraordinary next-generation financial services entrepreneurs to: i) build an investment portfolio; and ii) create value for RMI and its portfolio companies by facilitating innovation and next-generation thinking
CAPITAL STRUCTURE	▶ An additional class of preference shares was created and approved at the annual general meeting in November 2015 to give effect to RMI's R15 billion domestic medium-term note and preference share programme ▶ RMI has created an optimal capital structure framework ▶ RMI has evaluated the impact of potential future investments on its dividend flows	▶ Identified debt programme as the solution for: i) Raising investment grade debt in capital markets with relative ease ii) Shortening of the debt raising process when funds are required ▶ Funding of all future investments will be evaluated against the optimal capital structure framework
SHAREHOLDER ENGAGEMENT	Change in shareholding ▶ Top buyers: Allan Gray, PIC, BlackRock Investment Managers, Old Mutual Investment Group, State Street Global Advisors and Northern Trust Global Investments	▶ More than 100 investors seen in the last year

We remain confident that both our long-standing and new investments will continue to deliver on our primary objective of creating value for our shareholders.

Herman Bosman
Chief executive

Sandton
12 September 2016

KEY PERFORMANCE INDICATORS

		2012	2013	2014	2015	2016	% change for 2016	% CAGR[1]
Equity	R million	13 943	14 341	16 377	18 083	**19 726**	**9**	9
Normalised earnings from continuing operations	R million							
Discovery		2 316	2 787	3 457	4 027	**4 312**	**7**	17
MMI		2 955	3 241	3 621	3 836	**3 206**	**(16)**	2
OUTsurance		1 257	1 209	1 448	1 388	**1 985**	**43**	12
Other		–	–	–	1	**(11)**	**>(100)**	>(100)
Group normalised earnings from continuing operations	R million	2 381	2 496	2 944	3 097	**3 342**	**8**	9
Discovery		579	699	866	1 012	**1 079**	**7**	17
MMI		746	803	899	956	**805**	**(16)**	2
OUTsurance		1 095	1 031	1 219	1 166	**1 664**	**43**	11
Other		–	–	–	1	**(11)**	**>(100)**	>(100)
Funding and holding company costs		(39)	(37)	(40)	(38)	**(195)**	**>(100)**	(50)
Earnings and dividends from continuing operations	cents							
Earnings		152.5	147.3	200.5	217.8	**200.5**	**(8)**	7
Diluted earnings		151.4	146.2	198.3	215.7	**197.1**	**(9)**	7
Headline earnings		163.5	146.4	188.8	215.5	**197.6**	**(8)**	5
Diluted headline earnings		162.6	145.4	186.7	213.5	**194.3**	**(9)**	5
Normalised earnings		160.2	167.9	198.2	208.4	**225.0**	**8**	9
Diluted normalised earnings		158.6	166.6	196.1	206.9	**221.6**	**7**	9
Ordinary dividend		80.0	95.0	108.0	116.0	**118.0**	**2**	10
Special dividend		55.0	–	–	–	**–**	**–**	–
Dividend cover	times							
– headline earnings		2.1	1.6	1.8	1.9	**1.7**		
– normalised earnings		2.1	1.8	1.9	1.8	**1.9**		
Share price	cents							
– Closing		1 737	2 520	3 278	4 247	**4 120**	**(3)**	24
– High		1 825	2 638	3 450	4 894	**4 554**	**(7)**	26
– Low		1 140	1 737	2 333	3 101	**3 149**	**2**	29
Market capitalisation	R million	25 806	37 439	48 701	63 097	**61 210**	**(3)**	24
Volume of shares traded	million	560	464	273	442	**525**	**19**	(2)

1. Compound annual growth rate.

FINANCIAL REVIEW

OVERVIEW OF RESULTS

This overview of results provides the reconciliation of the adjustments made to derive normalised earnings as referred to in the chief executive's review, as well as the group segmental report, to obtain a summarised view of the group's results.

The complete RMI annual financial statements are included in this annual integrated report. Refer **page 89.**

The complete RMI annual financial statements are also available on the company's website: **www.rmih.co.za**.

The complete annual financial statements of RMI's significant investee companies are available on the following websites:

- Discovery **www.discovery.co.za**
- MMI **www.mmiholdings.co.za**
- OUTsurance **www.outsurance.co.za**

COMPUTATION OF HEADLINE AND NORMALISED EARNINGS

The following adjustments were made to arrive at normalised earnings for the year:

R million	For the year ended 30 June 2016 Audited	2015 Audited	% change
Earnings attributable to equity holders	2 977	3 292	(10)
Adjustment for:			
Intangible asset impairments	37	4	
Profit on sale of subsidiary	(29)	–	
Profit on dilution of shareholding	(26)	(22)	
Release of foreign currency translation reserve	(23)	–	
Impairment of available-for-sale financial assets	3	35	
Profit from business combination	(2)	–	
Profit on disposal of property and equipment	(2)	–	
Realised profit on sale of available-for-sale financial assets	(1)	(40)	
Profit on sale of associate	–	(11)	
Headline earnings attributable to equity holders	2 934	3 258	(10)
RMI's share of normalised adjustments made by associates:	438	(87)	
Amortisation of intangible assets relating to business combinations	209	218	
Basis and other changes and investment variances	131	37	
Rebranding and business acquisition expenses	91	105	
Net realised and fair value (gains)/losses on shareholders' assets	(53)	2	
Non-recurring and restructuring expenses	39	35	
Additional 54.99% share of DiscoveryCard profits	22	–	
Accrual of dividends payable to preference shareholders	(1)	–	
Fair value adjustment to puttable non-controlling interest financial liability	–	(415)	
Deferred tax raised on assessed losses	–	(74)	
Finance costs raised on puttable non-controlling interest financial liability	–	16	
Non-controlling interest adjustment if no put options	–	(11)	
Group treasury shares	(24)	(11)	
NORMALISED EARNINGS ATTRIBUTABLE TO EQUITY HOLDERS	3 348	3 160	6

SEGMENTAL REPORT

Audited R million	Discovery	MMI	OUTsurance	Discontinued operation	Other[1]	Total
Year ended 30 June 2016						
Operating profit	–	–	2 898	–	(94)	2 804
Finance costs	–	–	–	–	(136)	(136)
Share of after-tax results of associates	949	555	15	–	5	1 524
Profit/(loss) before taxation	949	555	2 913	–	(225)	4 192
Taxation	–	–	(904)	–	11	(893)
Result for the year from continuing operations	949	555	2 009	–	(214)	3 299
Discontinued operation	–	–	–	8	–	8
PROFIT/(LOSS) FOR THE YEAR	949	555	2 009	8	(214)	3 307
NORMALISED EARNINGS	1 079	805	1 985	7	(528)	3 348
Assets	–	–	14 541	6 100	1 028	21 669
Associates	8 517	6 210	39	–	122	14 888
Intangible assets	–	–	110	–	3	113
TOTAL ASSETS	8 517	6 210	14 690	6 100	1 153	36 670
TOTAL LIABILITIES	–	–	8 793	5 626	2 525	16 944
Year ended 30 June 2015 (restated)						
Operating profit	–	–	1 956	–	62	2 018
Finance costs	–	–	–	–	(74)	(74)
Share of after-tax results of associates	1 434	695	15	–	1	2 145
Profit/(loss) before taxation	1 434	695	1 971	–	(11)	4 089
Taxation	–	–	(632)	–	(25)	(657)
Result for the year from continuing operations	1 434	695	1 339	–	(36)	3 432
Discontinued operation	–	–	–	81	–	81
PROFIT/(LOSS) FOR THE YEAR	1 434	695	1 339	81	(36)	3 513
NORMALISED EARNINGS	1 012	956	1 388	81	(277)	3 160
Assets	–	–	11 750	5 544	904	18 198
Associates	7 869	6 107	33	31	23	14 063
Intangible assets	–	–	64	2	2	68
TOTAL ASSETS	7 869	6 107	11 847	5 577	929	32 329
TOTAL LIABILITIES	–	–	7 136	5 084	2 026	14 246

1. Other includes RMI, RMI Investment Managers, Truffle, Merchant Capital and consolidation entries.

GEOGRAPHIC SEGMENTS

Audited R million	South Africa	Australia	New Zealand	UK	Total
Year ended 30 June 2016					
Profit/(loss)	2 045	730	(107)	–	2 668
Share of after-tax results of associates	1 459	–	–	65	1 524
Profit/(loss) before taxation	3 504	730	(107)	65	4 192
Taxation	(669)	(224)	–	–	(893)
Result for the year from continuing operations	2 835	506	(107)	65	3 299
Discontinued operation	8	–	–	–	8
PROFIT/(LOSS) FOR THE YEAR	2 843	506	(107)	65	3 307
TOTAL ASSETS	27 394	8 515	761	–	36 670
TOTAL LIABILITIES	10 163	6 387	394	–	16 944
Year ended 30 June 2015					
Profit/(loss)	1 999	75	(130)	–	1 944
Share of after-tax results of associates	2 017	–	–	128	2 145
Profit/(loss) before taxation	4 016	75	(130)	128	4 089
Taxation	(633)	(24)	–	–	(657)
Result for the year from continuing operations	3 383	51	(130)	128	3 432
Discontinued operation	81	–	–	–	81
PROFIT/(LOSS) FOR THE YEAR	3 464	51	(130)	128	3 513
TOTAL ASSETS	25 550	6 186	593	–	32 329
TOTAL LIABILITIES	9 200	4 834	212	–	14 246

VALUE-ADDED STATEMENT

R million	2016	2015
Economic value created		
Premium income and reinsurance recoveries	**13 589**	11 871
Income from associates, investment income, fees and other income	**2 174**	2 694
Non-claims payments to outside service providers	**(1 553)**	(1 360)
Payments relating to profit sharing arrangements and policyholders' interest	**(204)**	(201)
Finance costs	**(136)**	(74)
Discontinued operation	**8**	81
TOTAL ECONOMIC VALUE CREATED	**13 878**	13 011
Total economic value distributed amongst stakeholders		
Employees		
Salaries and other benefits	**2 093**	1 802
Policyholders	**7 463**	6 911
Policyholder claims and increase in reserves	**7 101**	6 596
Cash bonuses on insurance contracts	**362**	315
Government (in the form of taxes)	**884**	638
Providers of capital	**2 068**	1 915
Ordinary dividends paid to shareholders	**1 738**	1 694
Earnings attributable to non-controlling interests	**330**	221
Reinvested to support future growth	**1 370**	1 745
Retained earnings[1]	**1 248**	1 617
Depreciation	**122**	128
ECONOMIC VALUE DISTRIBUTED	**13 878**	13 011
Percentage of economic value distributed		
Employees (%)	**15%**	14%
Policyholders (%)	**54%**	53%
Government (%)	**6%**	5%
Providers of capital (%)	**25%**	28%
TOTAL	**100%**	100%

1. *Net of deferred taxation.*

PORTFOLIO OVERVIEW

ADRIAN GORE *Chief executive*

Discovery

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

ABOUT DISCOVERY

Discovery is a South African-founded financial services organisation with operations in the healthcare, life insurance, short-term insurance, savings and investment and wellness markets. Founded in 1992 as a specialist health insurer, Discovery today operates in South Africa, the UK, China, Singapore, Australia and the USA through various business lines. It covers over eight million lives.

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

By using powerful financial and behavioural structures that meet people's needs in sustainable ways, Discovery is able to provide superior returns for shareholders.

The group invested in Discovery in 1992 when the Discovery management team had only the dream of doing things differently and when it was still a product offering in Momentum Life.

TOTAL SHAREHOLDER RETURNS SINCE RMI'S LISTING IN MARCH 2011: 27%

DISCOVERY'S BRANDS AND BUSINESSES – PRIMARY MARKET – SOUTH AFRICA	
Discovery Vitality	**Discovery Vitality** is the largest scientifically-based wellness programme globally, with more than 2.4 million lives impacted in South Africa in 2016. It forms the foundation of the Vitality Shared-Value Insurance model globally. This model, developed through Discovery's experience in wellness and insurance over the past 21 years, acts as a catalyst for change in the insurance industry. It simultaneously provides material benefits to members, insurers and society; and is being scaled through the Global Vitality Network of leading global insurers who are using the model in their markets to transform their offerings and the healthy longevity of their clients.
Discovery Health	**Discovery Health** is the leading medical scheme administrator in South Africa, providing administration and managed care services to over 3.2 million beneficiaries. The business has a market share of over 38% in the overall medical scheme market in South Africa, and manages 17 restricted medical schemes on behalf of leading corporate clients, as well as Discovery Health Medical Scheme, South Africa's largest open medical scheme.
Discovery Life	**Discovery Life** provides individual and business clients with comprehensive life, capital disability, income protection, severe illness, education and funeral cover.
Discovery Invest	**Discovery Invest** aims to deliver superior returns to investors by offering innovative investment products that are aligned to the Vitality Shared-Value Insurance model and are both tax- and fee-efficient.
Discovery Insure	**Discovery Insure** is a provider of short-term vehicle and home insurance, insuring assets of R144 billion, including over 145 000 vehicles. Its innovative driver-behaviour programme Vitalitydrive encourages safer driving through measuring driver behaviour and rewarding good driving.

DISCOVERY'S BRANDS AND BUSINESSES – PARTNER MARKET – UNITED KINGDOM	
VitalityHealth	**VitalityHealth** offers an integrated medical insurance and wellness proposition to individuals and predominantly small and medium enterprise (SME) clients in the United Kingdom.
VitalityLife	**VitalityLife** provides individual and business clients in the UK with life, capital disability, severe illness and income protection cover.

DISCOVERY'S BRANDS AND BUSINESSES – PARTNER MARKETS	
THE vitality GROUP	**The Vitality Group**, a wholly-owned subsidiary of Discovery Limited in the USA, provides wellness programmes to corporate clients. Through its corporate offering, The Vitality Group reaches a total of 964 269 employees across large and mid-size groups.
健行天下 Vitality	In China, Discovery has a 25% equity stake in **Ping An Health**, the largest comprehensive medical insurer in the country. Ping An Health provides private healthcare policies to corporates and individuals in the Chinese market. Discovery's partner in Ping An Health is the Ping An Insurance Group of China, a prominent insurer with strong brand equity and an excellent distribution footprint. In addition to this partnership, Discovery has also reached an agreement with the broader Ping An Insurance Group to incorporate the Vitality Shared-Value Insurance model as an additional benefit to life insurance products.

DISCOVERY'S BRANDS AND BUSINESSES – PARTNER MARKETS	
AIA Vitality	The last year was particularly noteworthy for **AIA Vitality**, with the Vitality Shared-Value Insurance model now being part of the core offering in six AIA markets: Singapore, Australia, Hong Kong, the Philippines, Thailand and Malaysia. There is an opportunity to introduce Vitality Shared-Value Insurance to additional AIA markets.
GENERALI Vitality	In Europe, Discovery has progressed rapidly since signing an agreement with Generali in 2014. **Generali Vitality** launched to the public in Germany in June 2016 with the first sales occurring in July. Generali also intends to launch in France on 1 January 2017, followed shortly by a launch in Austria.
John Hancock | Vitality	In the USA market, the relationship with John Hancock continues to flourish. The protection universal life, term, and indexed universal life products are available in the majority of states, and the remaining states are expected to help drive sales, once approved. Since its launch, **John Hancock Vitality** has received numerous awards and garnered significant media attention for its transformative approach to life insurance.
Manulife Vitality	John Hancock's parent company, Manulife, launched **Manulife Vitality** in Canada in September 2016, pioneering the Vitality Shared-Value Insurance model in Canada. Manulife has more than 20 million clients in 22 countries.
SUMITOMO LIFE	Discovery recently concluded a partnership with **Sumitomo Life Insurance Company** in Japan, a substantial and respected life insurer, with over 10 million policies in force and $18.1 billion in annualised premiums. Japan is the second-largest life insurance market globally, after the USA. It has an ageing population, with 80% of mortality related to non-communicable diseases. There is substantial opportunity to influence behaviour positively and improve health outcomes. In addition, the Japanese insurance market faces rising medical costs and the government is eager for initiatives that will alleviate this burden.

PERFORMANCE

R million (unless stated otherwise)	30 June 2016	30 June 2015	% change
Discovery Health	**2 265**	2 031	12
Discovery Life	**3 373**	2 968	14
Discovery Invest	**563**	460	22
Discovery Vitality	**44**	42	5
VitalityHealth	**186**	223	(17)
VitalityLife	**678**	542	25
Development and other	**(702)**[1]	(477)	(47)
Normalised profit from operations	**6 407**	5 789	11
Earnings			
Normalised headline earnings (cps)	**676.3**	672.2	1
Normalised diluted HEPS (cps)	**671.1**	663.0	1
Dividends			
Ordinary dividend per share (cps)	**175.5**	174.5	1
Dividend yield (%)	**1.43%**	1.38%	
Diluted embedded value per share	**82.4**	83.1	(1)
ROEV (%)	**2.6%**	12.4%	
P/EV (x)	**1.5x**	1.5x	

1. Includes R121 million additional share of DiscoveryCard profits.

2016 PERFORMANCE

- New business increased 22% to R16.2 billion (excluding R4.2 billion for Bankmed in 2015); normalised profit from operations increased 11% to R6.4 billion; profit from existing businesses increased 15% to R7.2 billion
- Solid performance by existing businesses, with new business up 20% to R13.3 billion
- Operating profit up 15% to R7.2 billion. An acceleration of group performance was witnessed in the second half of 2016
- Substantial spend on new initiatives up 73% to R823 million (funded by debt and a rights issue)
- Discovery Insure, intent to enter banking and Discovery Partner Markets investments – dampening effect on short-term profits, expected to be profit-enhancing in the medium term
- Robust performance in spite of a volatile economic environment – in South Africa (a depreciating currency (ZAR to USD); rising interest rates; and economic assumption changes) and in the UK (both currency sensitivity (ZAR to GBP) and a record-low interest rate environment)
- Headline earnings and solvency levels remained robust; environment predominantly impacted embedded value growth (up 2% to R53 billion)
- The Vitality Shared-Value Insurance model is now present in 14 markets, with Generali going live during the past six months and the announcement of Sumitomo Life Japan partnership after year-end

Discovery's earnings and headline earnings attributable to ordinary shareholders for the prior year ended 30 June 2015 included a fair value profit of R1 661 million on the reversal of a put option liability when it acquired the remaining 25% shareholdings in Prudential Health Holdings and The Vitality Group LLC. This resulted in Discovery's earnings and headline earnings attributable to ordinary shareholders decreasing by 33% and 31% respectively for the year under review. However, normalised earnings increased by 7% as this fair value profit is excluded from normalised earnings.

Discovery's financial highlights include:

- New business, excluding the Bankmed take-on, grew by 22% to R16.2 billion;
- Normalised earnings increased by 7% to R4.3 billion, with diluted normalised earnings per share increasing by 1%;
- Embedded value grew by 2% to R53.1 billion; and
- The total dividend for the year increased by 1% to 175.5 cents per share.

RMI included R1 079 million of Discovery's earnings in its normalised earnings (2015: R1 012 million).

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

STRATEGY

The Vitality Shared-Value Insurance model is now well-developed and is being replicated globally. This includes Discovery's proprietary methodology in structuring incentives to optimise behaviour change, and its understanding of the behavioural impact on insurance risk. The model's relevance is validated by the success in both Discovery's primary markets, which continued to gain market share and demonstrate robustness in new business and financial performance; and in the expansion of the Vitality Network in Discovery's partner markets.

The Vitality Shared-Value Insurance model delivers better health and value for clients, superior actuarial dynamics for the insurer and a healthier, more prosperous society:

- For **Discovery Health**, clients' engagement with Vitality improves health outcomes and lowers healthcare costs for the insurer;
- Dynamic underwriting in **Discovery Life**, based on Vitality engagement, results in the dynamic pricing of premiums throughout the policyholder's life;
- In **Discovery Invest**, health-related investment enhancements encourage healthier lifestyle behaviour and increased savings and investments from consumers;
- **Discovery Insure** applies the Vitality methodology by encouraging safer driving behaviour through the use of driver behaviour tracking and incentives; and
- For **partner insurers** globally, the model allows for Vitality to be integrated with an insurance product, thereby offering the insurer an accurate and proven method of measuring the effect of health-promotion strategies on client risk profiles, and implementing dynamic underwriting and pricing based on Vitality engagement.

This drives Discovery's strategy for existing businesses and for the consistent rollout of the model to new geographies and adjacencies, the most recent being the intention to enter banking in South Africa; and for continued rollout of the Vitality Active Rewards with Apple watch methodology, a global collaboration with Apple.

OUTLOOK

In 2014, Discovery set an ambition to be the best insurer in the world and a powerful force for social good by 2018. This vision was created to develop stretch targets and ambitious goals for Discovery and its people. It continues to progress on its goals and remains focused on driving its strategy forward towards medium- to long-term value creation.

Discovery will continue to focus on significant investment in new products and innovation, developing them into emerging businesses that exhibit strong financial and operating profit growth. Its strategy will continue to be one of strong organic growth, using its repeatable business model in adjacent industries and new markets, supported by a strong Vitality base. Over time, these emerging businesses will become additions to the portfolio that will track well above economic growth.

Discovery's long-term focus areas are:

- Achieve insurgency and market leadership in all markets in which it operates;
- Achieve significant Vitality engagement, a superior loss ratio and low lapse rates;
- Achieve a higher new-business margin;
- Design products that meet complex consumer needs and are sustainable in the long term; and
- Deliver exceptional service.

STRATEGY CASE STUDY

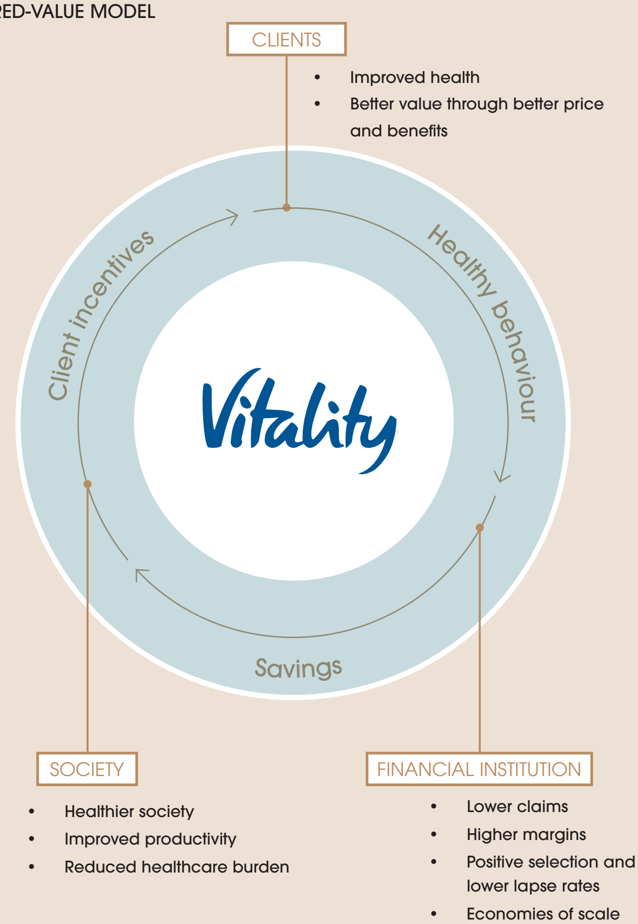
DISCOVERY INTENDS TO DIVERSIFY INTO BANKING

Given the irrationality at play in savings behaviour, there is an opportunity for the Shared-Value Insurance model to disrupt traditional banking business – Discovery's next targeted adjacency.

During the year under review, important progress was made in achieving Discovery's strategy of entering into banking in South Africa. The licensing and regulatory processes commenced and while the license application is pending regulatory approval, key engagements are underway with the South African Reserve Bank and other regulatory bodies. Discovery has attracted a combination of senior seasoned bankers and, with Discovery executives, they will lead the execution and delivery of the banking business. Discovery is in the process of finalising operating processes, including system selection. Insights are being developed that will be utilised in the design of the final product offering.

Through banking, Discovery will leverage its well-developed client base and knowledge to unlock further value.

THE VITALITY SHARED-VALUE MODEL



DIVERSIFY

NICOLAAS KRUGER *Chief executive*

MMI HOLDINGS

MMI'S VISION IS TO BE THE PREFERRED LIFETIME FINANCIAL WELLNESS PARTNER, WITH A REPUTATION FOR INNOVATION AND TRUSTWORTHINESS.

ABOUT MMI

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

MMI's vision is to be the preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness. Its strategic focus areas are growth, client-centricity and excellence.

The group invested in Momentum in 1992. In 2010, Momentum merged with Metropolitan to create MMI.

TOTAL SHAREHOLDER RETURNS SINCE RMI'S LISTING IN MARCH 2011: 14%

MMI HOLDINGS BRANDS AND BUSINESSES	
momentum	**Momentum** Retail provides innovative financial wellness solutions to the middle, upper and high net-worth segments. This is underpinned by appropriate financial planning and advice. MMI's International business operates in the rest of Africa, India and the United Kingdom.
METROPOLITAN Together we can	**Metropolitan** Retail focuses on the South African emerging and middle market. The segment aims to improve the financial wellness of its clients through empowerment and education.
GUARDRISK TAILORED RISK SOLUTIONS	The corporate and public sector segment combines client insights and product and solution capabilities to design holistic client value propositions for its institutional clients. It delivers on the client value proposition through the Momentum, Metropolitan, Guardrisk and Multiply brands. **Guardrisk** provides structured insurance products, traditional cell captive facilities and access to a broad and diversified panel of related services and professional reinsurance markets through its businesses in South Africa (headquarters), Mauritius and Gibraltar.
ERIS PROPERTY GROUP	**Eris Properties** is a property development and services group which provides a range of commercial property skills in the South African and sub-Saharan African markets. MMI Holdings became a major shareholder (52%) in Eris Properties in 2012. Eris also manages MMI's property portfolio of R6.6 billion. Eris was formed in 2008 following the restructure of RMB Properties which had been in existence since 1987, and which was a prominent property development and property services company in the South African property industry.
multiply wellness & rewards	**Multiply**'s wellness and rewards programme is the primary engagement platform that MMI uses to connect with clients to encourage both financial and physical wellness. Multiply rewards members for doing the everyday things that ensure a healthy and happy life. Through Multiply, MMI clients gain access to physical and financial fitness partners and tools at discounted rates, making it easier to follow a physically and financially healthy lifestyle.
hello doctor	**Hello Doctor** is a mobile health service that provides preventative care and gives people the ability to connect with a doctor to make informed decisions about their health and wellness. The Hello Doctor interactive platforms are designed to give instant access to personalised health, wellness and medical information – all reviewed and approved by a team of doctors.
CareCross HEALTH	**CareCross**, with a national network of around 2 000 general practitioners and 4 000 associated healthcare professionals such as specialists, dentists and optometrists, currently delivers managed care and administration services to approximately 200 000 medical scheme beneficiaries. MMI also holds a majority share in Occupational Care South Africa (OCSA). OCSA is widely considered a market leader in workplace health and wellness solutions.

PERFORMANCE

R million (unless stated otherwise)	30 June 2016	30 June 2015	% change
Momentum Retail	1 600	1 756	(9)
Metropolitan Retail	667	604	10
Corporate and Public Sector	617	861	(28)
International	28	152	(82)
Operating divisions core earnings	2 912	3 373	(14)
Shareholder Capital	294	463	(37)
Core headline earnings	3 206	3 836	(16)
EPS			
Diluted core EPS (cps)	199.9	239.2	(16)
Dividends			
Ordinary dividend per share (cps)	157	155	1
Dividend yield (%)	6.9%	5.1%	
Embedded value			
Present value of new premiums	68 164	50 396	35
Value of new business	850	954	(11)
Value of new business margin (%)	1.2%	1.9%	
Embedded value per share (cps)	2 680	2 514	7
ROEV (%)	12.8%	9.6%	
P/EV (x)	0.8x	1.2x	

2016 PERFORMANCE

- A strong embedded value of R43.0 billion (2 680 cents per share) was recorded, reflecting a 12.8% return on embedded value or R5.2 billion embedded value earnings for shareholders
- New business volumes on the present value of premiums basis increased by 35% on the prior year, with strong growth in both the Corporate and Public Sector and the International segments
- The turnaround in productivity of Metropolitan Retail's distribution channels continued, delivering recurring premium growth of 31% in the last quarter of the year
- Value of new business of R850 million was 11% lower compared to the strong previous year
- MMI is targeting a reduction in annual expenses of R750 million by the 2019 financial year
- During 2016 total expense savings of R104 million were achieved, slightly ahead of the planned savings
- Diluted core headline earnings decreased by 16% to R3.2 billion

MMI's financial performance for the year under review is summarised below:

- The new business present value of premiums increased by 35% to R68.2 billion and the new business annualised premium equivalent increased by 22% to R8.1 billion;
- The value of new business decreased by 11% to R850 million, with the new business margin reducing to 1.2%. It should be noted that the value of new business would have increased by 13% had the discount rate and expense allocation basis remained unchanged;
- The embedded value increased by 7% to R43 billion, reflecting a 12.8% return on embedded value;
- Diluted normalised earnings decreased by 16% to R3.2 billion, mainly as a result of lower underwriting profit across the group and subdued investment markets;
- Diluted earnings and headline earnings decreased by 25% and 27% respectively due to the negative impact of the increased allowance for group expenses in the actuarial liabilities and increased impairments of intangible assets;
- Overall earnings growth was restricted by investments into new initiatives that are being pursued in line with the group's strategy of growth, client-centricity and excellence;
- Good expense management once again contributed positively to value creation. MMI achieved total expense savings of R104 million in the 2016 financial year, with a reduction in annual expenses of R750 million targeted for 2019; and
- The total dividend for the year increased by 1% to 157 cents per share.

RMI included R805 million of MMI's earnings in its normalised earnings (2015: R956 million).

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

STRATEGY

MMI's purpose is to enhance the lifetime financial wellness of people, their communities and their businesses. Closely aligned is MMI's vision for the organisation – to be the preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness.

MMI has three strategic focus areas:

- **Client-centricity**
  This is the strategic focus area that represents MMI's core identity and involves improvement in the client experience and relationships, as well as increasing clients' financial wellness. Clients who have more insurance products are better equipped to deal with unplanned expenses and are therefore more financially well. The Multiply wellness and rewards programme plays an important part.
- **Growth**
  Growth remains a critical strategic focus area in the current challenging operating environment. Three strategic objectives underpin this.
  - Increase the value of existing clients through cross-selling, offering additional products and MMI's Multiply rewards programme;
  - Increase the client base by segment diversification into the middle income segment, channel growth through increased productivity, creating new distribution channels and corporate transactions; and
  - Grow through geographical diversification outside of South Africa, with a focus on the rest of Africa, India and the UK.
- **Excellence**
  MMI focuses on excellent delivery of the client-centric promises it makes to clients, as well as on efficiency in delivery.

OUTLOOK

- A strong capital buffer of R4 billion was recorded, after allowing for economic capital requirements, strategic growth initiatives and the final dividend;
- Taking into account the focus on growth, changing regulations including SAM and the difficult economic outlook, the group is satisfied that its present capital level is appropriate;
- Given the economic outlook, the group has increased the focus on efficiencies, whilst continuing to pursue top-line growth. MMI continues to invest in growth initiatives with the aim of enhancing shareholder value over the longer term; and
- Growth in new business volumes and profits will, however, be impacted by many factors in the South African economy, including employment levels and disposable income.

STRATEGY CASE STUDY

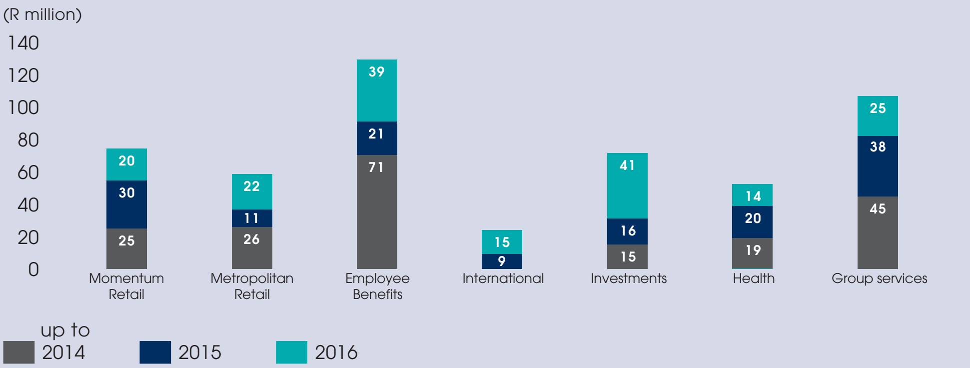
MMI OPTIMISES SAVINGS FROM MERGER

MMI Holdings has achieved savings of R522 million from the merger of Momentum and Metropolitan, which is more than the targeted R500 million it had aimed to achieve by this year.

Momentum and Metropolitan first announced the intention to merge in March 2010. The merger was finalised toward the end of 2010, when the Competition Tribunal gave final approval.

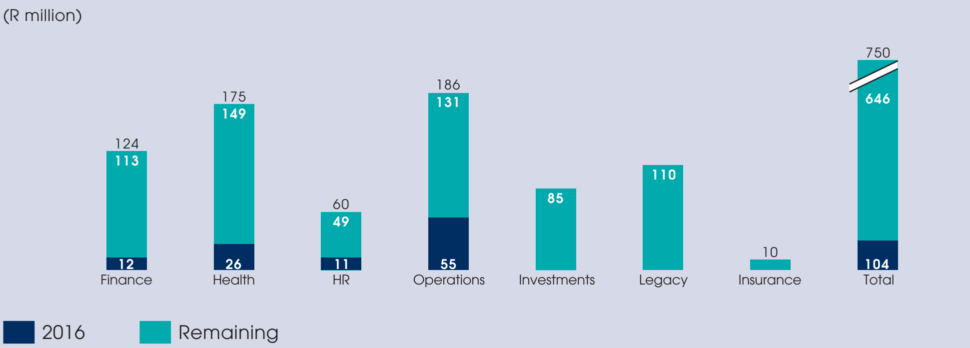
By the end of the 2015 financial year, the group had realised R346 million in savings from the merger, which it has since grown to R522 million.

TRACK RECORD: MMI MERGER SAVINGS OF R522 MILLION



In the next phase of its development, MMI is planning to achieve another R750 million in savings. Of this amount, R104 has already been achieved.

GOOD EARLY PROGRESS: ACHIEVED R104 MILLION OF R750 MILLION TARGET



OPTIMISE

WILLEM ROOS • *Joint chief executives* • HOWARD ARON

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

ABOUT OUTSURANCE

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

Youi New Zealand was launched in August 2014 as an extension of Youi's Australian operation. It provides personal lines insurance cover directly to the New Zealand public.

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

The client-centric business strategy to provide value for money insurance and exceptional client service continues to drive consistent shareholder returns.

The group co-founded OUTsurance in 1998.

TOTAL SHAREHOLDER RETURNS SINCE RMI'S LISTING IN MARCH 2011: 46%

OUTSURANCE'S BRANDS AND BUSINESSES	
OUT SURANCE	**OUTsurance** provides short-term insurance cover directly to the South African public. Its product range includes personal lines and commercial insurance products. Clients receive a cash OUTbonus – the first reward system in South Africa to return cash to clients who remain claim-free.
OUT SURANCE Life	**OUTsurance Life** is a direct life insurer that offers fully underwritten life insurance products that provide comprehensive death, disability and critical illness cover options. OUTsurance Life has a new approach to life insurance – after 15 claim-free years, policyholders get all their premiums paid back.
OUT SURANCE Namibia	**OUTsurance Namibia** was established in 2006 and provides personal lines and commercial lines short-term insurance products directly to the Namibian public.
youi AUSTRALIA	**Youi** is a sister short-term car insurance company of OUTsurance that is domiciled and operates in Australia. It was launched in November 2008 and follows the same client-orientated approach that has made OUTsurance successful in South Africa. Youi is primarily geared to selling car, buildings, contents, and business liability insurance direct to consumers through an interactive website. It also operates a call centre to offer prospective and current clients professional personal advice.
youi NEW ZEALAND	**Youi New Zealand** was launched in August 2014 and provides personal lines insurance cover directly to the New Zealand public.
youi SOUTH AFRICA	**Youi** is short for "You Insure" and is underwritten by OUTsurance. Youi.Rewards is a loyalty bonus that rewards policyholders with a cash payout after being a client for three years and every three years thereafter, even if they claim. This payout amount is based on the average premiums paid over a period of three years.

PERFORMANCE

R million (unless stated otherwise)	30 June 2016	30 June 2015	% change
OUTsurance	1 570	1 443	9
Youi Group	347	(110)	>100
OUTsurance Life	60	38	60
OUTsurance Namibia (49%)	15	15	–
Central (including consolidation adjustments)	19	(5)	>100
Non-controlling interest	(26)	7	>(100)
Headline earnings	1 985	1 388	43
Key financial ratios			
Headline return on equity (%)	38.4	30.9	–
Headline earnings per share (cents)	57.0	39.9	43
Diluted headline earnings per share (cents)	54.7	39.2	40
Dividend declared per share (cents)	36.0	30.5	18
Key performance metrics			
Gross written premiums	14 754	12 469	18
Net earned premiums	13 427	11 148	20
Underwriting result	2 401	1 605	50
Profit before tax	2 913	1 971	48
Claims ratio (%)	54.4	55.5	
Cost-to-income ratio (%)	26.2	28.2	
Combined ratio (%)	82.7	86.3	

2016 PERFORMANCE

- 18% top-line growth and 43% increase in headline earnings. Results compared favourably with the prior year, which was impacted by numerous large weather-related catastrophes
- In South Africa, OUTsurance grew earnings by 9% due to solid premium growth, coupled with an improvement in the cost-to-income ratio. Personal lines business maintained market share and strong profitability in a worsening economic environment. Commercial business delivered strong performance from more favourable claims experience
- Youi recorded premium growth of 30% and benefited from good weather conditions compared to 2015. Enhanced scale, coupled with cost containment and the realisation of operational efficiencies, resulted in a substantial decrease in the cost-to-income ratio
- Youi became OUTsurance's largest segment, with over 1.1 million clients

The OUTsurance group delivered an excellent operational and financial performance for the year under review:

- Group normalised earnings increased by 43% to R1 985 million, driven mainly by a significant improvement in Youi's profitability and pleasing results from the South African operations;
- Gross premium revenue grew by 18% to R14.8 billion, of which the Australasian operations contributed half;
- The OUTsurance group recorded growth in annualised new business volumes of 3% to R4 billion;
- The claims ratio decreased from 55.5% to 54.4% due to a significant improvement in the claims ratio of Youi Australia, where large weather-related catastrophe claims were included in the comparative number;
- The cost-to-income ratio decreased from 28.2% to 26.2% in line with efficiency gains across most operations, most notably Youi Australia; and
- The total dividend for the year increased by 18% to 36.0 cents per share.

OUTsurance's South African short-term operations recorded a claims ratio of 51.5%, up from 50.5% in the prior year, but still remained below the long-term target range. The cost-to-income ratio improved from 19.7% to 18.9% as a result of below-inflation growth in marketing and operational expenditure.

OUTsurance Life generated normalised earnings of R60 million for the year under review, compared to R38 million in the comparative year. Earnings growth was driven by a 24% increase in gross written premiums to R392 million, higher investment income and expense efficiencies. The embedded value increased by 25% to R682 million.

The majority of the OUTsurance group's assets are invested in cash or near cash instruments. During the year under review, the equity exposure on the South African balance sheet was increased to take advantage of the diversification benefits available under the new SAM regime, which is expected to become effective in 2017. Based on the current calibration and interpretation of the standard formula, the introduction of SAM is expected to improve the capital adequacy ratios of OUTsurance and OUTsurance Life.

Youi Australia generated normalised earnings of R497 million for the year under review, compared to R51 million in the comparative year. Youi's profitability benefited from reduced weather-related claims and a reduction in the cost-to-income ratio from 36.3% to 30.9% due to the enhanced scale of the business, together with cost containment and the realisation of operational efficiencies. Gross written premiums increased by 30% to R7 billion.

Youi New Zealand generated a start-up loss of R107 million for the year. Although new business volumes slowed due to a highly competitive environment, this business continues to gain traction in the New Zealand personal lines market. Gross written premiums increased by 89% to R308 million.

Youi has been subject to recent negative media reports in both New Zealand and Australia. In New Zealand, this negative coverage followed an investigation by the New Zealand Commerce Commission (NZCC) into unauthorised sales practices identified at Youi. The management team cooperated fully with the regulatory authorities during this investigation, which revealed that a small minority of Youi's employees breached internal policies and procedures by activating policies without the consent of clients. These unacceptable sales represent an extremely small number of quotes and sales performed over the period in question. Although such incidents are isolated, management does not condone this behaviour, which is contrary to the values and culture of the group. Strong disciplinary action was instituted against the individuals who chose not to adhere to operational procedures. This resulted in a number of dismissals. OUTsurance's management team has taken appropriate remedial action to prevent and identify any remaining unacceptable sales activity across all group operations. These preventative measures have been highly effective.

Youi New Zealand pleaded guilty to the charges instituted by the NZCC to expedite proceedings. The sanction against Youi will be finally instituted at a court hearing in October 2016. This sanction is expected to be in the form of a monetary fine. Youi New Zealand has provided for the best estimate of the fine in its June 2016 results.

Youi Australia has experienced similar sales breaches, as the two businesses share a common call centre infrastructure. In the case of Youi Australia, the number of unacceptable sales registered were isolated and once again represented an extremely small proportion of total quotes and sales. The required preventative and disciplinary actions have been instituted as in the case of the New Zealand operation. These matters have been discussed with the regulatory authorities and management continues its constructive dialogue with the regulators.

The negative media articles in the Australian and New Zealand media allege that Youi missold policies to thousands of clients. In the context of unacceptable sales representing a very small proportion of total sales and quotes, the factual inaccuracy of these articles is unfortunate.

Youi takes full responsibility and unreservedly apologises to the affected clients, whilst ensuring that no client was financially disadvantaged.

The OUTsurance group has built a strong consumer reputation over many years by instilling a culture which promotes the highest standards of fair client treatment. The group wishes to stress its zero tolerance approach to any compliance breaches or behaviour which is inconsistent with its culture and risks damage to its reputation. The management team and 1 700 Youi employees will work tirelessly to regain the lost trust and to ensure the best client outcomes are achieved at all times.

RMI included R1 664 million of OUTsurance's earnings in its normalised earnings (2015: R1 166 million).

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

STRATEGY

OUTsurance has set clear strategic objectives for growth in response to its main stakeholders, as follows:

Shareholders – Ensuring sustainable profits through disciplined underwriting. It manages capital resources with the necessary prudence and flexibility to enable growth.

- Incremental growth of mature operations;
- Sustain profitable market share growth in Australasia;
- Manage Youi New Zealand towards break-even in three years;
- Expand the sales and distribution footprint for commercial insurance products; and
- Diversification of revenues to include ancillary financial services products.

Employees – The performance-driven culture rewards and recognises employees for delivering "awesome" service to clients.

- To be a great company to work for.

Clients – The business philosophy is to provide value for money insurance solutions backed by "awesome" service.

- Drive incremental improvement in its operational processes, pricing and systems to improve the client experience;
- Roll-out a telematics product to enhance the client proposition;
- Develop digital channels to optimise client engagement and create innovative product solutions; and
- Ensure the highest level of compliance with existing and new regulations.

Communities – Give back to the community through the Staff Helping SA OUT initiative and pointsmen project. The large service provider network is key to delivering on these business objectives.

- Continue to invest in the pointsmen project to drive positive results for the community;
- Increase resource allocation for the charitable foundation – Staff Helping SA OUT; and
- Grow B-BBEE procurement spend.

OUTLOOK

AUSTRALASIA

- Good growth potential over the medium term – Australia's short-term insurance market is four times the size of the South African short-term insurance market, whilst New Zealand's market is 70% of the size of the South African market;
- Focus on growth and profitability of the Australia business; and
- Review of coastal areas identified as storm surges continue.

SOUTH AFRICA

- Expansion of commercial insurance sales footprint; and
- New complementary products being explored to diversify revenue streams.

IMPACT OF TECHNOLOGY

- Launch of telematics solution in the 2017 financial year; and
- Car sharing and self-driving cars.

STRATEGY CASE STUDY

MODERNISATION THROUGH DIGITISATION

The evolution of OUTsurance's digital capability is a focal point across all of its operations, with a particular focus area being the expansion of its service offering on digital channels, especially mobile.

OUTsurance plans to offer robo-advice and is applying for licenses with the Financial Services Board to enable it to sell investment products.

Robo-advice refers to online financial advice platforms that use algorithms to provide generic investment advice and products to their users, based on the financial needs and goals provided by the user.

It costs less than traditional asset managers and financial advisers, a number of which have launched their own online advice platforms as part of the process of the disruption this technology will cause. Robo-advice has particular applicability with smaller investments, where the cost of independent financial advice is too high.

While it will cross-sell to its existing 700 000-odd South African policyholders, OUTsurance plans to offer a high-quality, low-cost investment product to all South Africans.

Depending on the regulatory process, OUTsurance hopes to launch its robo-advice offering before June 2017.

MODERNISE

CHRIS MEYER *Chief executive*

RMI INVESTMENT MANAGERS

RMI INVESTMENT MANAGERS IDENTIFY, PARTNER AND GROW WORLD-CLASS ASSET MANAGERS.

ABOUT RMI INVESTMENT MANAGERS

RMI Investment Managers invests in minority equity stakes in affiliates alongside its investment teams and supports their growth as an engaged but non-interfering shareholder.

AFFILIATES

- RMI Investment Managers expanded its affiliate portfolio to now include eight managers managing in excess of R50 billion across a wide range of asset classes, investment styles and client base

ESTABLISHED ROYAL INVESTMENT MANAGERS (ROYAL)

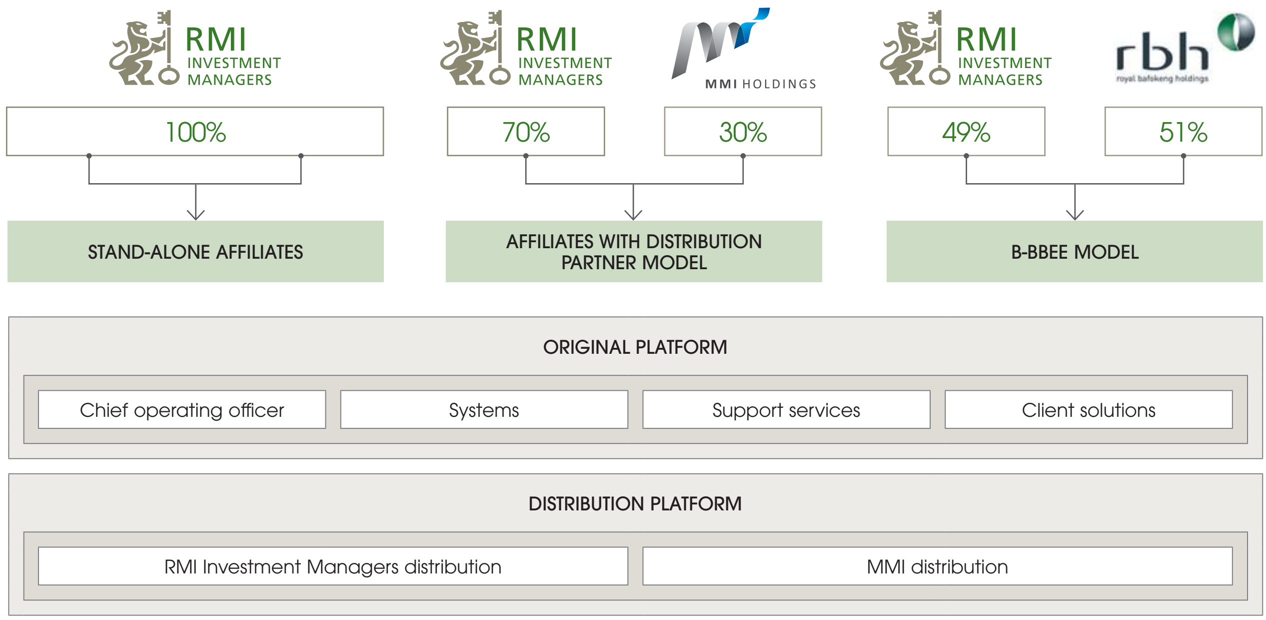
- RMI Investment Managers, together with Royal Bafokeng Holdings established Royal in the first quarter of 2016. Royal will deploy the affiliate model with a focus on acquiring asset management entities that require an empowerment partner with a strong knowledge of the asset management sector

TEAM ESTABLISHED AND A DISTRIBUTION MODEL IN PLACE

- RMI Investment Managers' distribution and operations teams are in place with a mandate to partner and grow our affiliates. MMI is our distribution partner, enabling our affiliates to access a broader client base by both size and geography, primarily in the retail market

HOW IT WORKS

RMI Investment Managers recently launched an affiliate investment manager model – the first of its kind in South Africa. RMI Investment Managers' new 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 and will continue to search for opportunities that will complement RMI's existing suite of managers, as the company builds its share of the South African investment management market. This approach assists boutiques to transform from third-tier investment managers, each responsible for between R3 billion and R5 billion in assets under management, to first-tier investment managers.



Nearly 40% of investment management firms that started between 1990 and 2013 vanished through acquisition, merger or closure, with the average lifetime close to only five years. Reasons for this failure include lack of steadfast shareholder support, poor business models, lack of differentiation and poor investment returns.

To address this, RMI Investment Managers partners with independent investment managers in South Africa by becoming a shareholder in their businesses to help take their business to the next level, by adding support through the RMI association, business acumen and strategic insight through the company's executive team and board, investment-raising capabilities through its distribution team and operational robustness and economies of scale through its operational team.

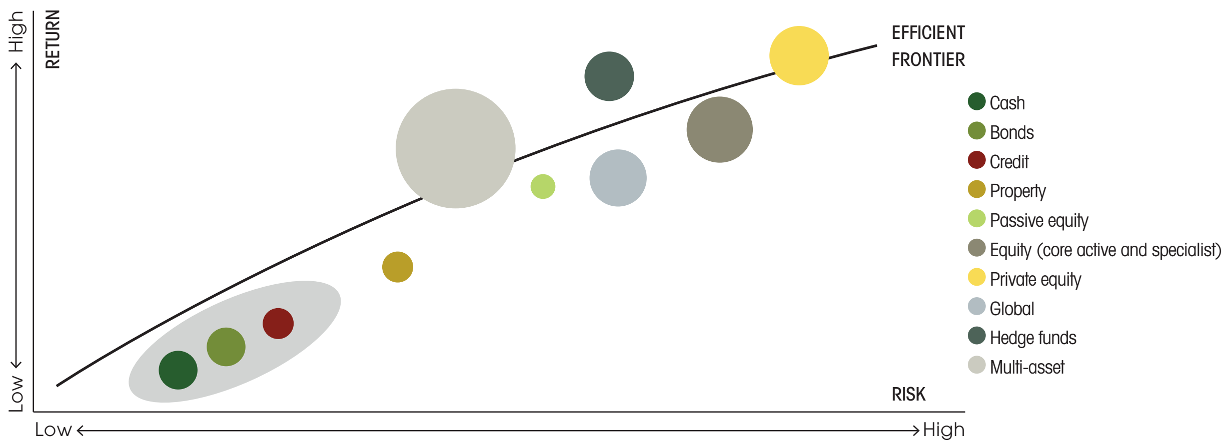
RMI Investment Managers also provides additional distribution capabilities to complement the affiliates' own distribution teams. RMI Investment Managers has started its distribution model by hiring an independent financial adviser (IFA)-focused distribution team and partnering with MMI, a distribution business that has a long history with the advisor industry. RMI Investment Managers will use the insights and relationships from these sources to understand how to best service the changing adviser market.

RMI INVESTMENT MANAGERS WILL HELP ADDRESS THE CHALLENGES BOUTIQUES AND INVESTMENT TEAMS FACE

1		2		3
STRATEGIC SUPPORT	ALIGNMENT OF INTEREST	FINANCIAL SUPPORT	DISTRIBUTION AND MARKETING	OPERATIONAL SUPPORT

RMI INVESTMENT MANAGERS' AFFILIATES	
CORESHARES™	**Coreshares** is a smart beta and passive exchange-traded fund and index fund manager. A 25% stake was acquired in Q4 2015.
NORTHSTAR ASSET MANAGEMENT	**Northstar Asset Management** is an active equity and multi-asset manager. A 30% stake was acquired in Q4 2015.
Perpetua INVESTMENT MANAGERS	**Perpetua Investment Managers** is a value equity and multi-asset manager. An option to acquire a 25% equity stake was concluded in Q4 2015.
RMI SPECIALIST MANAGERS	**RMI Specialist Managers**, currently a fixed income, credit and money market active manager, was launched in April 2016.
POLARSTAR MANAGEMENT	**Polar Star Management** is a commodity arbitrage hedge fund. A 25% equity stake was acquired in Q3 2016.
SENTIO CAPITAL MANAGEMENT	**Sentio Capital Management** is an absolute return and active equity manager. A 30% equity stake will be acquired over three years.
TANTALUM CAPITAL	**Tantalum Capital** is a multi-strategy hedge fund and absolute return-focused active asset manager. A 25% stake will be acquired over three years.
Truffle	**Truffle Capital** is an active equity and multi-asset manager. A 20.3% equity stake will be acquired from RMB Structured Insurance in Q4 2016.
ROYAL AFFILIATES	
SESFIKILE CAPITAL Listed Property Investments	During Q3 2016, Royal Investment Managers successfully signed heads of agreement to acquire a 25% equity stake in **Sesfikile Capital**, an active listed property manager with assets under management of R16 billion.

HOW THE AFFILIATES FIT TOGETHER



		ASSET CLASS						
		SA equity	SA cash	SA bonds	SA credit	SA multi-asset	SA listed property	Hedge funds
RMI Investment Managers	CORESHARES	●				●	●	
	NORTHSTAR ASSET MANAGEMENT	●		●		●		
	Perpetua	●				●		
	POLARSTAR MANAGEMENT							●
	RMI SPECIALIST MANAGERS		●	●	●			
	SENTIO Capital Management	●				●		●
	TANTALUM CAPITAL			●		●		●
	Truffle	●				●		
ROYAL	SESFIKILE CAPITAL						●	

● Affiliate has capability | Passive | Alternative | Active

ALPHA CODE

ABOUT ALPHACODE

RMI has recognised that the core business of its underlying portfolio companies is now, more than ever, being influenced by new, disruptive ventures given the rise of shaping forces such as technology, social media and the millennial generation.

As a result, RMI is actively seeking to fund and scale new and disruptive business models. In order to facilitate this, RMI has launched its next-generation business platform, AlphaCode, to help identify and enable key investments that may change the landscape of the financial services industry.

NEXT-GENERATION FINANCIAL SERVICES

With the rise of financial technology (fintech) in South Africa, a number of investors and players have positioned themselves in the market to support and fund entrepreneurs. RMI's next-generation business platform, AlphaCode, continues to progress on its strategy of identifying, partnering and growing extraordinary next-generation financial services entrepreneurs. AlphaCode currently has 53 businesses as members operating across the financial services spectrum, with many exploiting leading-edge technology to transform the delivery of financial services. Merchant Capital is a diamond member, which is the highest membership, with five more businesses on platinum membership. These businesses have close working relationships with the RMI investment team.

AlphaCode is committed to building the broader entrepreneurial sector by supporting high-impact, mostly black entrepreneurs, providing mentorship, free office space and support facilities and actively engaging with higher learning institutions and entrepreneurial industry organisations and lobby groups.

AlphaCode has become an innovation hub for the RMI portfolio companies and has created value by facilitating and hosting projects and proof of concepts between its members and RMI's portfolio companies. RMI has also built a strong pipeline of potential investment opportunities from the member base, with the goal remaining to build a diversified portfolio of superior entrepreneur-led, early-stage fintech businesses that have achieved market traction and are poised for rapid growth.

DOV GIRNUN *Chief executive*

MERCHANT CAPITAL

ABOUT MERCHANT CAPITAL

RMI made its first investment in a disruptive, next-generation financial services business by taking a 25.1% stake in Merchant Capital, a provider of alternative sources of working capital for small and medium enterprises (SMEs) in South Africa in September 2015. Merchant Capital was founded in 2012 in response to the lack of funding options available to SMEs. Using innovative technology, Merchant Capital's model allows its clients to repay their loans based on the cyclical nature of their businesses.

There is a strong management team who have extensive credit experience and entrepreneurial backgrounds.

2016 PERFORMANCE

- Very strong year-on-year revenue and asset growth;
- Merchant Capital continues to augment its core cash advance product through direct/channel sales initiatives. They opened offices in five major cities to better service regional clients, as well as executing on strategic partnerships to assist with scale;
- Further refinement of operating and financial model, including the appointment of an experienced CTO and marketing head; and
- Launched a number of new products and partnerships, in particular, expanding the innovative "pay-as-you-trade" philosophy to offer SMEs enhanced financial products.

OUTLOOK

Merchant Capital's short-term strategy entails solidifying the South African core business and operating platform. The business continues to launch new products and partnerships to further differentiate the product and grow the client base.

DISCONTINUED OPERATION

GUSTAVO ARROYO *Chief executive*

RMB STRUCTURED INSURANCE

ABOUT RMB STRUCTURED INSURANCE

In 1998, the group bought 50% of Quantum Insurance, which later changed its name to RMB Structured Insurance. It holds both short-term and life insurance licenses.

On 23 August 2016, RMI announced the sale of RMB Structured Insurance to Santam. RMI aims to be an active, long–term, value–adding shareholder. Due to a changing regulatory environment and the evolving strategic objectives of RMB Structured Insurance, RMI believed RMB Structured Insurance would be optimally positioned within a larger insurance group. RMI and RMB Structured Insurance shared a successful long-standing partnership, achieving an internal rate of return in excess of 60%.

RMB STRUCTURED INSURANCE's STRATEGIC INVESTMENTS	
cib INSURANCE ADMINISTRATORS	**CIB Insurance Administrators** is one of the largest, most innovative and technologically advanced short-term insurance administrators in South Africa. CIB supports the broker intermediated insurance market, specialising in the SME commercial and high net-worth personal lines segments. CIB intends to obtain its own short-term insurance license, which RMB Structured Insurance will assist with by investing growth capital, improving capital efficiencies, assisting with new business acquisition, and rolling out the regulatory and governance intellectual property required for an insurance license. RMB Structured Insurance in turn will benefit through having access to CIB's large distribution network, insurance products and technology.
Truffle	**Truffle Asset Management** is a boutique investment management company with a focused product range of equity long-only, flexible mandate and hedge fund products as well as tailor-made structured investment solutions. The company has a formidable core team of highly-experienced investment professionals. RMB Structured Insurance has invested growth capital into Truffle, assisted Truffle to rapidly grow its assets under management and can also now offer its own clients privileged access to Truffle's investment skills.

RMB STRUCTURED INSURANCE's STRATEGIC INVESTMENTS	
HCV	**Heavy Commercial Vehicle Underwriting Managers** is widely regarded as the premier underwriting manager in South Africa's heavy, medium and light commercial vehicle sector. It has an enviable track record of superior service to brokers and policyholders, product innovation and consistent underwriting results. It is particularly proud of its superior claims paying reputation that has been built up over time. RMB Structured Insurance has taken a strategic shareholding in this already well-established business to work with the existing management team in taking the business to the next level.
CREDIT INSURANCE solutions	**Credit Insurance Solutions** (CIS) is a new underwriting manager offering cover for domestic and export trade risks. Its management team has extensive industry experience at the highest level, with a successful track record. These qualities, coupled with RMB Structured Insurance's historic connections and financial pedigree, have led RMB Structured Insurance to invest in this business at start-up stage, recognising the potential for CIS to successfully gain a large market share in its sector.
RISK GUARD ALLIANCE	**Risk Guard Alliance** is a dynamic underwriting management agency dedicated to providing clients with first-rate service and knowledgeable insurance expertise. The company has a niche focus on hospitality and motorcycles, as well as a prominent commercial and personal lines portfolio, insuring small- to medium-sized businesses and everyday domestic insurance matters.

PERFORMANCE AND OUTLOOK

Normalised earnings for RMB Structured Insurance, excluding the equity accounted earnings from its stake in Truffle, amounted to R8 million (2015: R81 million). The decrease is mainly attributable to a decrease in structured underwriting income, an increase in management expenses due to the start-up of the Risk Finance and Credit Insurance Solutions divisions and expenses incurred on the sale transaction to Santam, as well as some once-off income items included in the comparative earnings.

RMI included R6 million of RMB Structured Insurance's earnings as earnings from a discontinued operation (2015: R63 million).

Over the last two decades the business has consistently produced superior returns and RMI has achieved an internal rate of return on its investment in RMB Structured Insurance in excess of 60%.

A number of business lines in RMB Structured Insurance require a scalable and efficient operational platform to establish the business for continued growth. Through the disposal to Santam, it will gain the efficient infrastructure whilst retaining its entrepreneurial culture and independence.

OUR GOVERNANCE AND SUSTAINABILITY

CORPORATE GOVERNANCE REPORT

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

SCOPE

Our discussion on corporate governance in this annual integrated report is limited to notable aspects of the corporate governance of RMI. Investee companies disclose relevant information on corporate governance in their own annual integrated reports, which can be referred to.

In South Africa, principles and guidelines for corporate governance are set by:

- the King Code of Governance Principles for South Africa 2009 (King III); and
- the Companies Act, 71 of 2008, as amended (Companies Act).

The Companies Act places certain duties on directors and determines that they should apply the necessary care and skill in fulfilling their duties. To ensure that this is achieved, the board applies best practice principles, as contained in King III, where appropriate. RMI and all its investee companies endorse King III. As a JSE-listed entity, we also comply with the JSE Listings Requirements.

We have an "owner-manager" culture, which has been inculcated at every business in which we are invested. So, whilst our board is responsible for the maintenance of sound corporate governance, we believe that implementation is best managed at an investee company level. RMI's investee companies therefore all have their own governance structures, including boards of directors, executive teams and board committees that monitor operations and deal with governance and transformation issues.

THE BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

The board's paramount responsibility is to ensure that we create sustainable value for our shareholders. In so doing, it takes into account the legitimate interests and expectations of stakeholders, which include the present and potential future investors in RMI.

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

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

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

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

DEFINITION OF INDEPENDENCE

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

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

COMPOSITION OF THE BOARD

We have a unitary board with a non-executive director as chairman. The chairman is not independent in terms of the definition above. However, the board believes that GT Ferreira's specialist knowledge of the financial services industry makes it appropriate for him to hold this position.

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

As at 12 September 2016, the board comprised 14 members, 13 of whom are non-executive directors. Seven of the non-executive directors are also independent directors. Pat Goss is the lead independent non-executive director. The independence of the directors classified as "independent" was evaluated by weighing all relevant factors, including length of service, which may impair independence.

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

Details of directors' full names, their dates of appointment and other listed directorships, together with a brief career and sphere of influence synopsis, are listed on **pages 66** to **71**.

The boards of our investee companies are similarly constituted with the necessary mix of skills, experience and diversity. There is also an appropriate mix between executive and non-executive appointments.

TERM OF OFFICE

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

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

DIRECTORS' INTERESTS

It is not a requirement of our memorandum of incorporation or the board charter that directors own shares in the company.

Directors' interests in the ordinary shares of the company are disclosed on **page 96**.

BOARD PROCEEDINGS

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

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

Details of the board meetings held during the year ended 30 June 2016, as well as the attendance at the board meetings and annual general meeting by individual directors, are disclosed on **page 65**.

COMPANY SECRETARY

Our board-appointed company secretary is Schalk Human, MCom (Acc), CA(SA). All directors have unlimited access to his services and he is responsible to the board for ensuring that proper corporate governance principles are adhered to. He is not a director of RMI.

The board can confirm, after consideration of a checklist, that it is satisfied that the company secretary:

- is competent, suitably qualified and experienced;
- has the requisite skills, knowledge and experience to advise the board on good governance;
- maintains an arm's length relationship with the board of directors; and
- has discharged his responsibilities for the year under review.

COMPOSITION OF THE BOARD

	Executive	Independent non-executive	Non-executive
Directors	1	7	6

	0 – 3 years	4 – 6 years
Length of service	5	9

	Black	Not black
Transformation	4	10

	Female	Male
Gender	1	13
Black female	1	

BOARD MEETINGS

	September 2015	November 2015	February 2016	June 2016
GT Ferreira (chairman)	✓	✓	✓	✓
Herman Bosman (chief executive)	✓	✓	✓	✓
Johan Burger	✓	✓	✓	✓
Peter Cooper	✓	✓	✓	✓
Leon Crouse (alternate) (resigned 31 March 2016)	✓	*	✓	–
Sonja De Bruyn Sebotsa	✓	✓	✓	✓
Laurie Dippenaar	*	✓	✓	✓
Jan Dreyer	✓	✓	✓	✓
Jannie Durand	*	✓	✓	✓
Pat Goss	✓	✓	✓	✓
Paul Harris	✓	✓	*	✓
Albertina Kekana (alternate)	✓	✓	✓	✓
Faffa Knoetze (alternate) (appointed 1 April 2016)	–	–	–	✓
Per Lagerström	✓	✓	✓	✓
Murphy Morobe	✓	✓	✓	✓
Obakeng Phetwe	✓	*	✓	✓
Khehla Shubane	✓	✓	✓	✓

✓ *Attended meeting* * *Apology received* – *Not a director at the time*

ANNUAL GENERAL MEETING

All the directors, except for Leon Crouse (alternate) and Obakeng Phetwe, attended the annual general meeting of shareholders, which was held on 20 November 2015.

DIRECTORS CHARGED WITH GOVERNANCE

We are fortunate to call on our extensively skilled and vastly experienced board for their governance and oversight in achieving our strategic goals and delivering value to all our stakeholders.

NON-EXECUTIVE CHAIRMAN

Gerrit Thomas (GT) Ferreira (68)
BCom, Hons B (B&A), MBA

Appointed 8 December 2010
GT was a co-founder of Rand Consolidated Investments (RCI) in 1977, which acquired control of Rand Merchant Bank (RMB) in 1985. When RMH was founded in 1987, he was appointed chairman, a position which he still holds. Following the formation of FirstRand, he was appointed non-executive chairman from 1998 to 2008.

Other listed directorships
Remgro Limited (lead independent) and RMB Holdings Limited (chairman)

CHIEF EXECUTIVE AND FINANCIAL DIRECTOR

Hermanus Lambertus (Herman) Bosman (47)
BCom (Law), LLB, LLM, CFA

Appointed 2 April 2014
Herman was with RMB for 12 years and ultimately headed up its corporate finance practice between 2000 and 2006. He returned to the group in 2014 after serving as chief executive of Deutsche Bank South Africa from 2006 to 2013.

Other listed directorships
Discovery Limited and RMB Holdings Limited (chief executive)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Johan Petrus (Johan) Burger (57) (chairman)
BCom (Hons), CA(SA)

Appointed 30 June 2014
Johan joined RMB in 1986, where he performed a number of roles before being appointed financial director in 1995. Following the formation of FirstRand Limited in 1998, he was appointed financial director of the FirstRand banking group and in 2002 was appointed CFO of the FirstRand group. In addition to his role as group CFO, Johan was appointed as group COO in 2009 and deputy chief executive in October 2013. He was appointed as chief executive in October 2015.

Other listed directorships
FirstRand Limited (chief executive), MMI Holdings Limited and RMB Holdings Limited

INDEPENDENT NON-EXECUTIVE DIRECTOR

Sonja Emilia Ncumisa (Sonja) De Bruyn Sebotsa (44)

(chairperson)

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

Appointed 8 December 2010

Sonja is a principal partner of Identity Partners, an investment firm which holds equity investments, carries out advisory work and facilitates finance for SMEs by the Identity Development Fund. Sonja's areas of study included law, business and economics, which served her well as vice president of Mergers and Acquisitions and Corporate Finance of the investment banking division of Deutsche Bank. She played an integral part in WDB Investment Holdings participating in FirstRand's B-BBEE transactions.

Other listed directorships

Aquarius Platinum Limited (chairperson), Discovery Limited, Remgro Limited and RMB Holdings Limited

INDEPENDENT NON-EXECUTIVE DIRECTOR

Jan Willem (Jan) Dreyer (65) (chairman)

BCom, LLB, HDip Co Law, HDip Tax

Appointed 8 December 2010

Jan was a partner at Hofmeyr, Van der Merwe and Botha from 1978 and chairman of the firm from 1993 until 1999. He joined the board of RMB in 1984 and RMH on formation. In 2000 he joined the Rembrandt group as an executive director. At the time of the split of Remgro and VenFin he became a non-executive director of both companies. He was re-appointed as executive director of Remgro in 2008. Jan retired from Remgro in 2013.

Other listed directorships

RMB Holdings Limited

KEY:

= Audit and risk committee

= Directors' affairs and governance committee

= Investment committee

= Nominations committee

= Remuneration committee

= Social, ethics and transformation committee

INDEPENDENT
NON-EXECUTIVE DIRECTOR

Patrick Maguire (Pat) Goss (68) (lead independent) (chairman) (chairman)
BEcon (Hons), BAccSc (Hons), CA(SA)

Appointed 8 December 2010
Pat, after graduating from the University of Stellenbosch, served as president of the Association of Economics and Commerce Students, representing South Africa at The Hague and Basel. He qualified as a chartered accountant with Ernst and Young and subsequently joined the Industrial Development Corporation. Most of his active career was spent in food retailing and the hospitality industry.

He has served as a director of various group companies for the past 35 years. He was a former chairman of the Natal Parks Board and his family interests include Umngazi River Bungalows and certain other conservation-related activities.

Other listed directorships
FirstRand Limited and RMB Holdings Limited (lead independent)

INDEPENDENT
NON-EXECUTIVE DIRECTOR

Per-Erik (Per) Lagerström (52)
BSc (Accounting), MSc (Economics) (London School of Economics)

Appointed 30 June 2014
Per is the co-founder of the Energos group, specialists in big data solutions for human capital. Previously he was a partner at McKinsey & Company where he headed up the Financial Services Sector and the Organisation Practice.

Other listed directorships
RMB Holdings Limited

INDEPENDENT
NON-EXECUTIVE DIRECTOR

Mafison Murphy (Murphy) Morobe (59)
Diploma in Project Management, MCEF – Princeton '91

Appointed 1 August 2014
After finishing a seven-year stint as chief executive of Kagiso Media Limited, Murphy assumed the role of chairman and national director of the Programme to Improve Learner Outcomes (PILO) in 2013. PILO is currently a lead service provider to the National Education Collaboration Trust. As a committed social and development activist, Murphy has since his release from Robben Island in 1982, continued to involve himself with various social causes, mainly relating to youth development, environment and conservation, apart from roles in the public service which included being chairman of the Financial and Fiscal Commission (1994-2004) and other roles in the private sector. He also serves on the boards of directors of WWF-SA, the Steve Biko Foundation and City Year South Africa. He stepped down as chairman of Food and Trees for Africa.

Other listed directorships
Remgro Limited and RMB Holdings Limited

INDEPENDENT NON-EXECUTIVE DIRECTOR

Khehla Cleopas (Khehla) Shubane (60)

BA (Hons), MBA

Appointed 8 December 2010

Khehla served various political organisations after incarceration on Robben Island for political activism. He is an author and has co-authored several political publications.

Other listed directorships

MMI Holdings Limited and RMB Holdings Limited

NON-EXECUTIVE DIRECTOR

Peter Cooper (60)

BCom (Hons), CA(SA), HDip Tax

Appointed 8 December 2010

Peter graduated from the University of Cape Town. After qualifying as a chartered accountant in 1981, he worked in the financial services sector, first as a tax consultant and later specialising in structured finance. Peter joined RMB's Special Projects division in 1992 and transferred to RMH in 1997. He is the immediate past chief executive of RMI, as well as its sister company, RMH.

Other listed directorships

FirstRand Limited (alternate), Imperial Holdings Limited, MMI Holdings Limited and RMB Holdings Limited

KEY:

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

NON-EXECUTIVE DIRECTOR

Lauritz Lanser (Laurie) Dippenaar (67)
MCom, CA(SA)

Appointed 8 December 2010
Laurie was a co-founder of RCI in 1977. He became an executive director of RMB in 1985 and managing director of RMB in 1988, a position he held until 1992 when RMH acquired a controlling interest in Momentum. He served as executive chairman of Momentum from 1992 until the formation of FirstRand in 1998. He was appointed as the first chief executive of FirstRand and held this position until the end of 2005, when he assumed a non-executive role. He has been chairman of FirstRand since November 2008.

Other listed directorships
FirstRand Limited (chairman) and RMB Holdings Limited

NON-EXECUTIVE DIRECTOR

Jan Jonathan (Jannie) Durand (49) (chairman)
BAcc (Hons), MPhil (Oxford), CA(SA)

Appointed 8 December 2010
Jannie studied at the University of Stellenbosch and after obtaining his BAcc degree in 1989 and BAcc (Hons) degree in 1990, he obtained his MPhil (Management Studies) degree from Oxford in 1992. He qualified as a chartered accountant in 1995.

He joined the Rembrandt Group in 1996. He became financial director of VenFin Limited in 2000 and chief executive in May 2006. Jannie was appointed chief investment officer of Remgro Limited in November 2009 and chief executive from 7 May 2012.

Other listed directorships
Capevin Limited, Distell Group Limited, FirstRand Limited, Mediclinic International Limited, RCL Foods Limited, Remgro Limited and RMB Holdings Limited (alternate)

NON-EXECUTIVE DIRECTOR

Paul Kenneth (Paul) Harris (66)
MCom

Appointed 8 December 2010
Paul was a co-founder of RCI in 1977 and became an executive director of RMB in 1985. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 as deputy managing director of RMB. In 1992 he took over as chief executive. Subsequent to the formation of FirstRand, he was appointed as chief executive of FirstRand Bank Holdings in 1999, a position he held until December 2005 when he was appointed as chief executive of FirstRand. He retired from his executive position at the end of December 2009.

Other listed directorships
FirstRand Limited, Remgro Limited and RMB Holdings Limited

NON-EXECUTIVE DIRECTOR

Obakeng Phetwe (38)

BCom (Hons), CA(SA)

Appointed 6 February 2013

Obakeng is the chief executive of the Royal Bafokeng Nation Development Trust, which holds all the commercial assets on behalf of the Royal Bafokeng Nation.

Other listed directorships

RMB Holdings Limited (alternate)

ALTERNATE NON-EXECUTIVE DIRECTOR

Albertina Kekana (43)

BCom (Hons), CA(SA), Advanced Management Programme (Harvard)

Appointed 6 February 2013

Albertina Kekana is the chief executive of Royal Bafokeng Holdings Proprietary Limited. She has extensive asset management, investment banking and business leadership experience. She was previously the COO of the Public Investment Corporation.

Other listed directorships

Impala Platinum Holdings Limited and RMB Holdings Limited

ALTERNATE NON-EXECUTIVE DIRECTOR

Francois (Faffa) Knoetze (53)

BCom (Hons), FIA

Appointed 1 April 2016

Faffa graduated from the University of Stellenbosch in 1984 and became a fellow of the Actuarial Society of South Africa in 1992.

After starting his actuarial career at Sanlam as a marketing actuary in the life business, he spent most of his working career at Alexander Forbes, where he was the valuator and consulting actuary to a number of pension and provident funds.

He joined Remgro on 2 December 2013 and focuses on the company's interests in the financial services (insurance and banking) and sport industries.

Other listed directorships

FirstRand Limited and RMB Holdings Limited

Details of directors' interests in the company are disclosed on **page 96.**

KEY:

= Audit and risk committee

= Directors' affairs and governance committee

= Investment committee

= Nominations committee

= Remuneration committee

= Social, ethics and transformation committee

BOARD COMMITTEES

The board established six sub-committees to assist the directors in fulfilling their duties and responsibilities. The committees and their members are as follows:

BOARD OF DIRECTORS

GT Ferreira (chairman)

ARC	DAGC	IC	NC	RC	SETC
AUDIT AND RISK COMMITTEE	DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE	INVESTMENT COMMITTEE	NOMINATIONS COMMITTEE	REMUNERATION COMMITTEE	SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE
Jan Dreyer (chairman) – Sonja De Bruyn Sebotsa – Per Lagerström	**Pat Goss (chairman)** – All non-executive directors	**Johan Burger (chairman)** – Herman Bosman – Peter Cooper – Laurie Dippenaar – Jannie Durand – GT Ferreira – Paul Harris – Albertina Kekana	**Pat Goss (chairman)** – All non-executive directors	**Jannie Durand (chairman)** – Johan Burger – Sonja De Bruyn Sebotsa	**Sonja De Bruyn Sebotsa (chairperson)** – Jan Dreyer – Per Lagerström
See the committee's report on **page 73**.	See the committee's report on **page 75**.	See the committee's report on **page 77**.	See the committee's report on **page 78**.	See the committee's report on **page 79**.	See the committee's report on **page 81**.

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

AUDIT AND RISK COMMITTEE REPORT

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

AUDIT AND RISK COMMITTEE MEMBERSHIP AND MEETINGS

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

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

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

	September 2015	February 2016
Jan Dreyer	✓	✓
Johan Burger (resigned 20 November 2015)	*	–
Sonja De Bruyn Sebotsa	✓	✓
Per Lagerström (appointed 20 November 2015)	–	✓

*✓ Attended meeting   * Apology received   – Not a member at the time*

ROLES AND RESPONSIBILITIES

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

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

THE FINANCE FUNCTION

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

EFFECTIVENESS OF COMPANY'S INTERNAL FINANCIAL CONTROLS

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

This committee is the guardian of the following forms of capital:	FINANCIAL	MANUFACTURED

INDEPENDENCE OF THE EXTERNAL AUDITOR

PricewaterhouseCoopers Inc. was re-appointed as auditor of the company until the next annual general meeting.

The committee believes that the auditor has observed the highest level of business and professional ethics. The committee is satisfied that the auditor has at all times acted with unimpaired independence.

The partner responsible for the audit is required to rotate every five years. The committee meets with the auditor independently from senior management.

INTEGRATED ASSURANCE

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

The various assurance providers to the board comprise the following:

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

INTERNAL AUDIT

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

EXTERNAL AUDIT

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

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

Jan Dreyer
Chairman of the audit and risk committee

12 September 2016

DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE REPORT

The directors' affairs and governance committee has pleasure in submitting its report:

DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE MEMBERSHIP AND MEETINGS

The committee consists of all the non-executive directors. The committee is chaired by the lead independent non-executive director. The committee meets at least twice annually with additional meetings when required at the request of the board or any committee member or as often as it deems necessary to achieve its objectives. Comprehensive minutes of meetings are kept. The committee may invite any professional advisors or officers whose input may be required at the meetings. The chairman may excuse any of the attendees at a meeting or part thereof who may be considered to have a conflict of interest, or for confidentiality reasons.

As all non-executive directors are members of this committee, matters relating to the charter of this committee are normally dealt with as an integral part of the normal proceedings of the quarterly board meetings. It is usual for the chief executive to excuse himself from the meeting.

The committee met four times during the year and attendance was as per the attendance at board meetings on **page 65**.

ROLES AND RESPONSIBILITIES

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

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

GOVERNANCE EFFECTIVENESS

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

This committee is the guardian of the following forms of capital:	INTELLECTUAL	HUMAN

ETHICS

Upon joining the group, all directors are obliged to sign a code of ethics. The code of ethics addresses duties of care and skill, good faith, honesty and integrity, whistle blowing, processes for dealing with conflicts of interest and the need to always act in the best interests of the group. The soliciting or acceptance of payments other than declared remuneration, gifts and entertainment as consideration to act or fail to act in a certain way, is not allowed. The group does not make political donations.

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

CONFLICTS

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

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

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

DEALINGS IN SECURITIES

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

DIRECTORS' INTERESTS IN ORDINARY SHARES

The directors have disclosed their direct and indirect beneficial shareholdings in the company.

The directors' report, on **page 96**, contains a table of all directors' interests in the ordinary shares of the company.

Pat Goss
Chairman of the directors' affairs and governance committee

12 September 2016

INVESTMENT COMMITTEE REPORT

The investment committee has pleasure in submitting its report:

INVESTMENT COMMITTEE MEMBERSHIP AND MEETINGS

The investment committee meets on an ad hoc basis. The committee may invite any of the directors, professional advisors or officers whose input may be required to the meetings. Board members have the right of attendance. The chairman may excuse any of the attendees at a meeting or part thereof who may be considered to have a conflict of interest, or for confidentiality reasons.

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

	July 2015	August 2015	November 2015	December 2015	January 2016	February 2016	May 2016	June 2016
Johan Burger (chairman)	✓	✓	*	✓	*	✓	*	✓
Herman Bosman	✓	*	✓	*	✓	✓	✓	✓
Peter Cooper	✓	✓	✓	✓	✓	✓	✓	✓
Laurie Dippenaar	✓	*	✓	✓	✓	✓	✓	✓
Jannie Durand	✓	✓	*	✓	*	✓	*	*
GT Ferreira	✓	✓	✓	*	*	*	✓	✓
Paul Harris	✓	✓	✓	✓	✓	*	✓	*
Albertina Kekana	^	^	^	^	^	^	^	^

*✓ Attended meeting   * Apology received   ^ Alternate attended*

ROLES AND RESPONSIBILITIES

The committee is mandated to consider and, if appropriate, approve:

- new investments up to R500 million;
- the extension of existing investments up to R500 million;
- the disposal of existing investments up to R300 million; and
- to consider and make recommendations to the board regarding investments falling outside the scope of the committee's mandate.

Johan Burger
Chairman of the investment committee

12 September 2016

This committee is the guardian of the following forms of capital:	FINANCIAL	MANUFACTURED	INTELLECTUAL

NOMINATIONS COMMITTEE REPORT

The nominations committee has pleasure in submitting its report:

NOMINATIONS COMMITTEE MEMBERSHIP AND MEETINGS

The committee consists of all the non-executive directors. It is chaired by the lead independent director. The committee meets at least twice annually with additional meetings when required at the request of the board or any committee member or as often as it deems necessary to achieve its objectives. Comprehensive minutes of meetings are kept. The committee may invite any professional advisors or officers whose input may be required at the meetings. The chairman may excuse any of the attendees at a meeting or part thereof who may be considered to have a conflict of interest, or for confidentiality reasons.

As all non-executive directors are members of this committee, matters relating to the charter of this committee are normally dealt with as an integral part of the normal proceedings of the quarterly board meetings. It is usual for the chief executive to excuse himself from the meeting.

The committee met four times during the year and attendance was as per the attendance at board meetings on **page 65**.

NOMINATION, SELECTION AND APPOINTMENT OF DIRECTORS

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

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

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

Pat Goss
Chairman of the nominations committee

12 September 2016

This committee is the guardian of the following forms of capital:	INTELLECTUAL	HUMAN

REMUNERATION COMMITTEE REPORT

The remuneration committee has pleasure in submitting its report:

INTRODUCTION

The remuneration committee report provides an overview and understanding of remuneration principles, policies and practices with specific reference to executive directors, investment team members, employees and non-executive directors. The information in this report has been approved by the board on recommendation from the remuneration committee.

REMUNERATION COMMITTEE MEMBERSHIP AND MEETINGS

The committee meets at least once a year or at the request of the chairman, any member of the committee or the board. Comprehensive minutes of meetings are kept. The committee invites, at its discretion, appropriate professional advisors whose inputs may be required.

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

	April 2016	July 2016
Jannie Durand (chairman)	✓	✓
Johan Burger	*	*
Sonja De Bruyn Sebotsa	✓	✓

*✓ Attended meeting. * Apology received.*

ROLES AND RESPONSIBILITIES

The roles and responsibilities of the remuneration committee include:

- assisting the board in exercising its responsibility of ensuring that fair reward practices are implemented in RMI and that the disclosure of directors' remuneration are in line with King III principles, accurate and transparent;
- ensuring that the remuneration policy implemented aligns the interests of employees with those of shareholders and other stakeholders;
- considering non-executive directors' fees and make recommendations to the board for approval by the shareholders; and
- providing a channel of communication between the board and management on remuneration matters.

The committee was mandated to:

- oversee the establishment of a remuneration policy;
- debate and approve the annual salary adjustments;
- ensure that remuneration in cash, share appreciation rights (SARs) and other elements are in line with the strategic objectives of RMI; and
- delegate any of its functions and the power to implement its decisions.

REMUNERATION POLICY

Human resources are very important in delivering on RMI's value proposition, albeit on a different level than in an operating company. RMI's remuneration policy is to:

- attract, retain and motivate employees;
- align the rewards of employees with the risk exposure of shareholders and other stakeholders;
- ensure that the compensation of employees is affordable and reasonable in terms of the value created for shareholders;
- protect the rights of RMI as an employer; and
- encourage behaviour that is consistent with the RMI code of ethics, values and long-term strategy.

How do we implement it?

- We protect the rights of RMI by means of a standard employment contract;
- We ensure that the fixed pay component, which comprises salary, contributions to retirement funds and medical aid schemes, reflects the value of the role and individual performance and is benchmarked against the upper quartile of comparable companies;
- We do not pay short-term incentives as we do not believe it is appropriate for an investment holding company, with the exception of take-on bonuses as agreed with new employees, where applicable;
- We have implemented a long-term incentive plan and ensured that employees' personal wealth creation is aligned with those of shareholders; and

This committee is the guardian of the following forms of capital:	HUMAN	INTELLECTUAL	FINANCIAL

- We have implemented a management participation structure to enable the chief executive and investment team members to share with RMI in investments made in next-generation financial services businesses, thereby ensuring a long-term focus as per the investment strategy of RMI.

EXECUTIVE REMUNERATION

FIXED REMUNERATION

The fixed remuneration is based on the executive's position and responsibility. The chief executive, who attends all the meetings of the remuneration committee by invitation, can propose increases to guaranteed packages, excluding his own, during these review meetings. During the current year, salary increases were linked to the inflation rate of 6.3%.

VARIABLE REMUNERATION

RMI SARs scheme

RMI currently has a cash-settled SARs scheme in place. Participants are rewarded SARs that must be exercised within a period of seven years after the grant date. The earliest intervals at which SARs can be exercised are as follows:

- one third after the third anniversary of the grant date;
- two thirds after the fourth anniversary of the grant date; and
- the remainder after the fifth anniversary of the grant date.

No specific performance criteria were stipulated for issuances made before September 2015. The September 2015 issue was the first award with performance criteria as set by the remuneration committee. The performance criteria is linked to GDP growth and the performance of new investments.

Awards are based on a multiple of the total guaranteed package and ranges between multiples of three to eight times based on position and level of responsibility. Future awards will be made to maintain the agreed multiple of the guaranteed package.

For details on awards made to the executive director, refer to **page 98.** Further details of the scheme are provided in **note 14** to the consolidated annual financial statements on **page 166**.

RMI management participation structure

A management participation structure was developed for the chief executive and investment team members to share with RMI in the investments made in next-generation financial services businesses. The rationale is:

- alignment of management and shareholder objectives; and
- retention of key employees in a highly competitive market.

PRESCRIBED OFFICERS

The committee holds the view that none of RMI's employees other than the executive director are prescribed officers in the context of the Companies Act and that no meaningful benefit would be derived by other stakeholders in the specific disclosure of their remuneration. However, the remuneration packages of the joint chief executives of OUTsurance, Howard Aron and Willem Roos, have been disclosed on page 190 as they are viewed as prescribed officers in the RMI group.

For detailed disclosure of the executive director's remuneration for the year ended 30 June 2016, refer to **page 97**.

CONTRACTS OF EMPLOYMENT

Executive directors and other employees do not have fixed-term contracts, but are employed in terms of RMI's standard contract of employment. The notice period for termination of service is one calendar month and the normal retirement age ranges from 60 to 65 depending on the date of appointment. Good leaver principles apply at the termination of service of executive directors, but are at the discretion of the remuneration committee.

NON-EXECUTIVE REMUNERATION

Non-executive directors do not have employment contracts and do not receive any benefits associated with permanent employment. Furthermore, they do not participate in any long-term incentive schemes.

Non-executive directors are paid a fixed annual fee, based on an agreed number of meetings. An hourly rate is used to remunerate non-executive directors for ad hoc meetings. The fees and hourly rates are reviewed annually and are subject to approval by shareholders at RMI's annual general meeting. Fees are market-related and take into account the nature of RMI's operations.

The directors' report, on **pages 92 to 100**, contains details of directors' emoluments and participation in incentive schemes

Jannie Durand
Chairman of the remuneration committee

12 September 2016

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT

The social, ethics and transformation committee has pleasure in submitting its report. The report is prepared in accordance with the Companies Act, with specific reference to Regulation 43:

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE MEMBERSHIP AND MEETINGS

The committee comprises three suitably skilled and experienced members appointed by the board. All the members are independent, non-executive directors.

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

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

	September 2015	February 2016
Sonja De Bruyn Sebotsa (chairperson)	✓	✓
Johan Burger (resigned 20 November 2015)	*	–
Jan Dreyer	✓	✓
Per Lagerström (appointed 20 November 2015)	–	✓

✓ *Attended meeting.* * *Apology received.*
– *Not a committee member at the time.*

ROLES AND RESPONSIBILITIES

The committee's objectives are to assist the board in monitoring RMI's performance as a good and responsible citizen, which includes the following:

- the social and economic development, including the ten principles as set out in the United Nations Global Compact principles, the Organisation for Economic Co-operation and Development (OECD) recommendations regarding corruption, the Employment Equity Act, 55 of 1998, and the Broad-Based Black Economic Empowerment Act, 53 of 2003;
- good corporate citizenship, including promotion of equality, prevention of unfair discrimination and corruption, contribution to the development of communities, sponsorship, donations and charitable giving;
- the environment, health and public safety, including the impact of the company's activities;
- consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws; and
- labour and employment, including the group's standing in terms of the International Labour Organisation Protocol on decent work and working conditions, the group's employment relationships and its contribution towards the educational development of its employees.

This committee is the guardian of the following forms of capital:	SOCIAL	NATURAL	HUMAN	MANUFACTURED

COMMITTEE PROCEEDINGS

During the year under review, the committee refined its work plan and developed a reporting framework. As part of this, the committee reviewed the informal B-BBEE scorecard prepared for RMI. The investee companies report on all significant matters that need to be brought to the attention of this committee, as and when they arise.

The chairperson of the committee attends the annual general meeting to answer any questions that shareholders might have.

Below is a summary of the framework used by this committee for RMI. Investee companies also provide feedback in this format.

Description in terms of Regulation 43		Action taken during the current year
1	Corporate social responsibility	
1.1	Corporate social investment	RMI formed a stand-alone strategy instead of pure reliance on the corporate social investment done by its investee companies.
1.2	Employee educational development	The committee reviewed whether a formal employee educational development plan was required and concluded that, with the limited employee complement and the specific skills required by employees of an investment holding company, it would support employees to participate in the continuing professional development programmes of the professional bodies they are members of.
1.3	Employee wellness	Employees are members of an employee wellness programme.
2	Black economic empowerment	Performed and reviewed the calculation of RMI's B-BBEE rating.
3	EE transformation	Compiled a transformation statement as it was decided that a transformation policy would not be required due to the limited size of RMI's operations.
4	Culture risk	Undertook an informal assessment of the culture risk of RMI.
5	Environmental and social risk governance *(incorporates Global Compact principles on human rights, labour practices, the natural environment, green buildings, energy, waste and water management)*	Compiled an assessment of the environmental and social risk governance impact RMI has on the community.
6	Business conduct – standards for employees *(incorporates Global Compact and OECD principles on anti-bribery and corruption, whistle-blowing, gifts declarations, personal account trading rules and conflicts of interest management)*	Performed an annual review of the following policies: ▶ Code of ethics; ▶ Personal account trading policy; and ▶ A general policy named "The Company and You", which deals with topics such as HIV/Aids and smoking in work place etc.

Description in terms of Regulation 43		Action taken during the current year
7	Market conduct – standards for the market *(incorporates consumer protection, treating customers fairly and anti-trust measures*	Monitored that no anti-trust measures were breached.
8	Monitoring – internal compliance	Assessed whether RMI required a monitoring system.
9	Governance reporting	Prepared the social, ethics and transformation committee report for inclusion in the annual integrated report based on the new reporting framework developed during the year under review. This committee also provided feedback to the RMI board after each meeting.

Sebotsa

Sonja De Bruyn Sebotsa
Chairperson of the social, ethics and transformation committee

12 September 2016

KING III GAP ANALYSIS

The JSE Listings Requirements require all JSE-listed companies to provide narrative on how it has applied the recommendations contained in King III.

Our King III gap analysis is available on RMI's website at **www.rmih.co.za**.

RMI has complied with the King III principles for the full financial year ended 30 June 2016, with the exception of the following:

- Principle 2.16

  The board should elect a chairman of the board who is an independent, non-executive director. The chief executive of the company should not also fulfil the role of chairman of the board.

  RMI's chairman is a non-executive director, but is not independent. A lead independent, non-executive director was therefore appointed.

- Principle 2.26

  Companies should disclose the remuneration of each individual director and certain senior executives.

  The individual directors' remuneration is disclosed, but not the salaries of the three highest earners who are not directors. The remuneration packages of the joint chief executives of OUTsurance have been disclosed as they are viewed as prescribed officers of the RMI group. RMI believes that this disclosure is sufficient and appropriately demonstrates alignment between remuneration and shareholders' return.

KING IV APPLICATION REGISTER

The draft King IV Report on Corporate Governance for South Africa 2016 (King IV) was published in anticipation of its launch on 1 November 2016. Whilst it will only replace King III on the effective date, we have completed an assessment of our practices against the principles of King IV to benchmark our practices against the latest available guidelines and trends. Below we detail the practices implemented and progress made towards achieving the principles and, ultimately, the governance outcomes envisaged:

Principle		Practices implemented and progress made
1	Governance outcome: ethical culture	
1.1	**Ethical leadership** The governing body should set the tone and lead ethically and effectively.	RMI's board of directors is its governing body. The directors hold one another accountable for decision-making and behave ethically, as characterised in King IV. The chairman is tasked with monitoring this as part of his duties. The results of the performance assessment of individual directors in respect of the ethical characteristics they demonstrated were satisfactory. The board will make an ongoing assessment to ensure that the ethical characteristics demonstrated by the individual directors are continued.
1.2	**Organisation values, ethics and culture** The governing body should ensure that the organisation's ethics is managed effectively.	RMI's values of commitment, integrity, responsibility, innovation and connectivity guide the behaviour of how everyone conducts their daily duties. The code of conduct guides the ethical behaviour of all RMI's employees. This includes interaction between colleagues, with clients, contractors, shareholders, suppliers and the communities within which the company operates.
1.3	**Responsible corporate citizenship** The governing body should ensure that the organisation is a responsible corporate citizen.	The responsibility for monitoring the overall responsible corporate citizenship performance of the organisation was delegated to the social, ethics and transformation committee by the board. For more detail on how RMI addressed responsible citizenship, see **page 13**.
2	Governance outcome: performance and value creation	
2.1	**Strategy, implementation and performance** The governing body should lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements.	This integrated report demonstrates how performance is achieved through the strategic objectives. RMI sets and achieves its strategic objectives with reference to its risks and opportunities. The board assesses both the positive and negative outcomes resulting from its business model continuously and responds to it. See **page 8** for RMI's business model.
2.2	**Reports and disclosure** The governing body should ensure that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organisation and its ability to create value in a sustainable manner.	RMI's ability to create value in a sustainable manner is illustrated throughout its business model. See **page 8** that presents material information in an integrated manner to provide users with a clear, concise and understandable presentation of RMI's performance in terms of sustainable value creation in the economic, social and environmental context within which it operates.

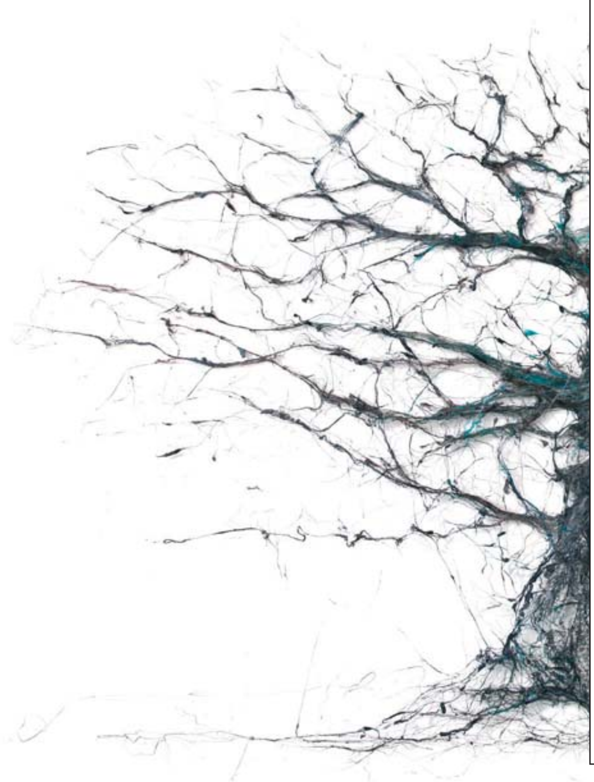
Principle		Practices implemented and progress made
3	Governance outcome: adequate and effective control – governing structures and delegation	
3.1	**Role of the governing body** The governing body should serve as the focal point and custodian of corporate governance in the organisation.	The board serves as the focal point and custodian of corporate governance of RMI. Its role and responsibilities and the way that it executes its duties and decision-making are documented and are set out in the board charter.
3.2	**Composition of the governing body** The governing body should ensure that in its composition it comprises a balance of the skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.	The board, with the assistance of the remuneration and nomination committees, considers, on an annual basis, its composition in terms of balance of skills, experience, diversity, independence and knowledge and whether this enables it to effectively discharge its role and responsibilities. The board is satisfied that there is a balance of skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities. The board has taken steps to strengthen its succession plan to also include an immediate and interim succession plan in the event of an unforeseen event.
3.3	**Committees of the governing body** The governing body should consider creating additional governing structures to assist with the balancing of power and the effective discharge of responsibilities, but without abdicating accountability.	Membership of the committees is as recommended in King IV. The composition of the committees of the board and the distribution of authority between the chairman and other directors is balanced and does not lead to instances where individuals dominate decision-making within governance structures or where undue dependency is caused. See **page 72** for the members of each committee.
3.4	**Delegation to management** The governing body should ensure that the appointment of, and delegation to, competent executive management contributes to an effective arrangement by which authority and responsibilities are exercised.	A detailed delegation of authority policy and framework indicate matters reserved for the board and those delegated to management. The board is satisfied that RMI is appropriately resourced and that its delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised. The chief executive does not have any work commitments outside of RMI and its related companies. A succession plan for the chief executive is in place. The chief financial officer is the head of the finance function and he has a senior manager reporting to him. Internal audit is fully outsourced and the chief financial officer is responsible for overseeing and co-ordinating the effective functioning of the outsourcing arrangement. The company secretary is appointed on a full-time basis with the requisite knowledge, experience and stature. The company secretary's performance is assessed annually and the board is satisfied that the company secretary and the function that he oversees are performing well. The company secretary signs off on disclosure of membership of board structures, the number of meetings of each and attendance at each meeting as well as the overall content of the committee information and reporting that are in the public domain.

Principle		Practices implemented and progress made
3.5	**Performance evaluations** The governing body should ensure that the performance evaluations of the governing body, its structures, its chair and members, the chief executive and the company secretary or corporate governance professional result in continued improved performance and effectiveness.	Assessments of the performance of the chief executive, chief financial officer and company secretary as well as the performance of the board structures and its members are conducted annually.
4	**Governance outcome: adequate and effective control – governance functional areas**	
4.1	**Risk and opportunity governance** The governing body should govern risk and opportunity in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.	The audit and risk committee assists the board with the governance of risk. The board is aware of the importance of risk management as it is linked to the strategy, performance and sustainability of RMI. The audit and risk committee implements a process whereby risks to the sustainability of the company's business are identified and managed within acceptable parameters. The audit and risk committee delegates to management to continuously identify, assess, mitigate and manage risks within the existing and ever-changing risk profile of RMI's operating environment. Mitigating controls are formulated to address the risks and the board is kept up to date on progress on the risk management plan. See **page 17** for an overview on how the performance, current operations, and future strategic objectives are affected by uncertainties in the operating environment.
4.2	**Technology and information governance** The governing body should govern technology and information in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.	The audit and risk committee assists the board with the governance of Information Technology. The board is aware of the importance of technology and information as it is closely linked to the strategy, performance and sustainability of RMI.
4.3	**Compliance governance** The governing body should govern compliance with laws and ensure consideration of adherence to non-binding rules, codes and standards.	There were no material or repeated regulatory penalties, sanctions or fines for contraventions of or non-compliance with statutory obligations.
4.4	**Remuneration governance** The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner.	RMI remunerates fairly, responsibly and transparently to promote the creation of value in a sustainable manner. See the remuneration report on **page 79**.
4.5	**Assurance** The governing body should ensure that assurance results in an adequate and effective control environment and integrity of reports for better decision-making.	The board is satisfied that assurance results in an adequate and effective control environment and integrity of reports for better decision-making. See **page 73** for information on assurance contained in the audit and risk committee's report.

Principle		Practices implemented and progress made
5	Governance outcome: trust, good reputation and legitimacy	
5.1	**Stakeholders** As part of its decision-making in the best interests of the organisation, the governing body should ensure that a stakeholder-inclusive approach is adopted, which takes into account and balances their legitimate and reasonable needs, interests and expectations.	RMI has identified its stakeholder groups and actively balances their legitimate and reasonable requirements, interests and expectations. See **page 13** for information on stakeholder relationships and engagements.
5.2	**Responsibility of shareholders** The governing body of an institutional investor should ensure that the organisation responsibly exercises its rights, obligations, legitimate and reasonable needs, interests and expectations, as holder of beneficial interest in the securities of a company.	RMI ensures, through active participation and representation, that it exercises its rights and obligations with regard to its investee companies.

An up-to-date version of this register is available on our website at **www. rmih.co.za**. It is envisaged that it will no longer be included in full in future printed annual integrated reports.

ANNUAL FINANCIAL STATEMENTS



CONTENTS

These annual financial statements have been audited in terms of the Companies Act, 71 of 2008, and have been prepared by Schalk Human MCom(Acc) CA(SA) under the supervision of Herman Bosman LLM CFA.

DIRECTORS' RESPONSIBILITY STATEMENT

TO THE SHAREHOLDERS OF RAND MERCHANT INVESTMENT HOLDINGS LIMITED

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

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

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

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

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

It is the responsibility of the group's independent external auditor, PricewaterhouseCoopers Inc., to report on the fair presentation of the annual financial statements. Their unqualified report appears on page 101.

The consolidated annual financial statements of the group, which appear on pages 92 to 200 and the separate annual financial statements of the company, which appear on pages 201 to 223, were approved by the board of directors on 12 September 2016 and signed on its behalf by:

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

DECLARATION BY THE COMPANY SECRETARY

DECLARATION BY THE COMPANY SECRETARY IN RESPECT OF SECTION 88(2)(e) OF THE COMPANIES ACT

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

JS Human
Company secretary

12 September 2016

DIRECTORS' REPORT

NATURE OF BUSINESS

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

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

RMI aims to be a value-adding, active enabler of leadership and innovation in financial services and currently holds an investment portfolio of some of South Africa's premier insurance brands, an asset management business and a first investment into next-generation financial services called Merchant Capital Advisory Services Proprietary Limited (Merchant Capital).

During the 2016 financial year, the following corporate activity took place:

- RMI acquired a 25.1% stake in Merchant Capital in September 2015 for R21.5 million. This stake in Merchant Capital is held in RMI Invest One Proprietary Limited, a 100%-owned subsidiary of RMI Investment Holdings Proprietary Limited which is 100%-owned by RMI.
- RMI acquired an additional 8 060 000 ordinary shares in MMI Holdings Limited (MMI) in October and November 2015 for R193.7 million.
- RMI Investment Managers Group Proprietary Limited (RMI Investment Managers) was capitalised with R81 million. In October 2015, RMI sold its shareholding in RMI Investment Managers Affiliates 2 Proprietary Limited (Affiliates 2) to RMI Investment Managers for R100 and RMI Investment Managers sold its shareholding in RMI Specialist Managers Proprietary Limited (Specialist Managers) to Affiliates 2 for R2.8 million. Specialist Managers obtained an asset management license and commenced with its asset management activities in April 2016. Affiliates 2 acquired the following stakes:
  - 15% shareholding in Tantalum Capital Proprietary Limited in December 2015;
  - 30% shareholding in Northstar Asset Management Proprietary Limited in December 2015; and
  - 17.78% shareholding in Sentio Capital Management Proprietary Limited in February 2016.
- In May 2016, RMI issued 100 000 cumulative, redeemable no par value preference shares to FirstRand Bank Limited for R100 million to fund the acquisitions in Merchant Capital and RMI Investment Managers.
- In May 2016, RMI invested in preference shares issued by six special purpose vehicles owned by senior MMI executives amounting to R294 million. RMI issued 300 000 cumulative, redeemable no par value preference shares to FirstRand Bank Limited for R300 million to fund these investments.
- RMI guaranteed a loan of R60 million between Affiliates 2 and FirstRand Bank Limited which was utilised to seed three new fixed income funds started in Specialist Managers.
- RMI launched its next-generation business platform, AlphaCode, in September 2015 to assist in identifying and enabling investments that aim to change the landscape of the financial services industry.
- RMI acquired an additional 5 003 225 ordinary shares in OUTsurance Holdings Limited (OUTsurance) via its 100%-owned subsidiary, Firness International Proprietary Limited (Firness).

The table below summarises RMI's actual interest in its investee companies as at 30 June 2016 compared to 30 June 2015:

	30 June 2016	30 June 2015
Discovery	**25.0%***	25.0%*
MMI	**25.5%***	25.0%*
OUTsurance	**83.6%***	83.4%*
RMB-SI Investments Proprietary Limited (RMB Structured Insurance)	**75.5%***	76.4%*
RMI Investment Managers	**100.0%***	100.0%*
RMI Investment Holdings Proprietary Limited (RMI IH)	**100.0%***	100.0%*

* *Actual interest differs from the effective interest used for financial reporting due to the consolidation of treasury shares and deemed treasury shares held by group companies (see note 41 to the consolidated annual financial statements).*

Further details regarding the investments are provided in notes 42 and 43 to the consolidated annual financial statements.

SHARE CAPITAL

RMI's new memorandum of incorporation ("MOI") was approved at the annual general meeting held on 20 November 2015. The classes of shares in terms of this new MOI are as follows:

ORDINARY SHARES

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

PREFERENCE SHARES

Cumulative, redeemable par value preference shares

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

As at 30 June 2016, RMI had 648 001 cumulative, redeemable par value preference shares with a par value of R0.0001 per share in issue. There were no movements in this number of issued shares during the financial year ended 30 June 2016. These shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 22 August 2017. The dividend on these shares is calculated at a fixed rate of 6.89%, payable at the end of March and September annually.

Cumulative, redeemable no par value preference shares

The total authorised number of cumulative, redeemable no par value preference shares is 100 million.

RMI issued 1 250 000 of these preference shares at an amount of R1 000 each to fund the additional ordinary shares taken up in Discovery as part of Discovery's rights issue offer in the 2015 financial year. These preference shares pay dividends at a fixed rate of 7.02% in May and November annually, are redeemable at the discretion of the company at any time and compulsorily redeemable on 29 May 2018.

On 9 May 2016, RMI issued 100 000 of these preference shares at an amount of R1 000 each. These preference shares pay dividends at a fixed rate of 8.04% in May and November annually, are redeemable at the discretion of the company at any time and compulsorily redeemable on 10 May 2019.

On 31 May 2016, RMI issued 300 000 of these preference shares at an amount of R1 000 each. These preference shares pay dividends at a fixed rate of 8.29% in May and November annually, are redeemable at the discretion of the company at any time and compulsorily redeemable on 7 December 2020.

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

The total authorised number of cumulative, redeemable no par value preference shares in terms of clause 7.1 of the MOI is 100 million. None of these shares have been issued to date.

SHAREHOLDER ANALYSIS

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

	30 June 2016	30 June 2015
Financial Securities Limited (Remgro)	30.3%	30.3%
Royal Bafokeng Holdings Proprietary Limited (Royal Bafokeng)	15.0%	15.0%
Allan Gray (on behalf of clients)	7.8%	5.8%
Public Investment Corporation (PIC)	7.7%	8.0%

EARNINGS

Earnings attributable to ordinary shareholders for the year ended 30 June 2016 amounted to R2 977 million or 200.9 cents per share (2015: R3 292 million or 222.0 cents per share). Headline earnings amounted to R2 934 million or 198.0 cents per share (2015: R3 258 million or 219.8 cents per share).

DIVIDENDS

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

- An interim dividend for the six months ended 31 December 2015 of 53.0 cents per ordinary share, declared on 7 March 2016 and paid on 4 April 2016 (2015: 52.0 cents per ordinary share, declared on 5 March 2015 and paid on 30 March 2015).
- A final dividend for the year ended 30 June 2016 of 65.0 cents per ordinary share, declared on 12 September 2016 and payable on 10 October 2016 (2015: 64.0 cents per ordinary share, declared on 11 September 2015 and paid on 12 October 2015).

The last day to trade in RMI shares on a cum-dividend basis in respect of the final dividend is Tuesday, 4 October 2016, while the first day to trade ex-dividend is Wednesday, 5 October 2016. The record date is Friday, 7 October 2016 and the payment date Monday, 10 October 2016.

No dematerialisation or rematerialisation of shares may be done during the period Wednesday, 5 October 2016 to Friday, 7 October 2016, both days inclusive.

DIRECTORATE

The directorate comprises:

Name	Date of appointment
GT Ferreira (Chairman)	8 December 2010
HL Bosman (Chief executive)	2 April 2014
JP Burger	30 June 2014
P Cooper	8 December 2010
SEN De Bruyn Sebotsa	8 December 2010
LL Dippenaar	8 December 2010
JW Dreyer	8 December 2010
JJ Durand	8 December 2010
PM Goss	8 December 2010
PK Harris	8 December 2010
P Lagerström	30 June 2014
MM Morobe	1 August 2014
O Phetwe	6 February 2013
KC Shubane	8 December 2010
ALTERNATE DIRECTORS	
L Crouse	30 June 2014 (retired 31 March 2016)
A Kekana	6 February 2013
F Knoetze	1 April 2016

During the 2016 financial year, Mr Crouse retired as an alternate non-executive director and Mr Knoetze was appointed as an alternate non-executive director.

DIRECTORS' INTERESTS IN RMI

Details of individual directors' interests in the company are disclosed on page 96.

INTERESTS OF DIRECTORS AND OFFICERS

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the group. The directors had no interest in any third party or company responsible for managing any of the business activities of the group except to the extent that they are shareholders in RMI as disclosed in this report. Arm's length insurance transactions entered into by the company's directors with the group's associates are disclosed in note 39 to the consolidated annual financial statements.

DIRECTORS' EMOLUMENTS AND SERVICE CONTRACTS

Directors' and prescribed officers' emoluments are disclosed on pages 97 to 100 and page 190.

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

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

DIRECTORS' PARTICIPATION IN GROUP SHARE INCENTIVE SCHEMES

RMI operates a cash-settled share scheme as part of its remuneration philosophy, which tracks the company's share price. Messrs Bosman and Cooper participate in this scheme.

INSURANCE

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

COMPANY SECRETARY AND REGISTERED OFFICES

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

MANAGEMENT CONTRACT

RMI and RMB Holdings Limited (RMH) rendered management services to each other during the 2016 financial year. Mr Bosman's executive remuneration was paid for by RMI. RMI charged management fees to RMH according to the time spent by Mr Bosman on the affairs of each company.

SPECIAL RESOLUTIONS

The following special resolutions were passed at the annual general meeting of RMI held on 20 November 2015:

- approval of non-executive directors' remuneration with effect from 1 December 2015;
- general authority to repurchase company shares;
- financial assistance to directors, prescribed officers, employee share scheme beneficiaries and related or interrelated companies;
- change of company's name from Rand Merchant Insurance Holdings Limited to Rand Merchant Investment Holdings Limited;
- creation of an additional class of authorised preference shares required in order to implement and give effect to the company's proposed R15 billion domestic medium-term note and preference share programme; and
- adoption of a revised MOI to incorporate the name change and the additional class of authorised preference shares.

OUTsurance passed the following special resolutions at its annual general meeting held on 5 November 2015:

- general authority to provide financial assistance to related companies and interrelated parties in terms of section 45 the Companies Act; and
- approval of the remuneration of non-executive directors.

RMB Structured Insurance passed the following special resolution during the 2016 financial year:

- approval of an amended MOI.

EVENTS SUBSEQUENT TO REPORTING DATE

On 23 August 2016, RMI announced that it had reached agreement on the sale of 100% of the issued share capital of RMB Structured Insurance to Santam Limited (Santam).

RMI has, over the last few years, re-activated and expanded its portfolio. In addition to new investments, RMI's aim is to be a long-term, active and value-adding shareholder to its portfolio companies. Its intention is to produce superior returns for its shareholders, an objective which includes dynamic and active portfolio management.

To this end, RMI and RMB Structured Insurance performed a review of the business in the context of a changing regulatory and operating environment and the evolving strategic objectives of RMB Structured Insurance. A number of business lines in RMB Structured Insurance require a scalable and efficient operational platform to establish RMB Structured Insurance for continued growth. RMI believes that after a successful long-standing partnership with RMB Structured Insurance's entrepreneurial management team and strategic co-investor, New Seasons, the business would be more optimally positioned within a large insurance group. As its new shareholder, Santam will provide RMB Structure Insurance's business with an efficient infrastructure while retaining the entrepreneurial culture and independence, which is at the core of its ethos.

RMB Structured Insurance has, over the years, pioneered a specialist insurance structuring business offering its partners and clients individually designed and innovative insurance solutions. RMB Structured Insurance has also established new businesses such as the recently-formed Risk Finance Division, Credit Insurance Solutions division and CreditInnovation, all of which are emerging as potential market leaders in their respective fields. Over the last two decades, the business has consistently produced superior returns on capital ratios and RMI has achieved an internal rate of return on its investment in RMB Structured insurance in excess of 60%.

RMB Structured Insurance owns 22.4% of the issued share capital of Truffle Capital Proprietary Limited (Truffle). Truffle is excluded from the transaction and, subject to the agreement of terms, Truffle will become an affiliate of RMI's asset management business, RMI Investment Managers. Through its shareholding by RMI Investment Managers, Truffle will be added to RMI Investment Managers' stable of boutique affiliate managers, with RMI Investment Managers acting as a stable and supportive long-term strategic partner to Truffle and its stakeholders.

The conclusion of the transaction is subject to regulatory approvals by the Financial Services Board and the competition authorities in South Africa, as well as the relevant regulatory authorities in Mauritius and Ireland.

DIRECTORS' INTERESTS IN ORDINARY SHARES OF RMI (AUDITED)

The directors have disclosed the following interests in the ordinary shares of RMI at 30 June 2016:

000's	Direct beneficial	Indirect beneficial	Held by associate	Total 2016
HL Bosman	–	500	–	500
JP Burger	–	1 184	–	1 184
P Cooper	795	–	3 061	3 856
SEN De Bruyn Sebotsa	–	–	–	–
LL Dippenaar	–	73 387	233	73 620
JW Dreyer	1	–	–	1
JJ Durand	–	–	–	–
GT Ferreira	149	–	39 889	40 038
PM Goss	–	11 580	–	11 580
PK Harris	–	12 000	–	12 000
A Kekana (alternate)	–	–	–	–
F Knoetze (alternate)	–	–	–	–
P Lagerström	–	–	–	–
MM Morobe	–	–	–	–
O Phetwe	–	–	–	–
KC Shubane	25	10	–	35
TOTAL INTEREST	970	98 661	43 183	142 814

The directors have disclosed the following interests in the ordinary shares of RMI at 30 June 2015:

000's	Direct beneficial	Indirect beneficial	Held by associate	Total 2015
HL Bosman	–	500	–	500
JP Burger	–	1 184	–	1 184
P Cooper	795	–	3 061	3 856
L Crouse (alternate)	–	–	–	–
SEN De Bruyn Sebotsa	–	–	–	–
LL Dippenaar	–	73 387	233	73 620
JW Dreyer	1	–	–	1
JJ Durand	–	–	–	–
GT Ferreira	149	–	39 889	40 038
PM Goss	–	11 580	–	11 580
PK Harris	–	12 000	–	12 000
A Kekana (alternate)	–	–	–	–
P Lagerström	–	–	–	–
MM Morobe	–	–	–	–
O Phetwe	–	–	–	–
KC Shubane	3	7	–	10
TOTAL INTEREST	948	98 658	43 183	142 789

Since 30 June 2016 to the date of this report, the interest of directors remained unchanged.

DIRECTORS' EMOLUMENTS (AUDITED)

Schedule of directors' emoluments in respect of the year ended 30 June 2016:

R'000	Services as director	Other services	Cash package	Other benefits[1]	Bonus	Total 2016
Executive						
HL Bosman[2]	–	–	6 259	920	1 500	8 679
– Paid by RMI	–	–	8 345	1 227	2 000	11 572
– Recovered from RMH	–	–	(2 086)	(307)	(500)	(2 893)
Non-executive						
GT Ferreira	507	–	–	–	–	507
JP Burger[3]	325	–	–	–	–	325
P Cooper	289	–	–	–	–	289
L Crouse (alternate)	–	–	–	–	–	–
SEN De Bruyn Sebotsa	293	–	–	–	–	293
LL Dippenaar	282	–	–	–	–	282
JW Dreyer	340	–	–	–	–	340
JJ Durand[3]	295	–	–	–	–	295
PM Goss	218	–	–	–	–	218
PK Harris	289	–	–	–	–	289
A Kekana (alternate)[3]	47	–	–	–	–	47
F Knoetze (alternate)	–	–	–	–	–	–
P Lagerström[4]	261	550	–	–	–	811
MM Morobe	218	–	–	–	–	218
O Phetwe	218	–	–	–	–	218
KC Shubane	218	–	–	–	–	218
TOTAL	3 800	550	6 259	920	1 500	13 029

Notes:

1. *Other benefits comprise pension fund, provident fund and medical aid contributions.*
2. *Mr Bosman's executive remuneration is paid for by RMI. A portion of his remuneration is recovered from RMH.*
3. *Directors' fees for services rendered by Messrs Burger and Durand and Ms Kekana were paid to FirstRand, Remgro and Royal Bafokeng respectively.*
4. *Mr Lagerström provided consulting services to the company at an arms-length basis.*

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

RMI SHARE APPRECIATION RIGHTS

Participant	Strike price (cents)	Vesting date	Balance 1 July 2015 000's	Issued 000's	Forfeited 000's	Exercised 000's	Balance 30 June 2016 000's	Benefit derived R'000
P Cooper	2 028	14/09/2015	275	–	–	–	275	–
P Cooper	2 028	14/09/2016	275	–	–	–	275	–
P Cooper	2 028	14/09/2017	275	–	–	–	275	–
P Cooper	2 645	14/09/2016	73	–	–	–	73	–
P Cooper	2 645	14/09/2017	73	–	–	–	73	–
P Cooper	2 645	14/09/2018	72	–	–	–	72	–
HL Bosman	2 874	02/04/2017	631	–	–	–	631	–
HL Bosman	2 874	02/04/2018	631	–	–	–	631	–
HL Bosman	2 874	02/04/2019	631	–	–	–	631	–
HL Bosman	4 125	14/09/2018	–	27	–	–	27	–
HL Bosman	4 125	14/09/2019	–	27	–	–	27	–
HL Bosman	4 125	14/09/2020	–	26	–	–	26	–

Schedule of directors' emoluments in respect of the year ended 30 June 2015:

R'000	Services as director	Other services	Cash package	Other benefits[1]	Bonus	Total 2015
Executive						
HL Bosman[2]	–	–	5 899	899	1 875	8 673
– Paid by RMI	–	–	7 866	1 199	2 500	11 565
– Recovered from RMH	–	–	(1 967)	(300)	(625)	(2 892)
P Cooper[3]	–	–	2 912	507	–	3 419
Non-executive						
GT Ferreira	386	–	–	–	–	386
JP Burger[4]	248	–	–	–	–	248
P Cooper	198	–	–	–	–	198
L Crouse (alternate)	–	–	–	–	–	–
SEN De Bruyn Sebotsa	218	–	–	–	–	218
LL Dippenaar	224	–	–	–	–	224
JW Dreyer	264	–	–	–	–	264
JJ Durand[4]	221	–	–	–	–	221
PM Goss	165	–	–	–	–	165
PK Harris	221	–	–	–	–	221
A Kekana (alternate)[4]	55	–	–	–	–	55
P Lagerström[5]	165	600	–	–	–	765
MM Morobe[6]	156	–	–	–	–	156
O Phetwe	165	–	–	–	–	165
KC Shubane	165	–	–	–	–	165
TOTAL	2 851	600	8 811	1 406	1 875	15 543

Notes:
1. *Other benefits comprise pension fund, provident fund and medical aid contributions.*
2. *Mr Bosman's executive remuneration is paid for by RMI. A portion of his remuneration is recovered from RMH.*
3. *Mr Cooper was an executive director until September 2014. His executive remuneration was paid for by RMH and a portion thereof was recovered from RMI.*
4. *Directors' fees for services rendered by Messrs Burger and Durand and Ms Kekana were paid to FirstRand, Remgro and Royal Bafokeng respectively.*
5. *Mr Lagerström provided consulting services to the company at an arms-length basis.*
6. *Mr Morobe was appointed on 1 August 2014.*

DIRECTORS' EMOLUMENTS PAID BY SUBSIDIARIES AND ASSOCIATES (AUDITED)

Schedule of directors' emoluments paid by subsidiaries and associates in respect of the year ended 30 June 2016:

R'000	Total 2016	Total 2015
Executive		
HL Bosman[1]	1 263	805
P Cooper[1]	–	55
Non-executive		
GT Ferreira	–	–
JP Burger[2]	1 470	1 169
L Crouse (alternate)[3]	555	732
P Cooper[1]	541	135
SEN De Bruyn Sebotsa	924	6 860
LL Dippenaar	230	290
JW Dreyer	–	–
JJ Durand[3]	439	611
PM Goss	–	–
PK Harris	–	–
A Kekana (alternate)	–	–
F Knoetze (alternate)[3]	146	140
P Lagerström	300	–
MM Morobe	–	–
O Phetwe	–	–
KC Shubane	778	731
TOTAL	6 646	11 528

Notes:
1. *Directors' fees for services rendered by Mr Bosman and Mr Cooper (until September 2014) were paid to RMI.*
2. *Directors' fees for services rendered by Mr Burger were paid to FirstRand Limited.*
3. *Directors' fees for services rendered by Messrs Crouse, Durand and Knoetze were paid to Remgro Limited.*

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF RAND MERCHANT INVESTMENT HOLDINGS LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the consolidated and separate financial statements of Rand Merchant Investment Holdings Limited set out on pages 102 to 200 and 201 to 223, which comprise the statements of financial position as at 30 June 2016, and the statements of comprehensive income, income statements, statements of changes in equity and cash flow statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Rand Merchant Investment Holdings Limited as at 30 June 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2016, we have read the directors' report, the audit and risk committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in *Government Gazette Number 39475* dated 4 December 2015, we report that PricewaterhouseCoopers Inc. have been the auditor of Rand Merchant Investment Holdings Limited for 6 years.

PricewaterhouseCoopers

PricewaterhouseCoopers Inc.
Director: Francois Prinsloo

Registered auditor

Johannesburg
12 September 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June

		Group		
R million	Note	2016	Restated 2015	Restated 2014
ASSETS				
Property and equipment	1	679	546	520
Intangible assets	2	113	68	110
Investments in associates	3	14 888	14 063	11 582
Financial assets				
Equity securities				
– available-for-sale	4	805	746	725
– fair value through profit or loss	4	124	2 172	2 104
Debt securities				
– available-for-sale	4	647	560	540
– held-to-maturity	4	–	78	79
– fair value through profit or loss	4	9 074	8 177	5 811
Derivative asset	5	29	46	17
Loans and receivables including insurance receivables	6	2 768	2 318	3 078
Deferred acquisition cost	7	365	362	357
Reinsurance contracts	8	257	832	301
Deferred taxation	9	204	216	232
Taxation		6	3	–
Assets of discontinued operation	10	6 100	–	–
Cash and cash equivalents	11	611	2 142	2 310
TOTAL ASSETS		36 670	32 329	27 766
EQUITY				
Share capital and premium	12	13 526	13 526	13 592
Reserves	13	5 030	3 579	1 886
Total shareholders' equity		18 556	17 105	15 478
Non-controlling interests	43	1 170	978	899
TOTAL EQUITY		19 726	18 083	16 377
LIABILITIES				
Insurance contracts	8	7 068	7 469	5 948
Share-based payment liability	14	253	182	145
Financial liabilities				
Convertible debentures	15	–	15	15
Preference shares	16	2 298	2 016	731
Interest-bearing loans	17	60	4	4
Policyholders' interest	18	–	1 545	1 448
Financial liabilities at fair value through profit or loss	19	144	107	105
Derivative liability	20	12	36	20
Investment contracts at fair value through profit or loss	21	–	1 417	1 381
Deferred acquisition revenue	22	–	3	5
Provisions	23	41	55	54
Insurance and other payables	24	1 197	1 271	1 130
Deferred taxation	9	–	80	379
Taxation		245	46	24
Liabilities of discontinued operation	10	5 626	–	–
TOTAL LIABILITIES		16 944	14 246	11 389
TOTAL EQUITY AND LIABILITIES		36 670	32 329	27 766

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June

R million	Note	Group 2016	Group Restated 2015
Continuing operations			
Gross insurance premiums		14 754	12 469
Less: Reinsurance premiums		(854)	(555)
Net insurance premiums		13 900	11 914
Gross change in provision for unearned premiums		(504)	(807)
Reinsurance relating to provision for unearned premiums		32	41
Net insurance premiums earned	25	13 428	11 148
Fee and other income	26	110	99
Investment income	27	579	490
Net fair value losses on financial assets	28	(39)	(40)
Net income		14 078	11 697
Gross claims paid	29	(7 049)	(6 555)
Reinsurance recoveries received	29	161	723
Transfer to policyholder liabilities under insurance contracts	8.5	(52)	(41)
Provision for cash bonuses	8.4	(362)	(315)
Acquisition expenses	30	(29)	(34)
Fair value adjustment to financial liabilities		(204)	(201)
Marketing and administration expenses	31	(3 739)	(3 256)
Profit before finance costs, results of associates and taxation		2 804	2 018
Finance costs	33	(136)	(74)
Share of after taxation results of associates	3	1 524	2 145
Profit before taxation		4 192	4 089
Taxation	34	(893)	(657)
Profit for the year from continuing operations		3 299	3 432
Discontinued operation			
Profit for the year from discontinued operation	10	8	81
PROFIT FOR THE YEAR		3 307	3 513
Attributable to:			
Equity holders of the company		2 977	3 292
Non-controlling interests		330	221
PROFIT FOR THE YEAR		3 307	3 513
Earnings per share – Continuing and discontinued operations	36	200.9	222.0
Diluted earnings per share – Continuing and discontinued operations	36	197.5	220.0
Earnings per share – Continuing operations	36	200.5	217.8
Diluted earnings per share – Continuing operations	36	197.1	215.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June

R million	Group 2016	Group 2015
Profit for the year	3 307	3 513
Other comprehensive income for the year		
Items that may subsequently be reclassified to profit or loss		
Fair value gains on available-for-sale financial assets	1	17
Deferred taxation relating to available-for-sale financial assets	(4)	(3)
Exchange differences on translation of foreign operations	364	(142)
Share of comprehensive income of associates	1	152
Items that may subsequently be reclassified to profit or loss, after taxation	(26)	136
Items that will not be reclassified to profit or loss, after taxation	27	16
OTHER COMPREHENSIVE INCOME FOR THE YEAR	362	24
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3 669	3 537
Attributable to:		
Equity holders of the company	3 264	3 336
Non-controlling interests	405	201
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3 669	3 537

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

R million	Share capital (note 12)	Equity accounted reserves (note 13)	Transactions with non-controlling interests (note 13)	Other reserves (note 13)	Retained earnings (note 13)	Non-controlling interests (note 43)	Total equity
BALANCE AS AT 1 JULY 2014	13 592	2 094	(2 076)	343	1 525	899	16 377
Income statement	–	–	–	–	3 292	221	3 513
Other comprehensive income	–	152	–	(108)	–	(20)	24
Dividends paid	–	–	–	–	(1 694)	(178)	(1 872)
Income of associate companies retained	–	1 119	–	–	(1 119)	–	–
B-BBEE cost	–	1	–	–	–	–	1
Puttable non-controlling interests	–	(5)	–	–	–	–	(5)
Movement in treasury shares	(66)	11	–	–	–	–	(55)
Transactions with non-controlling interests	–	(4)	59	(55)	45	38	83
Issue of share capital to non-controlling interests by subsidiaries	–	–	–	–	–	18	18
Share-based payment reserve	–	–	–	2	(3)	–	(1)
BALANCE AS AT 30 JUNE 2015	13 526	3 368	(2 017)	182	2 046	978	18 083
Income statement	–	–	–	–	2 977	330	3 307
Other comprehensive income	–	1	–	286	–	75	362
Dividends paid	–	–	–	–	(1 738)	(189)	(1 927)
Income of associate companies retained	–	612	–	–	(612)	–	–
B-BBEE cost	–	1	–	–	–	–	1
Change in non-distributable reserves	–	1	–	–	–	–	1
Movement in treasury shares	–	11	–	–	–	–	11
Transactions with non-controlling interests	–	(55)	(80)	20	25	(65)	(155)
Issue of share capital to non-controlling interests by subsidiaries	–	–	–	–	–	41	41
Share-based payment reserve	–	–	–	5	(3)	–	2
BALANCE AS AT 30 JUNE 2016	13 526	3 939	(2 097)	493	2 695	1 170	19 726

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June

		Group	
R million	Note	2016	Restated 2015
Cash flows from operating activities			
Cash generated from operations	35	2 815	2 542
Interest income		450	369
Dividends received		1 089	1 148
Income tax paid		(684)	(614)
Cash flows from discontinued operation		213	1 060
NET CASH GENERATED FROM OPERATING ACTIVITIES		3 883	4 505
Cash flows from investing activities			
Purchase of property and equipment		(266)	(150)
Disposal of property and equipment		18	1
Additions to investments		(6 051)	(5 582)
Disposals of investments		3 516	4 134
Investments in associates		(289)	(1 267)
Cash flows from discontinued operation		(133)	(915)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(3 205)	(3 779)
Cash flows from financing activities			
Proceeds on issue of shares to non-controlling interests		41	18
Issue of preference share debt		400	1 250
Cash raised from borrowings incurred		60	–
Cost of funding		–	(1)
Dividends paid on preference shares in issue		(140)	(55)
Dividends paid by subsidiaries to non-controlling interests		(189)	(178)
Dividends paid to shareholders		(1 738)	(1 694)
Cash flows from discontinued operation		(72)	(53)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(1 638)	(713)
Net (decrease)/increase in cash and cash equivalents for the year		(960)	13
Unrealised foreign currency translation adjustment – Continuing operations		675	(184)
Unrealised foreign currency translation adjustment – Discontinued operation		1	3
Cash and cash equivalents at the beginning of the year		2 142	2 310
Cash and cash equivalents transferred to assets of discontinued operation		(1 247)	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		611	2 142

ACCOUNTING POLICIES

1. BASIS OF PREPARATION

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

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

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

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

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

The principal accounting policies applied in the preparation of these consolidated and separate annual financial statements are set out below and are consistent in all material aspects with those applied in the previous financial year.

During the year, no new accounting standards, interpretations or amendments were adopted by the group for the first time.

2. CONSOLIDATION

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

Accounting policies of subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the group. However, as permitted under *IFRS 4* and stated under section 18.2, RMI does not enforce uniform accounting policies across its subsidiaries and associates relating to the measurement of insurance liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. REVENUE AND EXPENDITURE RECOGNITION

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

Fair value income: The group includes fair value adjustments to assets and liabilities measured at fair value as fair value income in profit or loss.

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

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

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

4. FOREIGN CURRENCY TRANSLATION

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

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

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

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

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

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

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

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

5. DIRECT TAXES

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

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

6. RECOGNITION OF ASSETS

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

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

7. RECOGNITION OF LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

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

Contingent liabilities: The group discloses a contingent liability where:

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

8. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. PROPERTY AND EQUIPMENT

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

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

The periods of depreciation used are as follows:

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

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

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

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

10. INTANGIBLE ASSETS

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

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

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

11. IMPAIRMENT OF ASSETS

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST

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

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

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

FINANCIAL ASSETS CARRIED AT FAIR VALUE

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

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

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

GOODWILL

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

12. DEFERRED TAXATION

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

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

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

13. EMPLOYEE BENEFITS

Post-employment benefits: The group operates defined benefit (through its associates) and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant group companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. These funds are registered in terms of the Pension Funds Act, 24 of 1956, and membership is compulsory for all group employees. Qualified actuaries perform annual valuations.

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

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

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

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

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

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

14. SHARE CAPITAL

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

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

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

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

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

15. SEGMENT REPORTING

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

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

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

16. SHARE-BASED PAYMENTS

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

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

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

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

17. CASH AND CASH EQUIVALENTS

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

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

18. INSURANCE CONTRACTS

CLASSIFICATION OF INSURANCE AND INVESTMENT CONTRACTS

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

- Contracts are classified as insurance contracts if the group accepts significant insurance risk. Insurance risk is defined as a risk on the occurrence of a defined uncertain insured event. The amount paid may significantly exceed the amount payable should the event not have occurred.
- Investment contracts are contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument, due to a change in the interest rate, commodity prices, index of prices, foreign exchange rate or other measurable variable.

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

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

18.1 SHORT-TERM INSURANCE

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

Recognition and measurement

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

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

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

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

- **Salvage and subrogation recoveries**
  Certain insurance contracts permit the group to sell usually damaged property acquired in settling a claim (salvage) as well as to pursue third parties for payment of some or all costs (subrogation). Salvage and subrogation recoveries are recognised when it is reasonably certain that the amounts will be recovered. The recoveries are credited to claims incurred in profit or loss.

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

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

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

- **Deferred acquisition revenue (DAR)**
  Reinsurance commission is recognised as a liability and amortised over the duration of the reinsurance agreement, as the reinsurance premium is expensed.

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

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

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

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

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

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

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

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

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

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

18.2 LONG-TERM INSURANCE

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

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

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

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

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

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

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

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

- **Reinsurance**

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

- **Insurance contract claims incurred**

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

- **Incurred but not reported claims**

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

- **Liability adequacy test**

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

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

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

- **Deferred acquisition costs**

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

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

18.3 ACCOUNTING FOR PROFIT SHARE ARRANGEMENTS ON RING-FENCED INSURANCE BUSINESS

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

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

19. CONVERTIBLE DEBENTURES

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

20. PREFERENCE SHARES

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

21. POLICYHOLDERS' INTEREST

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

22. INVESTMENT CONTRACTS

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

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

23. DISCONTINUED OPERATION

A discontinued operation is a component of the group that has been disposed of, or is classified as held for sale, and that represents a separate major line of business or geographic area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement, statement of comprehensive income and statement of cash flows, with restated comparatives as if the operation had been discontinued from the start of the comparative year. The assets and liabilities of a discontinued operation are presented separately from the other assets and liabilities on the statement of financial position. Assets of a discontinued operation are not depreciated or amortised while they are classified as a discontinued operation.

Discontinued operations are measured at the lower of their carrying amount and fair value less costs to sell, except for assets which are specifically exempt. An impairment loss is recognised for any initial or subsequent write-down of the discontinued operation to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale is recognised at the date of derecognition.

24. DIVIDENDS AND INTEREST INCOME

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

25. STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE

The following new standards, interpretations and amendments to existing standards are not yet effective for the current financial year. The group will comply with the new standards and interpretations from the effective date:

- *IFRS 11: Joint arrangements* (effective for all reporting periods beginning on or after 1 January 2016) – This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. This standard will not have an impact on the group, as the group has no joint ventures.
- *IAS 1: Presentation of financial statements* (effective for all reporting periods beginning on or after 1 January 2016) – In December 2014, the IASB issued amendments to clarify guidance in *IAS 1* on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The group is yet to assess the full impact of *IAS 1*'s amendment on the consolidated financial statements, however, no material impact is expected.
- *IAS 16: Property, plant and equipment* and *IAS 18: Intangible assets* (effective for all reporting periods beginning on or after 1 January 2016) – In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This amendment has no impact on the group.
- *IAS 16: Property, plant and equipment* and *IAS 41: Agriculture* (effective for all reporting periods beginning on or after 1 January 2016) – In this amendment to *IAS 16* the IASB has scoped in bearer plants, but not the produce on bearer plants and explained that a bearer plant not yet in the location and condition necessary to bear produce is treated as a self-constructed asset. In this amendment to *IAS 41*, the IASB has adjusted the definition of a bearer plant to include examples of non-bearer plants and remove current examples of bearer plants from *IAS 41*. This amendment has no impact on the group.
- *IAS 19: Employee benefits* (effective for all reporting periods beginning on or after 1 January 2016) – Discount rate: regional market issue. The amendment to *IAS 19* clarifies that market depth of high-quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high-quality corporate bonds in that currency, government bond rates must be used. The amendment does not have an impact on the group as the group has no defined benefit plans.
- *IFRS 5: Non-current assets held for sale and discontinued operations* (effective for all reporting periods beginning on or after 1 January 2016) – Amendment to the changes in methods of disposal. Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to *IFRS 5* clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, but rather a continuation of the original plan. There is therefore no interruption of the application of the requirements in *IFRS 5*. The amendment also clarifies that changing the disposal method does not change the date of classification. This amendment is not expected to have an impact on the group.
- *IFRS 7: Financial instruments: Disclosures* (effective for all reporting periods beginning on or after 1 January 2016) – Applicability of the offsetting disclosures to condensed interim financial statements. The amendment removes the phrase 'and interim periods within those annual periods' from the standard, clarifying that these *IFRS 7* disclosures are not required in the condensed interim financial report. However, the International Accounting Standards Board (IASB) noted that *IAS 34* requires an entity to disclose an

explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Therefore, if the *IFRS 7* disclosures provide a significant update to the information reported in the most recent annual integrated report, the IASB would expect the disclosures to be included in the entity's condensed interim financial report. This amendment is not expected to have a material impact on the group.

- *IFRS 7: Financial instruments: Disclosures* (effective for all reporting periods beginning on or after 1 January 2016) – Servicing contracts – The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in order to assess whether the disclosures are required. This amendment is not expected to have an impact on the group.
- *IAS 34: Interim financial reporting* (effective for all reporting periods beginning on or after 1 January 2016) – Disclosure of information 'elsewhere in the interim financial report'. The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g. in the management commentary or risk report). The IASB specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. This amendment is not expected to have an impact on the group.
- *IAS 27: Separate financial statements on equity accounting* (effective for all reporting periods beginning on or after 1 January 2016) – In this amendment, the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The group is yet to assess the full impact of *IAS 27*'s amendment, however no material impact is expected on the group.
- *IFRS 10: Consolidated financial statements and IAS 28: Investments in associates and joint ventures* (effective for all reporting periods beginning on or after 1 January 2016) – Investment entities: Applying the consolidation exception. The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. The standard does not have a material impact on the group.
- *IFRS 10: Consolidated financial statements and IAS 28: Investments in associates and joint ventures* (original effective date was 1 January 2016 but postponed) – Sale or contribution of assets between an investor and its associate or joint venture. The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to *IFRS 10* and *IAS 28*. Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures. The IASB postponed the effective date as a broader review is planned that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. The standard does not have a material impact on the group.
- *IFRS 14: Regulatory deferral accounts* (effective for all reporting periods beginning on or after 1 January 2016) – The IASB has issued *IFRS 14* specific to first-time IFRS adopters. This is an interim standard on the accounting for certain balances that arise from rate-regulated activities (regulatory deferral accounts). Rate regulation is a framework where the price that an entity charges to its clients for goods and services is subject to oversight and/or approval by an authorised body. The standard does not have an impact on the group.
- *IAS 12: Income taxes* (effective for all reporting periods beginning on or after 1 January 2017) – The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments clarify the existing guidance under *IAS 12*. They do not change the underlying principles for the recognition of deferred tax assets. The group is yet to assess the full impact of *IAS 12*'s amendment, however no material impact is expected on the group.
- *IAS 7: Cash flow statements* (effective for all reporting periods beginning on or after 1 January 2017) – In January 2016, the IASB issued an amendment to *IAS 7* introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the

additional information to explain the changes in liabilities arising from financing activities. The group is yet to assess the full impact of *IAS 7*'s amendment, however, no material impact is expected on the group.

- *IFRS 15: Revenue from contracts with customers* (effective for all reporting periods beginning on or after 1 January 2018) – New standard arising from the IASB's and FASB's joint project. It is a single, comprehensive revenue recognition model for all contracts with clients to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfers to a client. The group is yet to assess the full impact of *IFRS 15*'s amendment, however no material impact is expected on the group.
- *IFRS 9: Financial instruments* (effective for all reporting periods beginning on or after 1 January 2018) – This IFRS is part of the IASB's project to replace *IAS 39*. *IFRS 9* addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in *IAS 39* with a single model that has only two classification categories: amortised cost and fair value. The IASB has updated *IFRS 9: Financial instruments* to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from *IAS 39: Financial instruments: Recognition and measurement*, without change, except for financial liabilities that are designated at fair value through profit or loss. The IASB has amended *IFRS 9* to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in *IAS 39*. Early adoption of the above requirements has specific transitional rules that need to be followed which are likely to change once the IASB completes all phases of *IFRS 9*. The group is yet to assess *IFRS 9*'s full impact, however material reclassifications are not expected for the group.
- *IFRS 16: Leases* (effective for all reporting periods beginning on or after 1 January 2019) – *IFRS 16* specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with *IFRS 16*'s approach to lessor accounting substantially unchanged from its predecessor, *IAS 17*. *IFRS 16* supersedes *IAS 17: Leases, IFRIC 4: Determining whether an arrangement contains a lease, SIC 15: Operating leases – Incentives* and *SIC 27: Evaluating the substance of transactions involving the legal form of a lease*. The group is yet to assess *IFRS 16*'s full impact, however material reclassifications are not expected for the group.
- There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

Annual improvements project

As part of its annual improvements project, the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. An exposure draft of the amendments arising from the 2014 – 2016 cycle has been issued for public comment. There are no significant changes in the improvement projects that are expected to affect the group.

26. CRITICAL ACCOUNTING ASSUMPTIONS

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

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

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

SHORT-TERM INSURANCE

Claims reserves

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

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

The claims reserve is held to be at least sufficient at the 75th percentile of the ultimate cost distribution. The difference between this 75th percentile and the best estimate is considered to be an appropriate risk margin. Claims are considered to be the most sensitive to changes in assumptions, therefore a sensitivity analysis is performed. In the Southern African operations, excluding alternative risk business, a 5% (80th percentile) upward adjustment in the level of sufficiency of the claims reserve would result in an additional charge of approximately R15 million while a 5% (70th percentile) downward adjustment in the level of sufficiency would result in a release of reserves in the statement of profit and loss and other comprehensive income of approximately R14 million (before taxation). In the Youi Australia and New Zealand operations, a 5% (80th percentile) upward adjustment in the level of sufficiency of the claims reserve would result in an additional charge of approximately $2.8 million while a 5% (70th percentile) downward adjustment in the level of sufficiency would result in a release of reserves in the statement of profit and loss and other comprehensive income of approximately $2.4 million.

Liability for non-claims bonuses on insurance contracts

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

LONG-TERM INSURANCE

Valuation of policyholder liabilities

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

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

As at 30 June 2016 the compulsory margins were as follows:

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

* *Depending on which change increases the liability.*

In addition to the above compulsory margins, discretionary margins may be added to protect against future possible adverse experience. A discretionary margin is added to allow for the zerorisation of negative reserves after taking into account the release of negative reserves to offset the deferral of acquisition costs. The total value of the negative reserves is R501 million (2015: R394 million). The mortality and morbidity assumptions both have a discretionary margin of 5% amounting to R12 million (2015: R35 million).

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

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

Demographic assumptions

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

Economic assumptions

Investment return

In the current year, the group calculated its investment return assumption using a full yield curve as opposed to using a point estimate on the underlying yield curve. The comparative point estimate of the current yield curve at the appropriate duration at the valuation date is 11.20% (2015: 10.96%).

Inflation

In the current year, the group calculated its inflation assumption using a full inflation curve as opposed to using a point estimate on the underlying inflation curve, derived from nominal and real curves. The comparative point estimate of the current inflation curve at the appropriate duration at the valuation date is 9.40% (2015: 8.83%).

Taxation

Future taxation and taxation relief are allowed for at the rates and on the bases applicable to S29A of the Income Tax Act, 58 of 1962, at the reporting date. The group's current tax position is taken into account and the taxation rates, consistent with that position and the likely future changes in that position, are allowed for.

Claims reserves

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

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

SALE OF RMB STRUCTURED INSURANCE

On 23 August 2016, RMI announced that it had reached agreement on the sale of its equity stake in RMB Structured Insurance to Santam Limited. RMB Structured Insurance's 22.4% stake of Truffle is excluded from the sale and, subject to the agreement of terms, Truffle will become an affiliate of RMI's asset management business, RMI Investment Managers.

The conclusion of the sale transaction is subject to regulatory approvals by the Financial Services Board and the competition authorities in South Africa, as well as the relevant regulatory authorities in Mauritius and Ireland.

RMI views RMB Structured Insurance, excluding Truffle, as a separate major line of business and the sale as highly probable in terms of *IFRS 5*. RMB Structured Insurance, excluding Truffle, has therefore been classified as a discontinued operation, with a restatement of comparative information in the income statement and cash flow statement.

MANAGEMENT OF INSURANCE AND FINANCIAL RISK

RISK MANAGEMENT FRAMEWORK

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

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

1. CHANGING REGULATORY AND BUSINESS LANDSCAPE

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

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

The main changes, anticipated having significant impacts particularly on South African and in some instances international operations, are briefly described below.

1.1 *IFRS 4 PHASE II*

The recognition and measurement of insurance liabilities is currently the focus of *IFRS 4 phase II*, the International Accounting Standards Board (IASB) project on the accounting for insurance contracts. Although various decisions on principles regarding measurement have been tentatively agreed by the IASB, there is still debate and uncertainty around the methodologies used to value participating contracts and transitional arrangements on adoption of the IFRS. The IASB published a revised exposure draft on insurance contracts in June 2013. The envisaged implementation date is not expected to be before years commencing on or after 1 January 2020.

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

1.2 SOLVENCY ASSESSMENT AND MANAGEMENT (SAM)

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

The initial date for implementation was 1 January 2014. Due to a changing regulatory environment (both local and international), this implementation date was deferred.

The SAM framework will be given effect to through a new Insurance Bill, along with the publication of insurance prudential standards made under the Bill. At the same time as the SAM framework is being introduced, a Twin Peaks model for financial regulation is being implemented in South Africa through the Financial Sector Regulation (FSR) Bill. This model will see the establishment of a Prudential

Authority in the SARB, responsible for the prudential supervision of banks, insurers and financial conglomerates, and a Financial Sector Conduct Authority responsible for market conduct supervision of financial institutions.

National Treasury tabled the Insurance Bill in Parliament on 28 January 2016. The Bill will be considered by the Standing Committee on Finance (SCOF) in Parliament, which is anticipated to invite public comments and submissions on the Bill during the second half of 2016. Deliberations on the Insurance Bill will follow the finalisation of the SCOF's consideration of the FSR Bill. It is hoped, subject to Parliamentary processes, that both the FSR Bill and Insurance Bill will be made effective on 1 July 2017.

To prepare the industry for the implementation of the SAM framework, a parallel run was initiated, in which insurers are required to report information under the SAM regime along with existing reporting required under the Insurance Acts. This process began on 1 July 2014 and will continue until the full implementation of the SAM regime.

1.3 FINANCIAL SECTOR REGULATION BILL

The FSR Bill gives effect to the government decision in 2011 to shift to a Twin Peaks model of financial sector regulation for South Africa. Twin Peaks is a comprehensive and complete system for regulating the financial sector. It represents a decisive shift away from a fragmented regulatory approach to reduce the possibility of regulatory arbitrage or forum shopping and will close gaps in the regulatory system.

Two regulators will be established – a Prudential Authority within the SARB and a new Financial Sector Conduct Authority (FSCA). The Prudential Authority will supervise the safety and soundness of banks, insurance companies and other financial institutions, while the FSCA will supervise how financial services firms conduct their business and treat clients. The SARB will oversee financial stability within a policy framework agreed with the Minister of Finance.

The Twin Peaks system of regulation will (when fully phased in) focus on a more harmonised system of licensing, supervision, enforcement, client complaints (including ombuds), appeal mechanism (tribunal) and consumer advice and education.

National Treasury has indicated that the FSR Bill, which will give effect to the Twin Peaks model of financial regulation in South Africa, will be processed first by Parliament, followed by the Insurance Bill. This will enable the Insurance Bill to build on the regulatory framework created through the FSR Bill.

The comment period on the FSR Bill was extended until 1 February 2016. Deliberations on the FSR Bill continued into the second half of 2016.

1.4 TREATING CUSTOMERS FAIRLY (TCF)

The FSB continues to introduce TCF into both its regulatory and supervisory frameworks on a gradual basis by way of incremental implementation. In applying the incremental implementation of TCF, the FSB is focusing on:

- Challenging TCF commitment when investigating concerns;
- Testing of TCF commitment and culture by focusing on effectiveness and operational implementation;
- Identifying market conduct risk indicators;
- Specific thematic supervisory initiatives testing risks to fair client outcomes;
- Structured reporting on market conduct risk indicators;
- Reviewing existing regulatory frameworks to test whether they support fair client outcomes;
- Introducing TCF principles into existing legislation; and
- Reflecting TCF principles into the overarching Twin Peaks regulatory framework.

The FSB has also indicated that the future approach to regulation and supervision of market conduct will be:

- Transparent, comprehensive and consistent;
- Intensive and intrusive;
- Outcomes-based (TCF, market integrity and other policy outcomes will be taken into account);
- Risk-based and proportional;

- Pre-emptive and proactive with an aim to be able to create a credible deterrent for undesired market conduct; and
- Aligned to applicable international standards.

The FSB's supervisory expectations will require ongoing, proactive and demonstrable management of conduct risk indicators which will result in:

- Continuous improvement in product design, service delivery and client experience;
- Fair pricing;
- Appropriate products;
- Clear and understandable disclosures;
- Improved claims handling practices;
- Reduction in persistent and recurring complaints;
- Meaningful management information and reporting;
- Enhanced governance and oversight of distribution channels; and
- Client-focused decision-making.

A large amount of focus will be placed on insurers having accurate, dependable, quality and usable data which will assist in identifying market conduct risks more precisely, making it easier to demonstrate compliance.

It is expected that there must not be an over-reliance on reporting on TCF from a compliance function only, but also that TCF considerations and reporting is done across operational areas as well.

Ultimately the FSB has indicated that there will be no more "just talking" of TCF but it will be required to demonstrate proactive management of conduct risks across the value chain which will manifest in continuous improvements to products, delivery and overall experience resulting in better outcomes for clients.

The RMI group continues to implement practices which support the six TCF outcomes and which focus on client-centric decision-making. This includes its claims philosophy, which is ever evolving, the various claims meetings and auditing responsibilities in the first, second and third lines of defence in terms of its combined assurance approach. RMI's staff error process provides evidence that clients are not prejudiced by its mistakes. Ongoing monitoring of and reporting on key performance indicators relating to client treatment and service continue to be a focus in the business and includes reporting to the board on all matters related to clients.

TCF is specifically addressed with new staff members during induction and in addition thereto an awareness campaign was recently circulated.

It is especially pleasing that TCF is not something that is only being driven from the compliance function. Management and staff in the operational areas frequently reference TCF when it comes to decision-making and this reinforces that RMI is a group where TCF is firmly embedded in its culture.

1.5 RETAIL DISTRIBUTION REVIEW (RDR)

The RDR proposes far-reaching reforms to the regulatory framework in respect of the distribution of retail financial products in South Africa. Essentially the RDR proposals seek to provide clients with confidence in the retail financial services market in that they will be treated fairly which will result in a sustainable market for financial advice and financial services. The RDR contained 55 specific proposals. It is envisaged that the RDR will be implemented in three phases set out below:

- Phase 1: Changes to be effected within the existing regulatory framework, using subordinate legislative and administrative powers.
- Phase 2: Changes to be incorporated into the FSR Act, through conduct standards made under the FSR Act or through amendments to other primary legislation. The implementation window for such changes is broadly between the effective date of the relevant provisions of the FSR Act and the effective date of a future overarching market conduct act (Conduct of Financial Institutions Act (COFI)).
- Phase 3: Longer-term structural changes to be implemented once the COFI Act is in effect. This is expected to happen in early 2018. Typically these changes would be most pragmatic to implement once the harmonisation of existing sector-specific legislation under the COFI Act and the revised market conduct licensing framework for institutions are in place.

2. MANAGEMENT OF INSURANCE RISK

2.1 BACKGROUND AND INSURANCE RISK MANAGEMENT PHILOSOPHY

The group's consolidated insurance businesses were previously conducted in two separate subsidiaries, namely OUTsurance and RMB Structured Insurance. As agreement has been reached to sell RMB Structured Insurance, subject to regulatory approval as indicated in the directors' report, RMB Structured Insurance has been treated as a discontinued operation in the financial statements. The commentary that follows, therefore, focuses on the risk management activities at OUTsurance for the 2016 financial year.

The following table shows the gross insurance contract liabilities for the RMI group at 30 June 2016:

R million	Total
Gross insurance contracts	
Short-term insurance contracts	
– claims reported	1 453
– claims incurred but not reported	605
– unearned premiums	4 396
– insurance contract cash bonuses	418
Long-term insurance contracts	196
TOTAL GROSS INSURANCE CONTRACT LIABILITIES	7 068

The table below shows the gross insurance contract liabilities split between OUTsurance and RMB Structured Insurance in the previous financial year:

R million	OUTsurance	RMB Structured Insurance	Total
Gross insurance contracts			
Short-term insurance contracts			
– claims reported	1 491	329	1 820
– claims incurred but not reported	562	116	678
– unearned premiums	3 344	744	4 088
– unexpired risk provision	–	336	336
– insurance contract cash bonuses	402	3	405
Long-term insurance contracts	137	5	142
TOTAL GROSS INSURANCE CONTRACT LIABILITIES	5 936	1 533	7 469

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

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

The management of insurance risk is presented separately for short-term and long-term insurance.

2.2 SHORT-TERM INSURANCE

Terms and conditions of insurance contracts

OUTsurance conducts short-term insurance business on the following classes of short-term insurance risk:

Types of insurance contracts written	Percentage of total gross written premium: Personal lines	Percentage of total gross written premium: Commercial
Personal accident	<1%	<1%
Liability	–	14.9%
Miscellaneous	<1%	–
Motor	65.6%	57.7%
Property	33.7%	27.2%
Transportation	<1%	<1%

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

The following gives a brief explanation of each risk:

Personal accident

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

Liability

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

Miscellaneous

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

Motor

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

Property

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

Transportation

Provides cover to risks relating to stock in transit.

Engineering

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

Insurance risks

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

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

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

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

Underwriting strategy

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

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

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

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

Reinsurance strategy

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

Concentrations of risk and mitigating policies

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

The South African operation is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 53.87% (2015: 53.9%) of the total sum insured is domiciled. The Australian operation is exposed to a concentration of insurance risk in South East Queensland where 21.3% (2015: 21.3%) of the total sum insured is domiciled. The New Zealand operation is exposed to a concentration of insurance risk in Auckland where 59.9% (2015: 59.9%) of the total sum insured is domiciled. In order to manage this concentration of insurance risk, the group has entered into a catastrophe excess of loss reinsurance treaty that would limit the loss of the group to pre-determined levels following the occurrence of a localised catastrophe in these areas.

Exposure to catastrophes and policies mitigating this risk

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

Profit sharing arrangements

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

Profit share arrangements on ring-fenced insurance business

OUTsurance historically underwrote certain profit share arrangements on ring-fenced insurance business for products marketed and distributed by the FirstRand group. The rights and delegations owing from these arrangements were transferred with effect from 31 March 2015.

Claims development tables

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

Reporting development

	Financial year in which claims were reported					
Net claims Accident year R million	Total	2016	2015	2014	2013	2012 and prior
2016	7 039	7 039	–	–	–	–
2015	5 726	(168)	5 894	–	–	–
2014	4 561	10	8	4 543	–	–
2013	3 557	(7)	7	(24)	3 581	–
2012 and prior	16 170	1	–	4	20	16 145
CURRENT ESTIMATE OF CUMULATIVE CLAIMS INCURRED	37 053	6 875	5 909	4 523	3 601	16 145

Payment development

Net claims Accident year R million	Total	2016	2015	2014	2013	2012 and prior
	Financial year in which claims were paid					
2016	5 614	5 614	–	–	–	–
2015	5 658	972	4 686	–	–	–
2014	5 046	59	643	4 344	–	–
2013	2 903	15	26	(46)	2 908	–
2012 and prior	16 120	5	14	44	418	15 639
CUMULATIVE PAYMENTS TO DATE	35 341	6 665	5 369	4 342	3 326	15 639

Incurred development

Net claims Accident year R million	Total	2016	2015	2014	2013	2012 and prior
	Financial year in which changes occurred in claims liability					
2016	6 505	6 505	–	–	–	–
2015	5 736	194	5 542	–	–	–
2014	4 503	7	111	4 385	–	–
2013	3 582	(8)	(12)	97	3 505	–
2012 and prior	16 094	(10)	(17)	(21)	12	16 130
CURRENT ESTIMATE OF CUMULATIVE CLAIMS INCURRED	36 420	6 688	5 624	4 461	3 517	16 130

2.3 LONG-TERM INSURANCE

Terms and conditions of insurance contracts

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

- Underwritten life
- Credit protection

The following gives a brief explanation of each product:

Underwritten life

The life insurance product covers the following insurance risks:

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

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

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

Credit protection

The credit protection product covers the following insurance risks:

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

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

Insurance risks

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

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

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

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

Mortality and morbidity risk

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

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

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

Underwriting experience risk

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

Underwriting experience risk is managed through:

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

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

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

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

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

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

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

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

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

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

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

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

3. MANAGEMENT OF FINANCIAL RISK

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

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

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

3.1 MARKET RISK

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

3.1.1 Currency risk

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

The group's exposure to currency risk is mainly in respect of foreign investments made. The group had invested in foreign subsidiaries operating in Australia, New Zealand, Ireland and Mauritius. However, the investments in Ireland and Mauritius form part of RMB Structured Insurance, which is a discontinued operation.

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

	30 June 2016					
R million	Rand	Australian Dollar	New Zealand Dollar	United States Dollar	Euro	Total
Total assets	27 322	8 518	761	61	8	36 670
Total liabilities	10 161	6 387	394	2	–	16 944
Exchange rates:						
Closing rate		11.00	10.53	14.76	16.32	
Average rate		10.53	9.69	14.48	16.10	

	30 June 2015					
R million	Rand	Australian Dollar	New Zealand Dollar	United States Dollar	Euro	Total
Total assets	25 485	6 186	593	65	–	32 329
Total liabilities	9 179	4 834	212	19	2	14 246
Exchange rates:						
Closing rate		9.35	8.37	12.24	13.67	
Average rate		9.45	8.76	11.45	13.72	

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

R million	10% Australian Dollar appreciation	10% Australian Dollar depreciation	10% New Zealand Dollar appreciation	10% New Zealand Dollar depreciation
30 June 2016				
Comprehensive income after tax	51	(51)	(11)	11
Net asset value	213	(213)	37	(37)
30 June 2015				
Comprehensive income after tax	5	(5)	(13)	13
Net asset value	135	(135)	39	(39)

3.1.2 **Interest rate risk**

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

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

The group's financial instruments are exposed to interest rate risk. A change in interest rates would have an impact on the profit before tax of the group as set out below. Policyholders' funds are exposed to interest rate risk and the capital loss on fixed rate instruments would be for the policyholders' account as the liability is calculated with reference to the value of the assets. The investment contract liability and assets backing this liability have therefore been excluded from the table below.

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

	30 June 2016		30 June 2015	
R million	200 bps increase	200 bps decrease	200 bps increase	200 bps decrease
Financial assets				
Fixed rate instruments				
Government, municipal and public utility securities	–	–	4	(4)
Money market instruments	1	(1)	3	(3)
Variable rate instruments				
Listed preference shares	8	(8)	10	(10)
Unlisted preference shares	13	(13)	11	(11)
Collective investment scheme	1	(1)	–	–
Term deposits	104	(104)	70	(70)
Government, municipal and public utility securities	8	(8)	9	(9)
Money market instruments	52	(52)	40	(40)
Cash and cash equivalents	12	(12)	29	(29)

3.1.3 Other price risk

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

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

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

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

	30 June 2016		30 June 2015	
R million	10% increase	10% decrease	10% increase	10% decrease
Financial assets				
Listed preference shares	39	(39)	50	(50)
Derivative asset	17	(17)	18	(18)
Listed equity shares	53	(53)	46	(46)
Unlisted preference shares	65	(65)	56	(56)
Financial liabilities				
Derivative liability	(10)	10	(11)	11

3.2 CREDIT RISK

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

- unlisted preference shares;
- debt securities;
- loans and receivables;
- reinsurance contracts; and
- cash and cash equivalents.

Significant concentrations of credit risk are disclosed in the financial statements. The credit exposure to any one counterparty is managed by the board in accordance with the requirements of the Short-term Insurance Act, 53 of 1998, and Long-term Insurance Act, 52 of 1998, and by setting transaction/exposure limits, which are reviewed at each board and audit and risk committee meeting. The credit worthiness of existing and potential clients is monitored quarterly at the board meeting and bi-annually by the actuarial committee and investment committee.

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

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

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

	30 June 2016						
R million	AAA	AA	A	BBB	BB	Not rated	Total
Collective investment schemes	–	–	–	–	–	41	41
Zero-coupon deposits	–	–	–	83	–	–	83
Term deposits	–	5 219	–	–	–	–	5 219
Money market instruments	–	1	315	2 194	104	43	2 657
Debt securities							
– available-for-sale – unlisted	–	–	100	547	–	–	647
– at fair value through profit or loss							
– fixed rate	–	–	–	–	8	643	651
– variable rate	–	–	–	316	107	–	423
Derivative asset	–	–	–	–	–	29	29
Loans and receivables	–	8	3	2	–	2 755	2 768
Taxation	–	–	–	6	–	–	6
Reinsurance contracts	1	122	43	91	–	–	257
Cash and cash equivalents	–	241	–	370	–	–	611
TOTAL	1	5 591	461	3 609	219	3 511	13 392

	30 June 2015						
R million	AAA	AA	A	BBB	BB	Not rated	Total
Term deposits	–	3 491	–	–	–	–	3 491
Money market instruments	–	2	235	1 789	135	10	2 171
Debt securities							
– available-for-sale – unlisted	–	–	101	459	–	–	560
– held-to-maturity	–	–	–	–	–	78	78
– at fair value through profit or loss							
– fixed rate	3	12	25	500	–	26	566
– variable rate	1	7	46	1 454	–	441	1 949
Derivative asset	–	–	–	–	–	46	46
Loans and receivables	–	9	47	3	–	2 262	2 321
Reinsurance contracts	–	208	540	68	–	16	832
Cash and cash equivalents	–	348	118	1 671	5	–	2 142
TOTAL	4	4 077	1 112	5 944	140	2 879	14 156

The ratings used are international long-term Fitch ratings. Where international ratings are not available, national ratings are applied. Where long-term ratings are not available, the financial instruments are categorised according to short-term ratings. The ratings are defined as follows:

Long-term ratings:

AAA Highest credit quality. The ratings denote the lowest expectation of credit risk. 'AAA' ratings are assigned only in case of exceptionally strong capacity for payment of financial commitments.

AA Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB Good credit quality. 'BBB' rating indicates a low expectation of credit risk. They indicate adequate capacity for timely payment of financial commitments. Changes in circumstances or in economic conditions are more likely to impair this capacity than is the case for higher ratings.

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

Short-term ratings:

F1 Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments.

F2 Good intrinsic capacity for timely payment of financial commitments.

Not rated

The credit exposure of the assets listed above is considered acceptable by the board even though certain assets do not have a formal rating. Refer to note 6 to the consolidated financial statements for a breakdown of loans and receivables, including insurance receivables, which makes up the majority of the unrated assets. The largest portion of the insurance receivables relates to amounts due by policyholders where the insurance cover will lapse if the premiums are not received.

3.3 FAIR VALUE

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

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

The unlisted preference shares are redeemable with a notice period ranging from 30 days to three years. Dividend yields range from 59.39% to 65.18% of the prime overdraft rate. To mitigate credit risk, the unlisted preference share investments are secured by put options to the major South African banks. The fair value of the preference shares, which are redeemable within one year from the reporting date, is deemed to equal the redemption value. The fair value of the preference shares with a maturity date of longer than one year, is calculated on a discounted cash flow basis with the discount rate adjusted for changes in credit risk of the ultimate counterparty, being one of the large South African banks. Due to the redeemable nature, the preference shares are deemed to be debt securities. The other assets listed above either have a maturity term of less than one year or the difference between the fair value and carrying value is considered to be insignificant.

3.4 LIQUIDITY RISK AND ASSET LIABILITY MATCHING

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

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

R million	30 June 2016 Total	Call to 12 months	1 – 5 years	>5 years	No contractual maturity
Assets					
Property and equipment	679	–	–	–	679
Intangible assets	113	41	25	–	47
Investments in associates	14 888	–	–	14 888	–
Financial assets					
Equity securities					
– available-for-sale	805	–	34	477	294
– fair value through profit or loss	124	–	124	–	–
Debt securities					
– available-for-sale	647	568	63	–	16
– fair value through profit or loss	9 074	7 377	1 437	55	205
Derivative asset	29	–	29	–	–
Loans and receivables including insurance receivables	2 768	2 768	–	–	–
Deferred acquisition cost	365	365	–	–	–
Reinsurance contracts	257	157	83	–	17
Deferred taxation	204	–	–	–	204
Taxation	6	6	–	–	–
Assets of discontinued operation	6 100	6 100	–	–	–
Cash and cash equivalents	611	611	–	–	–
TOTAL ASSETS	36 670	17 993	1 795	15 420	1 462
Liabilities					
Insurance contracts	7 068	5 987	1 011	(3)	73
Share-based liabilities	253	210	43	–	–
Financial liabilities					
Preference shares (undiscounted)	2 650	165	2 485	–	–
Interest-bearing loans	60	–	60	–	–
Financial liabilities at fair value through profit or loss	144	105	–	–	39
Derivative liability	12	–	12	–	–
Provisions	41	41	–	–	–
Trade and other payables	1 197	1 187	10	–	–
Taxation	245	245	–	–	–
Liabilities of discontinued operation	5 626	5 626	–	–	–
TOTAL LIABILITIES	17 296	13 566	3 621	(3)	112

R million	30 June 2015 Total	Call to 12 months	1 – 5 years	>5 years	No contractual maturity
Assets					
Property and equipment	546	–	–	–	546
Intangible assets	68	–	–	–	68
Investments in associates	14 063	–	–	14 063	–
Financial assets					
Equity securities					
– available-for-sale	746	410	336	–	–
– fair value through profit or loss	2 172	2 026	146	–	–
Debt securities					
– available-for-sale	560	188	372	–	–
– held-to-maturity	78	–	–	78	–
– fair value through profit or loss	8 177	6 643	1 370	164	–
Derivative asset	46	–	46	–	–
Loans and receivables including insurance receivables	2 321	2 281	–	40	–
Deferred acquisition cost	362	332	–	–	30
Reinsurance contracts	832	729	103	–	–
Deferred taxation	216	–	–	–	216
Cash and cash equivalents	2 142	2 142	–	–	–
TOTAL ASSETS	32 329	14 751	2 373	14 345	860
Liabilities					
Insurance contracts	7 469	4 772	989	175	1 533*
Share-based liabilities	182	87	95	–	–
Financial liabilities					
Convertible debentures	15	–	–	15	–
Preference shares (undiscounted)	2 368	133	2 235	–	–
Interest-bearing loans	4	4	–	–	–
Policyholders' interest	1 545	1 545	–	–	–
Financial liabilities at fair value through profit or loss	107	107	–	–	–
Derivative liability	36	–	36	–	–
Investment contracts					
– at fair value through profit or loss	1 417	1 417	–	–	–
Deferred acquisition reserve	3	–	–	–	3
Provisions	55	55	–	–	–
Trade and other payables	1 271	1 212	21	38	–
Deferred taxation liabilities	80	–	–	–	80
Taxation	46	46	–	–	–
TOTAL LIABILITIES	14 598	9 378	3 376	228	1 616

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

4. CAPITAL MANAGEMENT

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

The group's objectives when managing capital are:

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

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

Management regards share capital, share premium, retained earnings and unrealised fair value movement reserves as capital for regulatory solvency purposes.

Refer to page 126 for details regarding the expected impact of the changing regulatory landscape on the group's solvency requirements.

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

	Jurisdiction	Actual solvency 2016	Actual solvency 2015	Target CAR*
Group		2.0	1.7	1.2
Short-term insurance				
OUTsurance Insurance Company Limited	South Africa	1.8	1.7	1.2
OUTsurance Insurance Company of Namibia (associate)	Namibia	1.6	1.6	1.2
Youi Australia	Australia	2.5	1.8	1.5
Youi New Zealand	New Zealand	6.3	9.4	1.5
Long-term insurance				
OUTsurance Life Insurance Company Limited	South Africa	3.9	1.6	1.5

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

The statutory capital requirements are calculated as follows:

Southern African operations – Short-term insurance operations

The Financial Services Board (FSB) requires short-term insurers to hold a capital adequacy requirement (CAR) calculated in accordance with *Board Notice 169 of 2011*.

The CAR is calculated as the greater of

- Minimum Capital Requirement (MCR) – lower boundary for the required solvency capital, below which policyholders and beneficiaries would be exposed to an unacceptable level of risk if the insured was allowed to continue its operations; and
- Solvency Capital Requirement (SCR) – sum of the Basic Solvency Capital Requirement (BSCR) and the Operational Risk Capital Factor (OP). The BSCR is the aggregation of the Insurance Risk Capital Factor (IC), the Market Risk Capital Factor (MC) and the Credit Risk Capital Factor (CC) making allowance for diversification between these risk factors.

New Zealand operations – Short-term insurance operations

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

The Minimum Solvency Capital is calculated as the sum of:

- Insurance Risk Capital Charge;
- Catastrophe Risk Capital Charge;
- Reinsurance Recovery Risk Capital Charge;
- Asset Risk Capital Charge;
- Foreign Currency Risk Capital Charge; and
- Interest Rate Capital Charge.

Australian operations – Short-term insurance operations

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

The PCA is calculated in accordance with the Standard Method as the sum of:

- Insurance Risk Charge;
- Insurance Concentration Risk Charge;
- Asset Risk Charge;
- Asset Concentration Risk Charge;
- Operational Risk Charge; and
- Aggregation benefit.

Southern African operations – Long-term insurance operations

The FSB requires long-term insurers to hold a (CAR) calculated in accordance with the Long-term Insurance Act, 52 of 1998, including *Board Notice 72 of 2005* and *SAP 104: Calculation of the Value of Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers* issued by the Actuarial Society of South Africa.

The CAR is calculated as the greater of

- MCAR – the minimum capital requirement for maintaining a South African long-term insurance license. This is set at R10 million or 13 weeks operating expenses or 0.3% of gross policyholder liabilities;
- TCAR – this requirement examines a highly selective scenario in which all policies with surrender values greater than the policyholder liability terminate immediately. A surrender value is not a feature of the existing product line which removes TCAR as an appropriate valuation technique; and
- OCAR – is a risk-based measure based on a number of market and insurance risk stress tests, which together with compulsory margins are intended to provide approximately a 95% confidence level that the insurer will be able to meet its obligations to policyholders.

	Group				
R million	Land and buildings	Leasehold improve-ments	Furniture, fittings and equipment	Motor vehicles	Total
1. PROPERTY AND EQUIPMENT					
30 June 2016					
Net book value at the beginning of the year	316	38	191	1	546
Transfer to assets of discontinued operation	–	–	(15)	–	(15)
Additions	199	4	61	2	266
Disposals	(13)	(3)	–	–	(16)
Foreign exchange adjustments	3	6	11	–	20
Depreciation (note 31)	(17)	(12)	(92)	(1)	(122)
NET BOOK VALUE AT THE END OF THE YEAR	488	33	156	2	679
Cost	556	66	699	3	1 324
Accumulated depreciation	(68)	(33)	(543)	(1)	(645)
NET BOOK VALUE AT THE END OF THE YEAR	488	33	156	2	679
30 June 2015					
Net book value at the beginning of the year	328	23	168	1	520
Additions	5	29	127	1	162
Disposals	–	–	(1)	–	(1)
Foreign exchange adjustments	(1)	(2)	(3)	–	(6)
Depreciation – Continuing operations (note 31)	(16)	(12)	(99)	(1)	(128)
Depreciation – Discontinued operation	–	–	(1)	–	(1)
NET BOOK VALUE AT THE END OF THE YEAR	316	38	191	1	546
Cost	368	56	628	1	1 053
Accumulated depreciation	(52)	(18)	(437)	–	(507)
NET BOOK VALUE AT THE END OF THE YEAR	316	38	191	1	546

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

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

The fair value of the OUTsurance head office building at 30 June 2016 was R485 million (2015: R413 million) as derived per an independent valuation calculated using a value-in-use methodology. The capitalisation rate used in the valuation was 8.92% and a cost-to-income ratio of 20.2%.

The group is in the process of establishing a new head office for the Youi group on the Sunshine Coast in Australia. Building will commence in 2016 and is expected to be completed in 2018. The property will be owned by the group.

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of property and equipment.

R million	Goodwill	Intellectual property bonuses	Total
2. INTANGIBLE ASSETS			
30 June 2016			
Net book value at the beginning of the year	4	64	68
Transfer to assets of discontinued operation	(1)	–	(1)
Additions	–	116	116
Settlements	–	(1)	(1)
Service cost relating to intellectual property (note 31)	–	(73)	(73)
Foreign exchange adjustments	–	4	4
NET BOOK VALUE AT THE END OF THE YEAR	3	110	113
Cost	3	249	252
Accumulated amortisation	–	(139)	(139)
NET BOOK VALUE AT THE END OF THE YEAR	3	110	113
30 June 2015			
Net book value at the beginning of the year	4	106	110
Additions	–	27	27
Settlements	–	(1)	(1)
Service cost relating to intellectual property (note 31)	–	(66)	(66)
Foreign exchange adjustments	–	(2)	(2)
NET BOOK VALUE AT THE END OF THE YEAR	4	64	68
Cost	4	178	182
Accumulated amortisation	–	(114)	(114)
NET BOOK VALUE AT THE END OF THE YEAR	4	64	68

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

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

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of intangible assets.

R million	Group 2016	Group 2015
3. INVESTMENTS IN ASSOCIATES		
Shares at cost	11 073	10 815
Treasury shares	(121)	(120)
Equity accounted reserves	3 936	3 368
INVESTMENTS IN ASSOCIATES	14 888	14 063
Analysis of the movement in the carrying value of associates:		
Balance at the beginning of the year	14 063	11 582
Transfer to assets of discontinued operation	(32)	–
Additional acquisition of associates	289	1 267
Treasury shares	(1)	(60)
Equity accounted earnings for the year – Continuing operations	1 524	2 145
Equity accounted earnings for the year – Discontinued operation	–	1
Dividends received for the year	(914)	(1 027)
Share of associates' other reserves	(41)	155
BALANCE AT THE END OF THE YEAR	14 888	14 063
Carrying value comprises:		
Discovery Limited	8 517	7 869
MMI Holdings Limited	6 209	6 107
OUTsurance Insurance Company of Namibia Limited	39	33
Truffle Capital Proprietary Limited	26	23
HCV Underwriting Managers Proprietary Limited	–	14
CIB Insurance Administrators Proprietary Limited	–	13
Cyan Capital Proprietary Limited	–	4
Northstar Asset Management Proprietary Limited	41	–
Tantalum Capital Proprietary Limited	15	–
Sentio Capital Management Proprietary Limited	19	–
Merchant Capital Advisory Services Proprietary Limited	22	–
TOTAL CARRYING VALUE	14 888	14 063
Market value of listed associates		
Discovery Limited	19 838	20 481
MMI Holdings Limited	9 080	11 849
TOTAL MARKET VALUE OF LISTED ASSOCIATES	28 918	32 330

R million	Group 2016	Group 2015
3. INVESTMENTS IN ASSOCIATES continued		
The group's interests in associates are as follows:		
Discovery Limited – Number of shares	161 944 576	161 944 576
Discovery Limited – % of equity*	25.1	25.7
MMI Holdings Limited – Number of shares	401 048 075	392 988 075
MMI Holdings Limited – % of equity*	25.7	25.2
OUTsurance Insurance Company of Namibia Limited – Number of shares	49	49
OUTsurance Insurance Company of Namibia Limited – % of equity	49.0	49.0
Truffle Capital Proprietary Limited – Number of shares	56	58
Truffle Capital Proprietary Limited – % of equity	22.4	23.4
HCV Underwriting Managers Proprietary Limited – Number of shares	–	90
HCV Underwriting Managers Proprietary Limited – % of equity	–	30.0
CIB Insurance Administrators Proprietary Limited – Number of shares	–	935
CIB Insurance Administrators Proprietary Limited – % of equity	–	10.4
Cyan Capital Proprietary Limited – Number of shares	–	935
Cyan Capital Proprietary Limited – % of equity	–	10.4
Northstar Asset Management Proprietary Limited – Number of shares	16 216	–
Northstar Asset Management Proprietary Limited – % of equity	30.0	–
Tantalum Capital Proprietary Limited – Number of shares	480	–
Tantalum Capital Proprietary Limited – % of equity	15.0	–
Sentio Capital Management Proprietary Limited – Number of shares	24	–
Sentio Capital Management Proprietary Limited – % of equity	17.8	–
Merchant Capital Advisory Services Proprietary Limited – Number of shares	307 630	–
Merchant Capital Advisory Services Proprietary Limited – % of equity	25.1	–

* *After consolidation of share trusts.*

The group is believed to exercise significant influence over Tantalum Capital Proprietary Limited and Sentio Capital Management Proprietary Limited through board representation, notwithstanding the fact that it owns less than 20% of the issued share capital of both companies.

Further details of significant associates are disclosed in note 42.

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of investments in associates.

R million	Group 2016	Group 2015	Group 2014
4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES			
The group's equity and debt securities are summarised by measurement category below:			
Available-for-sale	1 452	1 306	1 265
– Equity	805	746	725
– Debt	647	560	540
Fair value through profit or loss	9 198	10 349	7 915
– Equity	124	2 172	2 104
– Debt	9 074	8 177	5 811
Held-to-maturity – Debt	–	78	79
TOTAL FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES	10 650	11 733	9 259
Current portion of equity and debt securities	7 886	5 776	4 477
The assets included in each of the categories above are detailed below:			
Available-for-sale financial assets			
Equity securities			
– Listed shares	412	242	176
– Listed preference shares	393	504	549
TOTAL EQUITY SECURITIES	805	746	725
Debt securities			
– Unlisted preference shares	647	560	540
TOTAL AVAILABLE-FOR-SALE EQUITY AND DEBT SECURITIES	1 452	1 306	1 265

The unlisted preference share investments are held to redemption and are carried at fair value. Carrying value is original cost plus accrued dividends, which equals fair value. Accrued dividends are disclosed in loans and receivables (note 6).

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

	Group		
R million	2016	2015	2014
4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES continued			
Financial assets at fair value through profit or loss			
Equity securities			
– Listed			
– Designated upon initial recognition	124	2 143	2 070
– Unlisted			
– Designated upon initial recognition	–	29	34
TOTAL EQUITY SECURITIES	124	2 172	2 104
Debt securities			
– Collective investment scheme assets	41	–	543
– Zero-coupon deposits	83	–	–
– Term deposits	5 219	3 491	2 415
– Money market instruments	2 657	2 171	1 633
– Listed			
– Designated upon initial recognition			
– Variable rate	423	1 211	788
– Fixed rate	651	1 304	432
TOTAL DEBT SECURITIES	9 074	8 177	5 811
TOTAL EQUITY AND DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	9 198	10 349	7 915
Listed equity securities are ordinary shares listed on the Johannesburg Securities Exchange (JSE Limited). The carrying amount represents the quoted bid prices on the JSE Limited at the close of business on the last day of the financial year.			
Listed preference shares classified at fair value through profit or loss are designated in this category upon initial recognition.			
Debt securities represent South African government-issued interest securities and other listed interest securities on the Bond Exchange of South Africa (BESA). The carrying amount represents the quoted bid prices at the close of business on the last business day of the financial year. Debt securities classified at fair value through profit or loss are designated in this category upon initial recognition.			
Held-to-maturity assets			
Debt securities – Interest-bearing instruments	–	78	79

Financial assets held-to-maturity are carried in the group's statement of financial position at amortised cost. The carrying amount approximates the fair value based on the nature of the asset. The asset would be viewed as a level 1 instrument in terms of the fair value hierarchy described in note 45.

Refer to note 45 for information relating to the fair value of investment securities.

4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES continued

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

R million	Available-for-sale	Fair value through profit or loss	Held-to-maturity	Total
30 June 2016				
Financial assets at the beginning of the year	1 306	10 349	78	11 733
Transfer to assets of discontinued operation	–	(3 521)	(78)	(3 599)
Additions (including net interest accruals)	259	5 792	–	6 051
Interest accrued at the effective yield on held-to-maturity assets	–	1	–	1
Dividends accrued	–	2	–	2
Disposals (sales and redemptions)	(114)	(3 402)	–	(3 516)
Net fair value gains/(losses)				
– Recognised in the income statement	1	(23)	–	(22)
FINANCIAL ASSETS AT THE END OF THE YEAR	1 452	9 198	–	10 650
30 June 2015				
Financial assets at the beginning of the year	1 265	7 915	79	9 259
Additions (including net interest accruals)	117	7 228	–	7 345
Interest accrued at the effective yield on held-to-maturity assets	–	–	10	10
Disposals (sales and redemptions)	(93)	(4 890)	(11)	(4 994)
Net fair value gains				
– Recognised in the income statement – Continuing operations	–	1	–	1
– Recognised in the income statement – Discontinued operation	–	95	–	95
– Recognised in equity	17	–	–	17
FINANCIAL ASSETS AT THE END OF THE YEAR	1 306	10 349	78	11 733
30 June 2014				
Financial assets at the beginning of the year	1 129	8 093	79	9 301
Additions (including net interest accruals)	100	5 778	–	5 878
Disposals (sales and redemptions)	(5)	(6 636)	–	(6 641)
Net fair value gains				
– Recognised in the income statement – Continuing operations	–	3	–	3
– Recognised in the income statement – Discontinued operation	–	677	–	677
– Recognised in equity	41	–	–	41
FINANCIAL ASSETS AT THE END OF THE YEAR	1 265	7 915	79	9 259

	Group	
R million	2016	2015
5. DERIVATIVE ASSET		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	29	46
Notional value	159	156

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

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the derivative asset.

	Group	
R million	2016	2015
6. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES		
Receivables arising from insurance and reinsurance contracts:		
– Due from policyholders	2 510	1 977
– Due from reinsurers	32	120
Other receivables:		
– Accrued investment income	–	52
– Other receivables and prepayments	226	169
TOTAL LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES	2 768	2 318

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

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

Included in loans and receivables are amounts due by related parties. Refer to note 39 for further details thereof.

The carrying amount of loans and receivables approximates the fair value based on the nature of this asset. Loans and receivables would be viewed as a level 2 instrument in terms of the fair value hierarchy described in note 45.

R million	Group 2016	Group 2015
7. DEFERRED ACQUISITION COST (DAC)		
Balance at the beginning of the year	362	357
Transfer to assets of discontinued operation	(30)	–
DAC raised	912	856
DAC charged to the income statement – Continuing operations	(936)	(837)
DAC charged to the income statement – Discontinued operation	–	9
Foreign exchange movement	57	(23)
BALANCE AT THE END OF THE YEAR	365	362
Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the DAC asset.		
8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS		
Gross insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	1 453	1 820
– Claims incurred but not reported	605	678
– Unearned premiums	4 396	4 088
– Unexpired risk provision	–	336
– Insurance contract cash bonuses	418	405
Total short-term insurance contracts	6 872	7 327
Long-term insurance contracts	196	142
TOTAL GROSS INSURANCE CONTRACTS	7 068	7 469
Recoverable from reinsurers		
Short-term insurance contracts		
– Outstanding claims provision	(44)	(512)
– Claims incurred but not reported	(51)	(183)
– Unearned premiums	(73)	(49)
– Insurance contract cash bonuses	–	(3)
Total short-term insurance contracts	(168)	(747)
Long-term insurance contracts	(89)	(85)
TOTAL RECOVERABLE FROM REINSURERS	(257)	(832)

R million	Group 2016	Group 2015
8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued		
Net insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	1 409	1 308
– Claims incurred but not reported	554	495
– Unearned premiums	4 323	4 039
– Unexpired risk provision	–	336
– Insurance contract cash bonuses	418	402
Total short-term insurance contracts	6 704	6 580
Long-term insurance contracts	107	57
TOTAL NET INSURANCE CONTRACTS	6 811	6 637

Analysis of movement in short-term insurance contract liabilities

R million	Group Gross	Group Re-insurance	Group Net
8.1 ANALYSIS OF MOVEMENT IN CLAIMS RESERVES			
30 June 2016			
Opening balance			
– Outstanding claims provision	1 820	(512)	1 308
– Claims incurred but not reported	678	(183)	495
TOTAL	2 498	(695)	1 803
Transfer to assets of discontinued operation	(445)	250	(195)
Current year			
– Claims incurred	7 064	(309)	6 755
– Claims paid	(5 799)	180	(5 619)
Prior year			
– Claims incurred	(112)	48	(64)
– Claims paid	(1 410)	364	(1 046)
Movement in claims incurred but not reported	47	91	138
Change in risk margin	(24)	34	10
Change in claims handling cost	5	–	5
Foreign exchange difference	234	(58)	176
Closing balance			
– Outstanding claims provision	1 453	(44)	1 409
– Claims incurred but not reported	605	(51)	554
TOTAL	2 058	(95)	1 963

R million	Group Gross	Group Re-insurance	Group Net
8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued			
8.1 ANALYSIS OF MOVEMENT IN CLAIMS RESERVES continued			
30 June 2015			
Opening balance			
– Outstanding claims provision	1 275	(204)	1 071
– Claims incurred but not reported	447	(33)	414
TOTAL	1 722	(237)	1 485
Current year			
– Claims incurred – Continuing operations	6 091	(538)	5 553
– Claims incurred – Discontinued operation	745	(438)	307
– Claims paid – Continuing operations	(4 956)	270	(4 686)
– Claims paid – Discontinued operation	(580)	246	(334)
Prior year			
– Claims incurred – Continuing operations	74	10	84
– Claims incurred – Discontinued operation	7	(6)	1
– Claims paid – Continuing operations	(728)	46	(682)
– Claims paid – Discontinued operation	(155)	136	(19)
Movement in claims incurred but not reported – Continuing operations	232	(139)	93
Movement in claims incurred but not reported – Discontinued operation	(10)	(11)	(21)
Change in risk margin	76	(39)	37
Change in claims handling cost	25	–	25
Foreign exchange difference	(45)	5	(40)
Closing balance			
– Outstanding claims provision	1 820	(512)	1 308
– Claims incurred but not reported	678	(183)	495
TOTAL	2 498	(695)	1 803

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.2 ANALYSIS OF MOVEMENT IN UNEARNED PREMIUM PROVISION (UPP)

R million	Group Gross	Group Re-insurance	Group Net
30 June 2016			
Balance at the beginning of the year	4 088	(49)	4 039
Transfer to assets of discontinued operation	(744)	8	(736)
UPP raised	7 783	(718)	7 065
UPP earned	(7 279)	686	(6 593)
Foreign exchange movement	548	–	548
BALANCE AT THE END OF THE YEAR	4 396	(73)	4 323
30 June 2015			
Balance at the beginning of the year	3 446	(19)	3 427
UPP raised – Continuing operations	6 031	(453)	5 578
UPP earned – Continuing operations	(5 224)	412	(4 812)
UPP earned – Discontinued operation	–	11	11
Foreign exchange movement	(165)	–	(165)
BALANCE AT THE END OF THE YEAR	4 088	(49)	4 039

R million	Group 2016	Group 2015
8.3 ANALYSIS OF CHANGE IN UNEXPIRED RISK PROVISION		
Balance at the beginning of the year	336	345
Transfer to assets of discontinued operation	(336)	–
Charge to profit and loss for the year – Discontinued operation	–	(9)
BALANCE AT THE END OF THE YEAR	–	336
8.4 ANALYSIS OF MOVEMENT IN INSURANCE CONTRACT CASH BONUSES		
Balance at the beginning of the year	402	382
Cash bonuses paid during the year	(346)	(295)
Charge to profit and loss for the year	362	315
BALANCE AT THE END OF THE YEAR	418	402

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.5 ANALYSIS OF MOVEMENT IN LONG-TERM INSURANCE CONTRACT LIABILITIES

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

	Group				
R million	Gross long-term insurance contract liabilities	Reinsurer's share of policy-holder liabilities	Net long-term insurance contract liabilities	Deferral of acquisition costs	Net long-term insurance contract liabilities including deferral of acquisition costs
30 June 2016					
Balance at the beginning of the year	261	(85)	176	(119)	57
Policyholder liability reserve	228	(74)	154	(119)	35
Incurred but not reported reserve	6	–	6	–	6
Outstanding claims reserve	27	(11)	16	–	16
Transfer to assets and liabilities of discontinued operation	(4)	3	(1)	–	(1)
Transfer to policyholder liabilities under insurance contracts	71	(7)	64	(13)	51
Unwind of discount rate	88	(20)	68	–	68
Experience variance	4	–	4	–	4
Modelling methodology changes	(10)	1	(9)	–	(9)
Change in non-economic assumptions	(1)	3	2	–	2
Change in economic assumptions	(18)	12	(6)	–	(6)
New business	9	(5)	4	–	4
Incurred but not reported claims	1	–	1	–	1
Change in outstanding claims reserve	(2)	2	–	–	–
Deferral of acquisition costs	–	–	–	(13)	(13)
BALANCE AT THE END OF THE YEAR	328	(89)	239	(132)	107
Policyholder liability reserve	296	(80)	216	(132)	84
Incurred but not reported reserve	7	–	7	–	7
Outstanding claims reserve	25	(9)	16	–	16

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

8.5 ANALYSIS OF MOVEMENT IN LONG-TERM INSURANCE CONTRACT LIABILITIES continued

	Group				
R million	Gross long-term insurance contract liabilities	Reinsurer's share of policy-holder liabilities	Net long-term insurance contract liabilities	Deferral of acquisition costs	Net long-term insurance contract liabilities including deferral of acquisition costs
30 June 2015					
Balance at the beginning of the year	158	(56)	102	(86)	16
Policyholder liability reserve	134	(45)	89	(86)	3
Incurred but not reported reserve	5	–	5	–	5
Outstanding claims reserve	19	(11)	8	–	8
Transfer to policyholder liabilities under insurance contracts	103	(29)	74	(33)	41
Unwind of discount rate	61	(14)	47	–	47
Experience variance	10	(2)	8	–	8
Modelling methodology changes	11	(5)	6	–	6
Change in non-economic assumptions	(16)	6	(10)	–	(10)
Change in economic assumptions	6	–	6	–	6
New business	21	(13)	8	–	8
Incurred but not reported claims	1	–	1	–	1
Change in outstanding claims reserve	9	(1)	8	–	8
Deferral of acquisition costs	–	–	–	(33)	(33)
BALANCE AT THE END OF THE YEAR	261	(85)	176	(119)	57
Policyholder liability reserve	228	(74)	154	(119)	35
Incurred but not reported reserve	6	–	6	–	6
Outstanding claims reserve	27	(11)	16	–	16

8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued

The following sensitivities are provided on insurance risk assumptions:

Short-term insurance

The table below illustrates the sensitivity of the total short-term insurance contract liability in respect of a 10% increase or decrease in the following components of this liability net of reinsurance:

30 June 2016

R million	Short-term insurance contract liability	10% increase	10% decrease
Incurred but not reported provision	6 704	55	(55)
Insurance contract cash bonus provision	6 704	42	(42)

Long-term insurance

The following sensitivities are provided on insurance risk assumptions:

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

Insurance risk sensitivities are applied as a proportional percentage change to the assumptions made in the measurement of policyholder liabilities and the impact is reflected as the change in policyholder liabilities.

Each sensitivity is applied in isolation with all other assumptions left unchanged.

The sensitivities shown in the table below are based on the assumption that negative reserves are not eliminated in order to derive sensitivity stresses which are more closely aligned with economic reality.

	Group		
	Impact on liability		
	Change in variable	Increase in variable R million	Decrease in variable R million
Lapses	10%	(34)	42
Investment return	1%	(36)	52
Mortality, morbidity, disability, retrenchment	10%	111	(113)
Mortality, morbidity, disability, retrenchment	5%	56	(56)
Expenses	10%	38	(38)

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the insurance contracts asset and insurance contracts liability.

R million	Group 2016	Group 2015
9. DEFERRED TAXATION		
Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current taxation assets against current taxation liabilities and when the deferred income taxes relate to the same fiscal authority.		
Deferred taxation assets		
Provisions	330	271
Profit accrual	–	8
Fair value adjustment	21	8
Payment received in advance	1	2
Assessed loss	1	47
Service cost on employee benefits	8	6
Unrealised foreign exchange loss	–	4
Difference between accounting and tax values of assets	4	2
Total deferred taxation assets	365	348
Deferred taxation liabilities offset in same legal entities	(161)	(132)
TOTAL DEFERRED TAXATION ASSETS DISCLOSED IN THE STATEMENT OF FINANCIAL POSITION	204	216
Deferred taxation liabilities		
Deferred acquisition costs	(109)	(100)
Available-for-sale financial assets	(23)	(19)
Deferred expenditure immediately deductible	(9)	(6)
Special transfer credit	(19)	(5)
Prepayments	(1)	(2)
Imputation of controlled foreign company	–	(51)
Other deferred taxation liability	–	(29)
Total deferred taxation liabilities	(161)	(212)
Deferred taxation liabilities offset in same legal entities	161	132
TOTAL DEFERRED TAXATION LIABILITIES DISCLOSED IN THE STATEMENT OF FINANCIAL POSITION	–	(80)

R million	Group 2016	Group 2015
9. DEFERRED TAXATION continued		
Reconciliation of movement		
Deferred taxation asset at the beginning of the year	348	363
Transfer to assets of discontinued operation	(28)	–
Deferred taxation charge for the year – Continuing operations	(1)	(14)
Deferred taxation credit for the year – Discontinued operation	–	16
Foreign exchange movement	42	(19)
Transfer to share-based payment reserve	4	2
Total deferred taxation assets at the end of the year	365	348
Deferred taxation liabilities offset in same legal entities	(161)	(132)
TOTAL DEFERRED TAXATION ASSETS DISCLOSED IN THE STATEMENT OF FINANCIAL POSITION	204	216
Deferred taxation liability at the beginning of the year	(212)	(510)
Transfer to liabilities of discontinued operation	80	–
Deferred taxation charge for the year – Continuing operations	(7)	(5)
Deferred taxation credit for the year – Discontinued operation	–	299
Available-for-sale financial assets	(4)	(3)
Foreign exchange movement	(18)	7
Total deferred taxation liabilities at the end of the year	(161)	(212)
Deferred taxation liabilities offset in same legal entities	161	132
TOTAL DEFERRED TAXATION LIABILITIES DISCLOSED IN THE STATEMENT OF FINANCIAL POSITION	–	(80)

The group reviews the carrying amount of deferred taxation assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

The group has recognised a deferred taxation asset on the assessed losses in Youi Holdings Proprietary Limited of Rnil (2015: R105 million).

A deferred taxation asset relating to the start-up loss incurred by Youi New Zealand has not been recognised due to the short trading history of the business. The deferred taxation asset will be recognised once reasonable certainty exists that the losses are recoverable against future profits. The deferred taxation asset for the current financial year that has not been recognised is R83 million (2015: R42 million). A deferred taxation asset relating to the individual policyholder fund in OUTsurance Life amounting to R199 million (2015: R176 million) has not been recognised.

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the deferred taxation asset and liability.

10. DISCONTINUED OPERATION

As disclosed in more detail in the directors' report, RMI announced on 23 August 2016 that it had reached agreement with Santam regarding the sale of RMB Structured Insurance (excluding its stake in Truffle Capital Proprietary Limited) to Santam. This transaction is still subject to competition commission and FSB approval.

In terms of *IFRS 5*, RMB Structured Insurance (excluding its investment in Truffle Capital Proprietary Limited) is disclosed as a discontinued operation. All the assets and liabilities are included in two separate lines in the statement of financial position. The income statement is split between continuing and discontinued operations, with the comparative numbers in the income statement being restated to reflect this split.

	Group
R million	2016
Assets of discontinued operation	
Property and equipment	16
Intangible assets	1
Investments in associates	31
Financial assets	
Equity securities	
– fair value through profit or loss	2 126
Debt securities	
– held-to-maturity	295
– fair value through profit or loss	1 565
Loans and receivables including insurance receivables	428
Deferred acquisition cost	11
Reinsurance contracts	354
Deferred taxation	26
Cash and cash equivalents	1 247
ASSETS OF DISCONTINUED OPERATION	6 100
Liabilities of discontinued operation	
Insurance contracts	1 886
Financial liabilities	
Convertible debentures	15
Preference shares	106
Interest-bearing loans	4
Policyholders' interest	1 572
Cellholders' interest	56
Investment contracts at fair value through profit or loss	1 552
Deferred acquisition revenue	2
Provisions	13
Insurance and other payables	343
Deferred taxation	77
LIABILITIES OF DISCONTINUED OPERATION	5 626

10. DISCONTINUED OPERATION continued

R million	Group 2016	Group 2015
Results of discontinued operation for the year ended 30 June		
Income statement		
Gross insurance premiums	1 605	1 223
Less: Reinsurance premiums	(689)	(622)
Net insurance premiums	916	601
Change in provision for unearned premiums net of reinsurance	(196)	(11)
Net insurance premiums earned	720	590
Fee income	299	213
Investment income	79	73
Net fair value gains on financial assets	336	168
Net income	1 434	1 044
Gross claims paid	(933)	(733)
Reinsurance recoveries received	504	455
Investment contract benefits	(189)	(82)
Transfer to policyholders' interest	(56)	–
Transfer to cellholders' interest	(48)	–
Acquisition expenses	(293)	(212)
Marketing and administration expenses	(386)	(337)
Result of operating activities	33	135
Finance costs	(44)	(88)
Share of after-tax results of associates	7	1
(Loss)/profit before taxation	(4)	48
Taxation	12	33
PROFIT FOR THE YEAR	8	81

R million	Group 2016	Group 2015	Group 2014
11. CASH AND CASH EQUIVALENTS			
Cash at bank and in hand	597	1 313	1 112
Short-term bank deposits	–	787	665
Money market investments	14	21	512
Advances made under resale agreement	–	21	21
TOTAL CASH AND CASH EQUIVALENTS	611	2 142	2 310

Cash and cash equivalents represent current accounts, call deposits and short-term fixed deposits with large banks in South Africa, Australia, Ireland and Mauritius, or listed South African government bonds acquired by the group under resale agreements. The short-term deposits with banks are spread among these banks to reduce the credit risk exposure. Since all short-term deposits and listed South African government bonds under resale agreements will be held-to-maturity, they are carried at cost plus accrued interest. This carrying value approximates fair value.

Included in money market investments are deposits with a term to maturity of less than three months.

Advances made under resale agreements are collateralised by listed bond investments, which are South African government-issued interest securities held under short-duration resale agreements. At 30 June 2015, the group held a nominal value of R9 million R202 bonds with an effective yield to maturity of 1.8%. During the 2015 year, the average yield earned on bonds under resale agreements amounted to 5.8%.

12. SHARE CAPITAL AND SHARE PREMIUM

R million	Number of shares after treasury shares (million)	Ordinary shares*	Share premium	Treasury shares	Total
30 June 2016					
Balance at the beginning of the year	1 481	–	13 657	(131)	13 526
Movement in treasury shares	1	–	–	–	–
BALANCE AT THE END OF THE YEAR	1 482	–	13 657	(131)	13 526
30 June 2015					
Balance at the beginning of the year	1 483	–	13 657	(65)	13 592
Movement in treasury shares	(2)	–	–	(66)	(66)
BALANCE AT THE END OF THE YEAR	1 481	–	13 657	(131)	13 526

* *Amount less than R500 000.*

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

The total authorised number of cumulative, redeemable par value preference shares is 100 million with a par value of R0.0001 per share. The issued number of par value preference shares is 648 001 (2015: 648 001). As these preference shares are redeemable they are classified as financial liabilities at amortised cost (note 16).

During the 2015 financial year, the company created a new class of 100 million authorised, cumulative, redeemable no par value preference shares. The issued number of no par value preference shares is 1 650 000 (2015: 1 250 000). As these preference shares are redeemable, they are classified as financial liabilities at amortised cost (note 16).

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

Treasury shares

The life insurance businesses of the associates and a subsidiary acquired RMI shares as part of their investment programme aimed at meeting policyholders' liabilities. These shares are treated as treasury shares and any gains or losses are reversed from group earnings. The number of treasury shares as at 30 June 2016 was 3 637 229 (2015: 3 895 522).

	Group	
R million	2016	2015
Number of treasury shares held at 30 June (million)	4	4
Weighted number of treasury shares held during the year (million)	4	3
Cost of treasury shares held at 30 June	132	131
Fair value adjustment	19	34
FAIR VALUE OF TREASURY SHARES	151	165
The treasury shares are eliminated from the weighted number of shares in issue for the purpose of calculating earnings and headline earnings per share:		
Weighted number of issued shares	1 486	1 486
Less: Weighted number of treasury shares	(4)	(3)
WEIGHTED NUMBER OF SHARES IN ISSUE	1 482	1 483

R million	Group 2016	Group 2015
13. RESERVES		
Distributable reserves		
Retained earnings	2 695	2 046
Equity accounted reserves		
Balance at the beginning of the year	3 368	2 094
Income from associates retained	612	1 119
Other comprehensive income	1	152
Treasury shares	11	11
Non-distributable reserves	(53)	(8)
TOTAL EQUITY ACCOUNTED RESERVES	3 939	3 368
Transactions with non-controlling interests	(2 097)	(2 017)
Other reserves		
Currency translation reserve	431	122
Available-for-sale reserve	55	58
Share-based payment reserve	7	2
TOTAL OTHER RESERVES	493	182
TOTAL RESERVES	5 030	3 579
14. SHARE-BASED PAYMENT LIABILITY		
Cash-settled share-based payment liability	253	182
Balance at the beginning of the year	182	145
Charge for the year	143	121
Liability settled	(72)	(84)
BALANCE AT THE END OF THE YEAR	253	182
Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the share-based payment liability.		
The income statement charge for share-based payments comprise:		
Equity-settled scheme	–	(1)
Cash-settled scheme	(143)	(121)
TOTAL SHARE-BASED PAYMENT EXPENSE	(143)	(122)

14. SHARE-BASED PAYMENT LIABILITY continued

RMI

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

RMI HOLDINGS SHARE APPRECIATION RIGHTS

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

Appreciation rights may only be exercised by the third, fourth and fifth anniversary of the grant date in equal tranches of one third each, provided that the performance objectives set for the grant have been achieved. All share appreciation rights tranches issued since September 2015 included performance conditions that have to be met before vesting, but the exercise period has been increased from five to seven years. The share appreciation rights still vest in equal tranches of one third each by the third, fourth and fifth anniversary.

Valuation methodology:

The share appreciation rights scheme issues are valued using the Cox Rubenstein binomial tree. The scheme is cash-settled and will thus be repriced at each reporting date.

Market and dividend data consist of the following:

- Volatility is the expected volatility over the period of the option. Historic volatility was used as a proxy for expected volatility.
- The interest rate is the risk free rate of return, as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the share appreciation right.
- A fixed dividend yield was assumed.

Employee statistic assumptions:

- No forfeiture rate is used due to the limited number of employees participating in the scheme.

OUTSURANCE

The various share schemes are as follows:

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

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

OUTSURANCE CASH-SETTLED SHARE SCHEME

In terms of the current trust deed, 12% of the issued share capital of the company is available to the employees under the scheme. The trust and employees currently hold 10.05% (2015: 10.2%) of the shares in OUTsurance Holdings Limited.

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

Valuation methodology:

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

14. SHARE-BASED PAYMENT LIABILITY continued

Market data consists of the following:

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

Dividend data consists of the following:

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

Employee statistic assumptions:

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

YOUI HOLDINGS EQUITY-SETTLED SHARE SCHEME

The Youi Holdings employee share option plan was established in 2008. In terms of the plan rules, 20% of the issued share capital of the company is available under the plan for the granting of options to employees. Options issued before 1 July 2011 were fully expensed in prior years in terms of *IFRS 2*. These options vest immediately and expire on 30 June 2018. Share options are settled by the delivery of Youi Holdings Proprietary Limited shares.

Valuation methodology:

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

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

The option duration is the number of years before the options expire, adjusted for a historical rate of early exercise.

Market data consists of the following:

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

Dividend data consists of the following:

- Dividend growth is based on the best estimate of expected future dividends. Given the start-up phase of the business, no dividend history is available.

Employee statistic assumptions:

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

14. SHARE-BASED PAYMENT LIABILITY continued

RMB STRUCTURED INSURANCE

The RMB-SI Investments Share Trust (RMBSI trust) was created to give certain employees of RMB Structured Insurance the opportunity to acquire shares in RMB Structured Insurance.

Granting of share options to certain employees is at the discretion of the remuneration committee.

RMB Structured Insurance issues shares to the trust, with every offer to the beneficiaries. The maximum number of scheme shares shall not exceed 10% of the issued ordinary share capital of RMB Structured Insurance.

The sale of the shares between the trust and the beneficiary arising from the exercise of the option in respect of those shares may only be implemented as follows:

- Up to 33.3% of the total shares which were the subject of the option and which have been exercised after the third year from the option date.
- Up to 66.7% of the total shares which were the subject of the option and which have been exercised after the fourth year from the option date.
- Up to 100% of the total shares which were the subject of the option and which have been exercised after the fifth year from the option date.

The table below summarises the options issued under the various schemes as at 30 June 2016:

	RMI	OUTsurance cash-settled	Youi equity-settled	RMB Structured Insurance
Number of options at the beginning of the year (000's)	4 684	58 547	294 099	5 464
Range of strike prices of opening balances (cents)	0 – 3 314	280 – 557	AUS$ 0.10 – AUS$ 0.3718	183
Number of options granted during the year (000's)	197	21 370	1 750	4 869
Strike price of options granted during the year (cents)	4 125	715	AUS$ 0.486	195
Number of options delivered during the year (000's)	(66)	(15 750)	(3 048)	(728)
Range of strike prices on date of delivery (cents)	–	715	AUS$ 0.10	183
Number of options cancelled/forfeited during the year (000's)	–	(314)	–	–
Range of strike prices of forfeited options (cents)	–	715 – 808	–	–
Number of options in force at the end of the year	4 815	63 853	292 801	9 605
Range of strike prices of closing balances	0 – 4 125	808	AUS$ 0.10 – AUS$ 0.486	183 – 195

14. SHARE-BASED PAYMENT LIABILITY continued

The table below summarises the options issued under the various schemes as at 30 June 2015:

	RMI	OUTsurance equity-settled	OUTsurance cash-settled	Youi equity-settled	RMB Structured Insurance
Number of options at the beginning of the year (000's)	3 412	6 197	60 750	286 974	6 325
Range of strike prices of opening balances (cents)	0 – 2 874	174 – 184	222 – 333	AUS$ 0.10	88 – 183
Number of options granted during the year (000's)	1 862	–	18 912	8 550	–
Strike price of options granted during the year (cents)	0 – 3 314	–	557	AUS$ 0.3718	–
Number of options delivered during the year (000's)	(590)	(6 197)	(20 850)	(1 425)	(861)
Range of strike prices on date of delivery (cents)	0 – 1 309	174 – 184	222	AUS$ 0.10	88 – 183
Number of options cancelled/forfeited during the year (000's)	–	–	(265)	–	–
Range of strike prices of forfeited options (cents)	–	–	330 – 557	–	–
Number of options in force at the end of the year	4 684	–	58 547	294 099	5 464
Range of strike prices of closing balances	0 – 3 314	–	280 – 557	AUS$ 0.10 – AUS$ 0.3718	183

	Group	
R million	2016	2015
15. CONVERTIBLE DEBENTURES		
Convertible debentures in issue	–	15

The debentures are unsecured and subordinated and can be converted at the option of the debenture holders to non-redeemable preference shares on 30 June or 31 December of any year and are compulsorily convertible to non-redeemable preference shares of R1 each on 30 June 2022. The effective net cost incurred on these instruments amounts to 1.5% per annum. The fair value approximates the carrying value.

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the convertible debentures.

R million	Group 2016	Group 2015
16. PREFERENCE SHARES		
Unlisted		
Fixed rate, cumulative, redeemable par value preference shares issued by the company	648	648
Fixed rate, cumulative, redeemable no par value preference shares issued by the company	1 650	1 250
Cumulative, redeemable preference shares issued by a subsidiary	–	118
TOTAL PREFERENCE SHARES	2 298	2 016

The fair value of the unlisted preference share liability is R2 298 million (2015: R2 016 million).

The current portion of the preference shares is Rnil (2015: Rnil).

Fixed rate, cumulative, redeemable par value preference shares

The company's issued number of fixed rate, cumulative, redeemable par value preference shares is 648 001 (2015: 648 001), with a par value of R0.0001 each. The share premium is R999.9999 per share. These preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 22 August 2017 and pay dividends at a fixed rate of 6.89% (2015: 6.89%) six-monthly.

R million	2016	2015
Balance at the beginning of the year	648	349
Conversion of variable rate preference shares into fixed rate preference shares	–	299
BALANCE AT THE END OF THE YEAR	648	648
Variable rate, cumulative, redeemable par value preference shares		
Balance at the beginning of the year	–	299
Conversion of variable rate preference shares into fixed rate preference shares	–	(299)
BALANCE AT THE END OF THE YEAR	–	–

Fixed rate, cumulative, redeemable no par value preference shares

The company issued 400 000 fixed rate, cumulative, redeemable no par value preference shares during the 2016 financial year. These preference shares are redeemable at the discretion of the company at any time and are compulsorily redeemable on:

- 10 May 2019 in respect of 100 000 of these preference shares, which pay dividends at a fixed rate of 8.04% six-monthly.
- 7 December 2020 in respect of 300 000 of these preference shares, which pay dividends at a fixed rate of 8.29% six-monthly.

The company issued 1 250 000 fixed rate, cumulative, redeemable no par value preference shares during the 2015 financial year. These preference shares are redeemable at the discretion of the company at any time and are compulsorily redeemable on 29 May 2018 and pay dividends at a fixed rate of 7.02% six-monthly.

R million	2016	2015
Balance at the beginning of the year	1 250	–
Preference shares issued during the year	400	1 250
BALANCE AT THE END OF THE YEAR	1 650	1 250

R million	Group 2016	Group 2015
16. PREFERENCE SHARES continued		
Variable rate, cumulative, redeemable preference shares issued by a subsidiary		
Balance at the beginning of the year	118	83
Transfer to liabilities of discontinued operation	(118)	–
Preference shares issued during the year	–	35
BALANCE AT THE END OF THE YEAR	–	118

A subsidiary had 100 000 authorised variable rate, cumulative, redeemable preference shares of 1 cent each at the end of the 2015 financial year of which 612 have been issued.

The variable rate, cumulative, redeemable preference shares are redeemable at the discretion of the directors of the subsidiary company.

The holders of the variable rate, cumulative, redeemable preference shares have no voting rights at any meeting of the subsidiary company, unless dividends payable on these shares are in arrears, the redemption payment of any capital is in arrears, or if a resolution is passed which affects the rights attached to the preference shares, or where the subsidiary company proposes to dispose of a material portion of its assets.

Shares issued to policyholders may also entitle the policyholders to participate in the operating result of their business units, distributed as dividends. The dividends paid are included in finance costs in the income statement.

R million	Group 2016	Group 2015
17. INTEREST-BEARING LOANS		
Secured bank borrowing originated by the group at amortised cost	60	4

Secured bank borrowing originated by the group
The loan of R60 million was incurred on 29 June 2016 and can be repaid at any time, but is compulsorily repayable on 29 June 2019. The interest rate on the loan is calculated based on the three-month JIBAR rate plus 2.2%.

R million	Group 2016	Group 2015
Balance at the beginning of the year	4	4
Transfer to liabilities of discontinued operation	(4)	–
Interest-bearing loan incurred	60	–
BALANCE AT THE END OF THE YEAR	60	4

This interest-bearing loan is classified as a level 2 instrument in terms of the fair value hierarchy described in note 45.

R million	Group 2016	Group 2015
18. POLICYHOLDERS' INTEREST		
Balance at the beginning of the year	1 545	1 448
Transfer to liabilities of discontinued operation	(1 545)	–
Transfer from profit and loss	–	97
BALANCE AT THE END OF THE YEAR	–	1 545

An analysis of revenue reserves is made between retained earnings attributable to shareholders and policyholders. The policyholders' interest represents the accumulated profit or loss after tax and dividends attributable to policyholders. Due to the short-term nature of this liability, the carrying value approximates the fair value.

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the policyholders' interest.

R million	Group 2016	Group 2015
19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Shareholders for preference dividends on profit shares	105	107
Shareholders' loan	39	–
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	144	107

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

The shareholders' loan has no fixed terms of repayment and carried no interest.

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the financial liabilities at fair value through profit or loss.

R million	Group 2016	Group 2015
20. DERIVATIVE LIABILITY		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	12	36
Notional value	91	90

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

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the derivative liability.

R million	Group 2016	Group 2015
21. INVESTMENT CONTRACTS		
Balance at the beginning of the year	1 417	1 381
Transfer to liabilities of discontinued operation	(1 417)	–
Premiums received	–	3
Claims paid	–	(48)
Fees deducted from account balances	–	(1)
Fair value movement credited to profit and loss	–	82
BALANCE AT THE END OF THE YEAR	–	1 417

Investment contracts were designated upon initial recognition as at fair value through profit or loss. The liabilities originated from unit-linked contracts and are measured with reference to their respective underlying assets. Changes in the credit risk of the entity do not impact the measurement of the unit-linked liabilities.

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the investment contracts.

R million	Group 2016	Group 2015
22. DEFERRED ACQUISITION REVENUE		
Balance at the beginning of the year	3	5
Transfer to liabilities of discontinued operation	(3)	–
Amount recognised in the income statement	–	(2)
BALANCE AT THE END OF THE YEAR	–	3

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the deferred acquisition revenue.

R million	Group 2016	Group 2015
23. PROVISIONS		
Short-term employee benefits		
Staff incentive bonus		
Balance at the beginning of the year	55	54
Transfer to liabilities of discontinued operation	(17)	–
Additional provisions	64	75
Unutilised amounts reversed	–	(14)
Amount utilised during the year	(62)	(60)
Foreign translation difference	1	–
BALANCE AT THE END OF THE YEAR	41	55

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

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

R million	Group 2016	Group 2015
24. INSURANCE AND OTHER PAYABLES		
Insurance-related payables		
Profit participation payable to clients	–	31
Due to intermediaries	3	4
Due to reinsurers	111	297
Other payables	20	8
Non-insurance-related payables		
Trade creditors and accrued expenses	66	221
Short-term employee benefits – leave pay liability	124	107
Redeemable preference share dividends payable	27	31
VAT liability	48	45
Other payables	798	527
TOTAL INSURANCE AND OTHER PAYABLES	1 197	1 271

Uncertainty exists relating to the timing and extent of cash flows from the leave pay liability. The outstanding balance represents the current value of leave due to employees currently in the employ of companies within the group.

Refer to the management of liquidity risk note on page 141 for the current and non-current analysis of the trade and other payables.

R million	Group 2016	Group 2015
25. NET INSURANCE PREMIUMS EARNED		
Long-term insurance contracts		
– Premiums written	378	305
– Policyholders' fees written	14	12
Short-term insurance contracts		
– Premiums written	14 223	12 022
– Policyholders' fees written	139	130
– Change in unearned premium provision	(504)	(807)
PREMIUM REVENUE ARISING FROM INSURANCE CONTRACTS ISSUED	14 250	11 662
Long-term reinsurance contracts		
– Premiums payable	(33)	(21)
Short-term reinsurance contracts		
– Premiums payable	(821)	(534)
– Change in unearned premium provision	32	41
PREMIUM REVENUE CEDED TO REINSURERS ON INSURANCE CONTRACTS ISSUED	(822)	(514)
NET INSURANCE PREMIUMS EARNED	13 428	11 148
26. FEE AND OTHER INCOME		
Commission earned from reinsurers, net of deferred acquisition revenue	92	19
Other income	18	80
TOTAL FEE AND OTHER INCOME	110	99

Policy fees are monthly or annual fees charged for the administration of policies. Collection fees are charged for the electronic collection of premiums and take-on fees are administration fees charged for new clients.

Other fee income was received for administration and accounting services rendered.

R million	Group 2016	Group 2015
27. INVESTMENT INCOME		
Available-for-sale		
– Dividend income	51	47
– Interest income	38	26
Assets at fair value through profit and loss		
– Dividend income	75	74
Cash and cash equivalents interest income	415	343
TOTAL INVESTMENT INCOME	579	490
28. NET FAIR VALUE GAINS/(LOSSES) ON FINANCIAL ASSETS		
Fair value gains – Designated upon initial recognition	57	63
Fair value losses – Designated upon initial recognition	(92)	(52)
Impairment – Available-for-sale financial assets	(4)	(51)
NET FAIR VALUE LOSSES ON FINANCIAL ASSETS	(39)	(40)
Net fair value gains/(losses) comprise:		
Equity securities		
– Unrealised mark-to-market	(22)	30
Debt securities	(25)	(83)
– Unrealised mark-to-market	(1)	(29)
– Realised mark-to-market	(20)	(3)
– Impairment	(4)	(51)
Derivative instruments		
– Unrealised mark-to-market	8	13
TOTAL NET FAIR VALUE LOSSES ON FINANCIAL ASSETS	(39)	(40)

R million	Group Gross	Group Re-insurance	Group Net
29. INSURANCE BENEFITS AND CLAIMS INCURRED			
30 June 2016			
Short-term insurance	**(6 980)**	**136**	**(6 844)**
Claims paid net of salvages and recoveries	(7 209)	544	(6 665)
Change in claims reserves	229	(408)	(179)
Long-term insurance			
Claims paid	(69)	25	(44)
– Life claims	(52)	17	(35)
– Disability claims	(6)	4	(2)
– Retrenchment claims	(4)	–	(4)
– Critical illness claims	(7)	4	(3)
Long-term insurance claims incurred	(69)	25	(44)
TOTAL INSURANCE BENEFITS AND CLAIMS INCURRED	**(7 049)**	**161**	**(6 888)**
30 June 2015			
Short-term insurance	(6 497)	705	(5 792)
Claims paid net of salvages and recoveries	(5 686)	315	(5 371)
Change in claims reserves	(811)	390	(421)
Long-term insurance			
Claims paid	(58)	18	(40)
– Life claims	(46)	15	(31)
– Disability claims	(6)	2	(4)
– Retrenchment claims	(2)	–	(2)
– Critical illness claims	(4)	1	(3)
TOTAL INSURANCE BENEFITS AND CLAIMS INCURRED	(6 555)	723	(5 832)

R million	Group 2016	Group 2015
30. ACQUISITION EXPENSES		
Commission paid	**(29)**	(34)

	Group	
R million	2016	2015
31. MARKETING AND ADMINISTRATION EXPENSES		
Expenses by nature:		
Employee benefit expenses	(2 093)	(1 802)
Professional fees and regulatory compliance costs	(73)	(50)
Depreciation (note 1)	(122)	(128)
Operating lease rentals	(109)	(97)
Asset management services	(7)	(6)
Audit fees	(31)	(8)
Profit on sale of property and equipment	2	–
Other expenses	(1 306)	(1 165)
TOTAL MARKETING AND ADMINISTRATION EXPENSES	(3 739)	(3 256)
Employee benefit expenses		
Salaries and incentive bonuses	(1 640)	(1 408)
Retirement funding	(159)	(135)
Service cost relating to intellectual property (note 2)	(73)	(66)
Share-based payment charge	(149)	(127)
Medical aid contributions	(72)	(66)
TOTAL EMPLOYEE BENEFIT EXPENSES	(2 093)	(1 802)
Depreciation		
Buildings	(16)	(16)
Leasehold improvements	(12)	(12)
Furniture, fittings and equipment	(92)	(99)
Motor vehicles	(2)	(1)
TOTAL DEPRECIATION (NOTE 1)	(122)	(128)
Audit fees		
Statutory audit – Current year	(10)	(7)
Fees for other services	(21)	(1)
TOTAL AUDIT FEES	(31)	(8)
Operating lease rentals		
The group's operating lease commitments under non-cancellable operating lease agreements are as follows:		
Up to 1 year	(53)	(43)
Between 1 to 5 years	(100)	(106)
Between 5 to 10 years	(55)	(59)
TOTAL OPERATING LEASE COMMITMENTS	(208)	(208)

32. RETIREMENT BENEFITS

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

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

R million	Group 2016	Group 2015
33. FINANCE COSTS		
Dividends on redeemable preference shares	(136)	(74)
34. TAXATION		
South African normal taxation		
Current taxation		
– Current year	(681)	(636)
– Prior year	1	–
Deferred taxation		
– Current year	14	4
– Prior year	–	1
Withholding taxation	(3)	(2)
Australian taxation		
Current taxation		
– Current year	(201)	–
Deferred taxation		
– Current year	(24)	(25)
– Prior year	1	1
TOTAL TAXATION	(893)	(657)
The tax on the group's profit before taxation differs from the theoretical amount that would arise using the basic tax rate of South Africa as follows:		
Profit before taxation	4 192	4 089
Effective tax rate (%)	21.30	16.07
Income not subject to taxation	1.48	1.12
Expenses not subject to taxation	(3.55)	(2.78)
Income tax rate differential	(0.33)	(0.03)
Capital gains taxation	(0.18)	(0.12)
Deferred taxation asset not recognised	(0.85)	(0.88)
Associates equity accounted using after taxation profits	10.08	14.59
Prior year over and under provisions	0.05	0.05
Other permanent differences	(0.00)	(0.02)
STANDARD INCOME TAXATION RATE IN SOUTH AFRICA (%)	28.00	28.00

R million	Group 2016	Group 2015
35. CASH FLOWS FROM OPERATING ACTIVITIES		
Reconciliation of profit before taxation to cash generated from operations:		
Profit before taxation	4 192	4 089
Adjusted for:		
Profit on sale of property and equipment	(2)	–
Foreign currency translation difference	(337)	64
Treasury shares held by subsidiary	–	(6)
Transactions with non-controlling interests	(120)	87
Equity accounted earnings	(1 524)	(2 145)
Depreciation	122	128
Service cost relating to intellectual property	73	66
Intellectual property bonuses incurred	(115)	(26)
Provisions	3	10
Share option expenses	149	122
Cash paid in terms of share option liability	(72)	(84)
Investment income	(579)	(490)
Funding costs	136	74
Net fair value losses/(gains) on assets at fair value through profit or loss	11	(18)
Fair value adjustment to financial liabilities	37	2
Other non-cash items	8	–
Changes in insurance balances:		
Gross provision for unearned premiums	504	807
Reinsurers' share of provisions for unearned premiums	(32)	(41)
Gross provision for claims incurred but not reported	47	232
Provision for cash bonus on insurance contracts	362	315
Cash bonus paid on insurance contracts	(346)	(295)
Insurance contracts	908	(6)
Deferred acquisition costs	(33)	4
Changes in working capital		
Current receivables and prepayments	(855)	(525)
Current payables and provisions	278	178
CASH GENERATED FROM OPERATIONS	2 815	2 542

R million	Group 2016	Group 2015
36. EARNINGS PER SHARE		
Earnings per share is calculated by dividing the earnings attributable to shareholders by the weighted number of ordinary shares in issue during the year.		
Earnings attributable to ordinary shareholders – Continuing and discontinued operations	2 977	3 292
Earnings attributable to ordinary shareholders – Continuing operations	2 971	3 228
Weighted average number of ordinary shares in issue (full amount)	1 481 887 407	1 482 560 366
Earnings per share from continuing and discontinued operations (cents)	200.9	222.0
Earnings per share from continuing operations (cents)	200.5	217.8
Earnings attributable to ordinary shareholders	2 977	3 292
Dilution on earnings	(50)	(30)
DILUTED EARNINGS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	2 927	3 262
Weighted average number of ordinary shares in issue (full amount)	1 481 887 407	1 482 560 366
Diluted earnings per share from continuing and discontinued operations (cents)	197.5	220.0
Diluted earnings per share from continuing operations (cents)	197.1	215.7
37. HEADLINE EARNINGS PER SHARE		
Headline earnings per share is calculated by dividing the adjusted earnings attributable to shareholders by the weighted number of ordinary shares in issue during the year.		
Headline earnings reconciliation		
Earnings attributable to ordinary shareholders	2 977	3 292
Adjusted for[1]:		
– Realised profit on sale of available-for-sale assets	(1)	(40)
– Impairment of available-for-sale instruments	3	35
– Profit on dilution of shareholding	(26)	(22)
– Profit on sale of associate	–	(11)
– Intangible asset impairments	37	4
– Profit on disposal of property and equipment	(2)	–
– Release of foreign currency translation reserve	(23)	–
– Gain from business combination	(2)	–
– Profit on sale of subsidiary	(29)	–
HEADLINE EARNINGS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	2 934	3 258
1. Adjustments include RMI's share of adjustments made by associates.		
Weighted average number of ordinary shares in issue (full amount)	1 481 887 407	1 482 560 366
Headline earnings per share from continuing and discontinued operations (cents)	198.0	219.8
Headline earnings per share from continuing operations (cents)	197.6	215.5
Headline earnings attributable to ordinary shareholders	2 934	3 258
Dilution on earnings	(49)	(29)
DILUTED HEADLINE EARNINGS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	2 885	3 229
Weighted average number of ordinary shares in issue (full amount)	1 481 887 407	1 482 560 366
Diluted headline earnings per share from continuing and discontinued operations (cents)	194.7	217.8
Diluted headline earnings per share from continuing operations (cents)	194.3	213.5

R million	Group 2016	Group 2015
38. DIVIDEND PER SHARE		
Total dividends paid during the year	1 738	1 694
Total dividends declared relating to the profit for the year	1 753	1 723
Number of ordinary shares in issue (full amount)	1 485 688 346	1 485 688 346
Dividend declared per share (cents)		
– Normal	118.0	116.0

39. RELATED PARTIES

Principal shareholders

Details of major shareholders are disclosed in the directors' report. The principal shareholders are Remgro Limited and Royal Bafokeng Holdings Proprietary Limited (2015: Remgro Limited and Royal Bafokeng Holdings Proprietary Limited).

KEY MANAGEMENT PERSONNEL

Only RMI's directors are key management personnel. Information on directors' emoluments and their shareholding in the company appears in the directors' report.

SUBSIDIARIES

Details of income from and investments in RMI's main subsidiaries are disclosed in note 43.

The following companies are subsidiaries of RMI:

- OUTsurance Holdings Limited
- OUTsurance Insurance Company Limited
- OUTsurance Life Insurance Company Limited
- OUTsurance International Holdings Proprietary Limited
- OUTsurance Shared Services Proprietary Limited
- Youi Proprietary Limited (South Africa)
- Youi Holdings Proprietary Limited
- Youi Proprietary Limited (Australia)
- Youi New Zealand Proprietary Limited
- Youi Properties Proprietary Limited
- Micawber 296 Proprietary Limited
- RMB-SI Investments Proprietary Limited
- RMB Structured Insurance Limited
- RMB Structured Insurance Limited PCC
- RMB Structured Life Limited
- RMB-SI Investments (Mauritius) Limited
- Credit Insurance Solutions Proprietary Limited
- Firness International Proprietary Limited
- AlphaCode Proprietary Limited
- RMI Investment Managers Group Proprietary Limited
- RMI Specialist Managers Proprietary Limited
- RMI Investment Managers Affiliates 1 Proprietary Limited
- RMI Investment Managers Affiliates 2 Proprietary Limited
- RMI Investment Holdings Proprietary Limited
- RMI Invest One Proprietary Limited
- RMI Invest Two Proprietary Limited
- RMI Invest Three Proprietary Limited
- Main Street 1353 Proprietary Limited
- Royal Investment Managers Proprietary Limited
- Royal Fund Managers Proprietary Limited

39. RELATED PARTIES continued

ASSOCIATES

Details of income from and investments in RMI's main associates are disclosed in note 42.

The following companies are associates of RMI:

- Discovery Limited
- MMI Holdings Limited
- OUTsurance Insurance Company of Namibia Limited
- Truffle Capital Proprietary Limited
- RTS Construction an Engineering Underwriters Proprietary Limited
- Risk Guard Alliance Proprietary Limited
- HCV Underwriting Managers Proprietary Limited
- CIB Insurance Administrators Proprietary Limited
- Cyan Capital Proprietary Limited
- Northstar Asset Management Proprietary Limited
- Tantalum Capital Proprietary Limited
- Sentio Capital Management Proprietary Limited
- Merchant Capital Advisory Services Proprietary Limited

	Group	
R million	2016	2015
Related party transactions		
Transactions of RMI and its subsidiary companies with:		
Principal shareholders		
Dividends paid	787	767
Key management personnel		
Salaries and other benefits	23	37
Transactions of RMI's key management with associates of the group:		
Investment products		
Balance at the beginning of the year	1 657	1 609
Net withdrawals	(359)	(74)
Net investment return credited	165	144
Commission and other transaction fees	(11)	(22)
BALANCE AT THE END OF THE YEAR	1 452	1 657

39. RELATED PARTIES continued

R million	Group 2016	Group 2015
Associates		
Income statement effect:		
– Dividends received	919	1 027
– Investment income	5	5
– Administration fees received	–	10
– Administration fee paid	–	5
– Insurance benefits and claims incurred	–	3
– Premium received	–	16
– Dividends paid	–	5
– Asset manager administration fees	3	3
– Retirement fund contributions	78	72
– Group life	7	9
– Disability fees paid	–	5
– Medical aid premiums paid	71	66
Effect on the statement of financial position:		
– Preference share investment	50	55

40. EVENTS AFTER THE REPORTING PERIOD, CONTINGENCIES AND COMMITMENTS

FINAL DIVIDEND DECLARATION

RMI declared a final dividend of 65.0 cents per ordinary share (R966 million) on 12 September 2016, payable on 10 October 2016. This is a non-adjusting event.

ACQUISITION OF A 25% EQUITY STAKE IN POLAR STAR MANAGEMENT

In September 2016, the group acquired a 25% equity stake in Polar Star Management, a commodity arbitrage hedge fund, for an amount of R242 million. This is a non-adjusting event.

SALE OF RMB STRUCTURED INSURANCE

As disclosed in more detail in the directors' report, RMI announced on 23 August 2016 that it had reached agreement with Santam regarding the sale of RMB Structured Insurance (excluding its stake in Truffle) to Santam. This transaction is still subject to competition commission and FSB approval.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

RMI guaranteed a loan incurred by its subsidiary, RMI Investment Managers Affiliates 2 Proprietary Limited, with FirstRand Bank Limited. The loan of R60 million was incurred on 29 June 2016 and can be repaid at any time, but is compulsorily repayable on 29 June 2019. The interest rate on the loan is calculated based on the three month JIBAR rate plus 2.2%.

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

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

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

As at 30 June 2016, none of the loan facility had been issued to Merchant Capital and in September 2016, an amount of R5 million of the junior loan facility was issued to Merchant Capital.

COMMITMENTS

The group's operating lease commitments under non-cancellable operating lease agreements are disclosed in note 31.

41. EFFECTIVE INTEREST IN SUBSIDIARIES AND ASSOCIATES

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

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

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

	Group	
Percentage held	2016	2015
Discovery effective	25.1%	25.7%
Discovery actual	25.0%	25.0%
MMI effective	25.7%	25.2%
MMI actual	25.5%	25.0%
OUTsurance effective	84.5%	84.2%
OUTsurance actual	83.6%	83.4%
RMB Structured Insurance effective	78.1%	78.3%
RMB Structured Insurance actual	75.5%	76.4%
RMI Investment Managers effective	100.0%	100.0%
RMI Investment Managers actual	100.0%	100.0%

42. ASSOCIATES

	Group	
R million	2016	2015
LISTED ASSOCIATES		
Discovery Limited		
Financial year	30 June	30 June
Year used for equity accounting	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held (000's)	161 945	161 945
Interest held (%) (after consolidation of share trust)	25.1%	25.7%
Carrying value of investment in associate	8 517	7 869
Total share of post-acquisition reserves of associate	3 874	3 219
Income attributable to RMI for the year	949	1 434
Less: Dividends received	(282)	(242)
SHARE OF RETAINED INCOME FOR THE YEAR	667	1 192
MARKET VALUE	19 838	20 481
Total net asset value of Discovery Limited	30 607	27 356
Perpetual preference share capital	(779)	(779)
Net asset value attributable to ordinary shareholders	29 828	26 577
RMI's portion	7 498	6 843
At acquisition reserves	(3 624)	(3 624)
TOTAL SHARE OF POST-ACQUISITION RESERVES OF ASSOCIATE	3 874	3 219
Statement of financial position		
Assets		
Assets arising from insurance contracts	33 815	28 144
Property and equipment	1 052	727
Intangible assets and deferred acquisition costs	4 584	2 526
Goodwill	2 447	2 375
Investments in associates	491	505
Financial assets	66 223	54 295
Deferred taxation	824	690
Current income tax asset	97	5
Reinsurance contracts	410	362
Cash and cash equivalents	8 634	6 251
TOTAL ASSETS	118 577	95 880

R million	Group 2016	Group 2015
42. ASSOCIATES continued		
Shareholders' equity and liabilities		
Total equity	30 607	27 356
Liabilities arising from insurance contracts	44 673	37 236
Liabilities arising from reinsurance contracts	4 894	3 827
Financial liabilities	23 211	16 457
Deferred taxation	6 035	5 077
Deferred revenue	291	192
Employee benefits	169	152
Trade and other payables	8 563	5 506
Current income tax liability	134	77
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	118 577	95 880
Statement of comprehensive income		
Profit for the year	3 730	5 552
Other comprehensive income for the year	(90)	523
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3 640	6 075
CONTINGENCIES AND COMMITMENTS	10 425	6 999
MMI Holdings Limited		
Financial year	30 June	30 June
Year used for equity accounting	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held (000's)	401 048	392 988
Interest held (%) (after consolidation of share trust)	25.7%	25.2%
Carrying value of investment in associate	6 210	6 107
Total share of post-acquisition reserves of associate	52	164
Income attributable to RMI for the year	555	695
Less: Dividends received	(622)	(777)
SHARE OF RETAINED LOSS FOR THE YEAR	(67)	(82)
MARKET VALUE	9 080	11 849
Total net asset value of MMI Holdings Limited	24 399	25 048
Non-controlling interest	(290)	(501)
Net asset value attributable to ordinary shareholders	24 109	24 547
RMI's portion	6 194	6 192
At acquisition reserves	(6 142)	(6 028)
TOTAL SHARE OF POST-ACQUISITION RESERVES OF ASSOCIATE	52	164

R million	Group 2016	Group 2015
42. ASSOCIATES continued		
Statement of financial position		
Assets		
Intangible assets	12 433	13 153
Owner-occupied properties	3 112	3 030
Property and equipment	432	353
Investment properties	7 422	7 212
Investments in associates	680	145
Employee benefits assets	445	408
Financial instrument assets	393 968	388 258
Insurance and other receivables	4 497	4 080
Deferred taxation	279	287
Properties under development	187	330
Reinsurance contracts	5 092	3 046
Current tax asset	537	365
Cash and cash equivalents	29 148	26 174
Non-current assets held for sale	470	–
TOTAL ASSETS	458 702	446 841
Shareholders' equity and liabilities		
Total equity	24 399	25 048
Insurance contract liabilities	114 093	111 329
Reinsurance contract liabilities	973	659
Financial instrument liabilities	299 514	289 413
Deferred taxation	3 812	4 351
Employee benefits obligations	1 452	1 735
Other payables	14 384	14 062
Provisions	43	78
Current tax liability	32	166
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	458 702	446 841
Statement of comprehensive income		
Profit for the year	2 178	2 977
Other comprehensive income for the year	83	68
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2 261	3 045
CONTINGENCIES AND COMMITMENTS	87	311

R million	Group 2016	Group 2015
43. SUBSIDIARIES		
UNLISTED SUBSIDIARIES		
OUTsurance Holdings Limited[1]		
Financial year	30 June	30 June
Year used for consolidation	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held (000's)	2 940 480	2 935 477
Interest held (%) (after consolidation of share trust)	84.5%	84.2%
Equity shares at cost	4 453	4 413
Indebtedness		
– to subsidiaries	–	–
– by subsidiaries	–	–
Net profit for the year	2 009	1 339
Valuation of RMI's investment	24 935	20 982
Results for the year ended 30 June		
Income statement		
Gross insurance premiums	14 754	12 469
Less: Reinsurance premiums	(854)	(555)
Net insurance premiums	13 900	11 914
Change in provision for unearned premiums net of reinsurance	(472)	(766)
Net insurance premiums earned	13 428	11 148
Fee income	100	29
Investment income	488	406
Net fair value gains/(losses) on financial assets	10	(54)
Net income	14 026	11 529
Gross claims paid	(7 049)	(6 555)
Reinsurance recoveries received	161	723
Transfer to policyholder liabilities under insurance contracts	(52)	(41)
Provision for cash bonuses	(362)	(315)
Acquisition expenses	(29)	(35)
Fair value adjustment to financial liabilities	(205)	(201)
Marketing and administration expenses	(3 592)	(3 149)
Result of operating activities	2 898	1 956
Share of after-tax results of associates	15	15
Profit before taxation	2 913	1 971
Taxation	(904)	(632)
PROFIT FOR THE YEAR	2 009	1 339

1. Held via Firness International Proprietary Limited.

43. SUBSIDIARIES continued

In addition to Mr HL Bosman, financial director and chief executive of RMI, Messrs H Aron and WT Roos, joint chief executives of OUTsurance Holdings Limited, also meet the definition of prescribed officers as defined in the Companies Act, 71 of 2008. Their emoluments are set out below:

R'000	Total 2016	Salary	Performance-related[1]
H Aron[2]	8 729	8 729	–
WT Roos	3 508	3 508	–

R million	Total 2015	Salary	Performance-related[1]
H Aron[2]	7 742	7 742	–
WT Roos	6 846	3 383	3 463

Note:

1. *Performance-related bonuses are paid on a two-year cycle.*
2. *Mr Aron is a resident in Australia and is paid in Australian Dollars.*

000's	H Aron	WT Roos
OUTsurance Holdings share incentive scheme		
Strike price R2.80 with vesting dates from 1 July 2012 to 1 July 2015		
Opening balance – 1 July 2015	1 500	1 500
Taken up during the year	(1 500)	(1 500)
Closing balance – 30 June 2016	–	–
Benefit derived	6 525	6 525
Strike price R3.33 with vesting dates from 1 July 2013 to 1 July 2016		
Opening balance – 1 July 2015	750	750
Closing balance – 30 June 2016	750	750
Strike price R5.57 with vesting dates from 1 July 2014 to 1 July 2017		
Opening balance – 1 July 2015	500	500
Closing balance – 30 June 2016	500	500
Strike price R7.15 with vesting dates from 1 July 2015 to 1 July 2018		
Opening balance – 1 July 2015	–	–
Granted in the current year	600	600
Closing balance – 30 June 2016	600	600

R million	Group 2016	Group 2015
43. SUBSIDIARIES continued		
Dilution of interest in Youi Holdings Proprietary Limited without loss of control		
During the 2016 financial year there was a decrease in the non-controlling equity attributable to the group of R3.8 million. The non-controlling interest is reconciled as follows:		
Balance at the beginning of the year	136	138
Profit/(loss) attributable to non-controlling interests	26	(7)
Capital contributed by non-controlling interests	–	5
Foreign currency translation reserve attributable to non-controlling interests	21	–
Transactions with non-controlling interests	(53)	–
TOTAL NON-CONTROLLING INTEREST IN RESPECT OF YOUI HOLDINGS PROPRIETARY LIMITED	130	136
Non-controlling interest relating to OUTsurance Holdings Limited		
Balance at the beginning of the year	721	659
Profit attributable to non-controlling interests (15.5% (2015: 15.8%))	311	210
Dividends paid	(180)	(165)
Non-controlling interest in other reserves	61	(20)
Movement in treasury shares	(14)	37
Shares acquired from non-controlling interests	(8)	–
TOTAL NON-CONTROLLING INTEREST IN RESPECT OF OUTSURANCE HOLDINGS LIMITED	891	721
RMB Structured Insurance		
Financial year	30 June	30 June
Year used for consolidation	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held (000's)	200 000	200 000
Interest held (%) (after consolidation of share trust)	78.1%	78.3%
Equity shares at cost	220	220
Indebtedness		
– to subsidiaries	–	–
– by subsidiaries	–	–
Net profit for the year	11	82
Valuation of RMI's investment	352	385
Results for the year ended 30 June		
Refer to note 10 on the discontinued operation on page 162.		

R million	Group 2016	Group 2015
43. SUBSIDIARIES continued		
Non-controlling interest relating to RMB Structured Insurance		
Balance at the beginning of the year	121	103
Profit attributable to non-controlling interests (21.9% (2015: 21.7%))	3	18
Dividends paid	(9)	(13)
Separate class of shares issued	31	12
Movement in treasury shares	–	1
TOTAL NON-CONTROLLING INTEREST IN RESPECT OF RMB STRUCTURED INSURANCE	146	121
RMI Investment Managers Group		
Financial year	30 June	30 June
Year used for consolidation	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held (full amount)	8 101	1
Interest held (%)	100.0%	100.0%
Equity shares at cost	81	–
Indebtedness		
– to subsidiaries	–	–
– by subsidiaries	–	–
Net loss for the year	(25)	–
Valuation of RMI's investment	81	–
Results for the year ended 30 June		
Investment income	3	–
Marketing and administration expenses	(28)	–
Result of operating activities	(25)	–
Finance costs	(2)	–
Share of after-tax results of associates	2	–
Loss before taxation	(25)	–
Taxation	–	–
LOSS FOR THE YEAR	(25)	–
Non-controlling interest relating to RMI Investment Managers		
Balance at the beginning of the year	–	–
Loss attributable to non-controlling interests (49%)	(10)	–
Capital contributed by non-controlling interests	10	–
Transactions with non-controlling interests	3	–
TOTAL NON-CONTROLLING INTEREST IN RESPECT OF RMI INVESTMENT MANAGERS	3	–
Total non-controlling interests		
Youi Holdings Proprietary Limited	130	136
OUTsurance Holdings Limited	891	721
RMB Structured Insurance	146	121
RMI Investment Managers Group	3	–
TOTAL NON-CONTROLLING INTERESTS	1 170	978

44. SEGMENTAL REPORT

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

R million	Discovery	MMI	OUTsurance	Discon-tinued operation	Other[1]	RMI group
30 June 2016						
Operating profit/(loss)	–	–	2 898	–	(94)	2 804
Finance costs	–	–	–	–	(136)	(136)
Share of after-tax results of associates	949	555	15	–	5	1 524
Profit/(loss) before taxation	949	555	2 913	–	(225)	4 192
Taxation	–	–	(904)	–	11	(893)
Result for the year from continuing operations	949	555	2 009	–	(214)	3 299
Discontinued operation	–	–	–	8	–	8
PROFIT/(LOSS) FOR THE YEAR	949	555	2 009	8	(214)	3 307
Normalised earnings	1 079	805	1 985	7	(528)	3 348
Assets	–	–	14 541	6 100	1 028	21 669
Associates	8 517	6 210	39	–	122	14 888
Intangible assets	–	–	110	–	3	113
TOTAL ASSETS	8 517	6 210	14 690	6 100	1 153	36 670
TOTAL LIABILITIES	–	–	8 793	5 626	2 525	16 944
30 June 2015						
Operating profit	–	–	1 956	–	62	2 018
Finance costs	–	–	–	–	(74)	(74)
Share of after-tax results of associates	1 434	695	15	–	1	2 145
Profit/(loss) before taxation	1 434	695	1 971	–	(11)	4 089
Taxation	–	–	(632)	–	(25)	(657)
Result for the year from continuing operations	1 434	695	1 339	–	(36)	3 432
Discontinued operation	–	–	–	81	–	81
PROFIT/(LOSS) FOR THE YEAR	1 434	695	1 339	81	(36)	3 513
Normalised earnings	1 012	956	1 388	81	(277)	3 160
Assets	–	–	11 750	5 544	904	18 198
Associates	7 869	6 107	33	31	23	14 063
Intangible assets	–	–	64	2	2	68
TOTAL ASSETS	7 869	6 107	11 847	5 600	906	32 329
TOTAL LIABILITIES	–	–	7 136	5 084	2 026	14 246

1. Other includes RMI, RMI Investment Managers, Truffle, Merchant Capital and consolidation entries.

R million	Group 2016	Group 2015
44. SEGMENTAL REPORT continued		
Reconciliation of normalised earnings to headline earnings attributable to ordinary shareholders as per note 37		
Normalised earnings as per segment report	3 348	3 160
RMI's share of normalised adjustments made by associates:	(438)	87
Amortisation of intangible assets relating to business combinations	(209)	(218)
Basis and other changes and investment variances	(131)	(37)
Rebranding and business acquisition expenses	(91)	(105)
Net realised and fair value gains on shareholders' assets	53	(2)
Non-recurring and restructuring expenses	(39)	(35)
Additional 54.99% share of DiscoveryCard profits	(22)	–
Accrual of dividends payable to preference shareholders	1	–
Fair value adjustment to puttable non-controlling interest financial liability	–	415
Deferred tax raised on assessed losses	–	74
Finance costs raised on puttable non-controlling interest financial liability	–	(16)
Non-controlling interest adjustment if no put options	–	11
Group treasury shares	24	11
HEADLINE EARNINGS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS AS PER NOTE 37	2 934	3 258

Geographic segments

R million	South Africa	Australia	New Zealand	UK	Total
30 June 2016					
Profit/(loss)	2 045	730	(107)	–	2 668
Share of after-tax results of associates	1 459	–	–	65	1 524
Profit/(loss) before taxation	3 504	730	(107)	65	4 192
Taxation	(669)	(224)	–	–	(893)
Result from continuing operations	2 835	506	(107)	65	3 299
Discontinued operation	8	–	–	–	8
PROFIT/(LOSS) FOR THE YEAR	2 843	506	(107)	65	3 307
TOTAL ASSETS	27 394	8 515	761	–	36 670
TOTAL LIABILITIES	10 163	6 387	394	–	16 944
30 June 2015					
Profit/(loss)	1 999	75	(130)	–	1 944
Share of after-tax results of associates	2 017	–	–	128	2 145
Profit before taxation	4 016	75	(130)	128	4 089
Taxation	(633)	(24)	–	–	(657)
Result from continuing operations	3 383	51	(130)	128	3 432
Discontinued operation	81	–	–	–	81
PROFIT/(LOSS) FOR THE YEAR	3 464	51	(130)	128	3 513
TOTAL ASSETS	25 550	6 186	593	–	32 329
TOTAL LIABILITIES	9 200	4 834	212	–	14 246

44. SEGMENTAL REPORT continued

The group's various operating segments and the details of products and services provided by each of the reportable segments are as follows:

DISCOVERY

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

MMI

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

OUTSURANCE

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

DISCONTINUED OPERATION

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

45. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The table below analyses financial instruments carried at fair value by level in the fair value hierarchy. The different levels are based on the extent to which observable prices and/or data are used in the calculation of the fair value of the financial instruments. These levels are defined as follows:

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

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

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

R million	Level 1	Level 2	Level 3	Total carrying amount
30 June 2016				
Financial assets				
Equity securities				
– available-for-sale	805	–	–	805
– at fair value through profit or loss	124	–	–	124
Debt securities				
– available-for-sale	–	647	–	647
– at fair value through profit or loss	–	8 431	643	9 074
Derivative asset	–	29	–	29
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	929	9 107	643	10 679
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	144	144
Derivative liability	–	12	–	12
TOTAL FINANCIAL LIABILITIES RECOGNISED AT FAIR VALUE	–	12	144	156

R million	Group 2016	Group 2015

45. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

Reconciliation of movement in level 3 assets

R million	2016	2015
Balance at the beginning of the year	386	415
Additions in the current year	294	–
Disposals (sales and redemptions)	(4)	–
Investment income accrued	33	32
Dividends received from the OUTsurance Investment Trust	(66)	(61)
BALANCE AT THE END OF THE YEAR	643	386

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

Reconciliation of movement in level 3 liabilities

R million	2016	2015
Balance at the beginning of the year	107	105
Preference dividends charged to the income statement in respect of profit sharing arrangements on ring-fenced insurance business	205	201
Preference dividends paid	(207)	(199)
Shareholder loan advanced	39	–
BALANCE AT THE END OF THE YEAR	144	107

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.

R million	Level 1	Level 2	Level 3	Total carrying amount
45. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued				
30 June 2015				
Financial assets				
Equity securities				
– available-for-sale	746	–	–	746
– at fair value through profit or loss	2 143	29	–	2 172
Debt securities				
– available-for-sale	–	560	–	560
– at fair value through profit or loss	1 084	6 707	386	8 177
Derivative asset	–	46	–	46
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	3 973	7 342	386	11 701
Financial liabilities				
Convertible debentures	–	15	–	15
Financial liabilities at fair value through profit or loss	–	–	107	107
Derivative liability	–	36	–	36
Investment contracts	–	1 417	–	1 417
TOTAL FINANCIAL LIABILITIES RECOGNISED AT FAIR VALUE	–	1 468	107	1 575

45. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

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 reporting 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 and ordinary 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 reporting date. Included in ordinary share investments is an investment in an exchange traded fund which tracks the performance of the Top 40 companies listed on the JSE Limited. The exchange traded fund is listed on the JSE Limited.

Level 2: The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. If all significant inputs required to fair value an instrument are market observable, the instrument is included in level 2.

The unlisted preference shares are redeemable with a notice period ranging from 30 days to three years. Dividend yields range from 57% to 68.33% 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 values of collective investment scheme investments are determined by the closing unit price as quoted by the collective investment scheme. The collective investment schemes are not listed.

The fair value of money market instruments is determined based on observable market inputs.

Level 3: The debt securities at fair value through profit or loss accrue interest at a fixed percentage of the prime interest rate and are reduced by dividends received from the OUTsurance Investment Trust. The financial liabilities at fair value through profit or loss represent profits arising out of the profit sharing arrangements on ring-fenced insurance business that accrue on a monthly basis and which are distributed as preference dividends on a six-monthly basis to the FirstRand Limited Group. The only input in the calculation of the preference dividend is the historic profit of the ring-fenced insurance business and profit sharing arrangements and there are no other inputs that determine the value of these instruments. Should the profit of the cell captive or the profit sharing arrangement increase or decrease, the preference dividend will increase or decrease in direct proportion.

46. RECLASSIFICATION OF COMPARATIVES

R million	Amount as previously reported 30 June 2015	Amount as reclassified 30 June 2015	Reclassification 30 June 2015
Assets			
Debt securities at fair value through profit or loss	4 686	8 177	3 491
Cash and cash equivalents	5 633	2 142	(3 491)

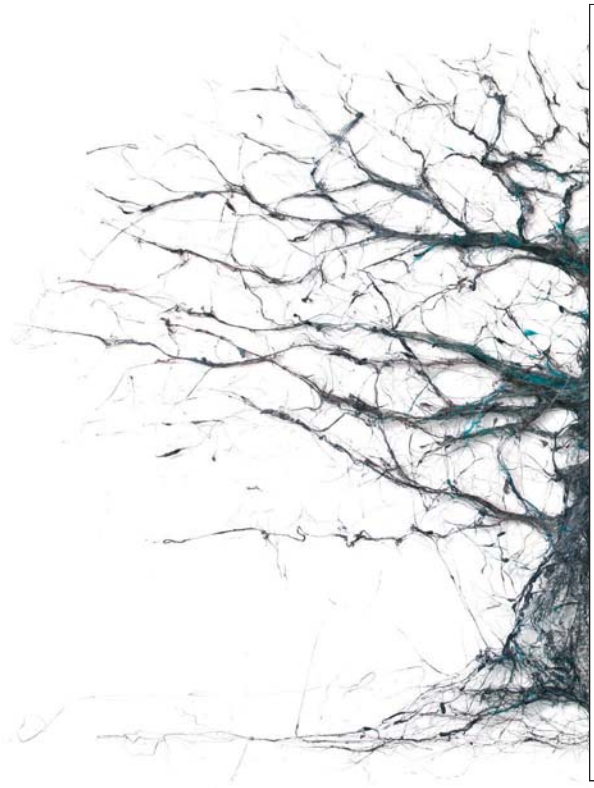
R million	Amount as previously reported 30 June 2014	Amount as reclassified 30 June 2014	Reclassification 30 June 2014
Assets			
Debt securities at fair value through profit or loss	6 861	9 276	2 415
Cash and cash equivalents	4 725	2 310	(2 415)

The reclassification relates to term deposits which have been reclassified from cash and cash equivalents to debt securities at fair value through profit or loss. This reclassification related to the OUTsurance group, where the classification of these term deposits with a maturity date of longer than three months, but shorter than a year, was aligned between Youi Australia and the South African operations.

The related *IFRS 7* disclosures for the year ended 30 June 2015 have been restated for the reclassification.

The income statement was restated to disclose RMB Structured Insurance (excluding its investment in Truffle Capital Proprietary Limited) as a discontinued operation as disclosed in note 10.

SEPARATE ANNUAL FINANCIAL STATEMENTS



CONTENTS

STATEMENT OF FINANCIAL POSITION

as at 30 June

		Company	
R million	Note	2016	2015
Assets			
Property and equipment	1	9	10
Investments in subsidiaries	2	4 556	4 633
Investments in associates	3	10 945	10 751
Financial assets			
Equity securities			
– fair value through profit or loss	4	124	146
Debt securities			
– fair value through profit or loss	4	643	386
Derivative asset	5	29	46
Loans and receivables		5	5
Deferred taxation	6	10	–
Taxation		6	3
Discontinued operation	7	220	–
Cash and cash equivalents	8	105	322
TOTAL ASSETS		16 652	16 302
Equity			
Share capital and premium	9	13 657	13 657
Reserves	10	577	619
TOTAL EQUITY		14 234	14 276
Liabilities			
Share-based payment liability	11	51	35
Employee benefit liability		3	3
Financial liabilities			
Preference shares	12	2 298	1 898
Derivative liability	13	12	36
Provisions	14	3	3
Trade and other payables	15	51	51
TOTAL LIABILITIES		2 418	2 026
TOTAL EQUITY AND LIABILITIES		16 652	16 302

INCOME STATEMENT

for the year ended 30 June

		Company	
R million	Note	2016	2015 Restated
Continuing operations			
Investment income	16	1 949	1 984
Fair value (loss) / gain		(50)	15
Fee and other income	17	22	70
Net income		1 921	2 069
Marketing and administration expenses	18	(132)	(107)
Result of operating activities of the company		1 789	1 962
Finance costs	19	(136)	(74)
Profit before taxation		1 653	1 888
Taxation	20	11	(25)
Profit for the year from continuing operations		1 664	1 863
Discontinued operation			
Profit for the year from discontinued operation		32	48
PROFIT FOR THE YEAR		1 696	1 911
Attributable to:			
Equity holders of the company		1 696	1 911

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June

R million	Company 2016	Company 2015
Profit for the year	1 696	1 911
Other comprehensive income for the year	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1 696	1 911
Attributable to:		
Equity holders of the company	1 696	1 911

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

R million	Share capital (note 9)	Share premium (note 9)	Other reserves (note 10)	Retained earnings (note 10)	Total equity
Balance as at 1 July 2014	–	13 657	1	402	14 060
Total comprehensive income for the year	–	–	–	1 911	1 911
Vesting of equity-settled share incentives	–	–	(1)	–	(1)
Dividends paid	–	–	–	(1 694)	(1 694)
Balance as at 30 June 2015	–	13 657	–	619	14 276
Total comprehensive income for the year	–	–	–	1 696	1 696
Dividends paid	–	–	–	(1 738)	(1 738)
Balance as at 30 June 2016	–	13 657	–	577	14 234

CASH FLOW STATEMENT

for the year ended 30 June

		Company	
R million	Note	2016	2015
Cash flows from operating activities			
Cash generated from continuing operations	21	1 865	1 980
Cash generated from discontinued operation	21	32	48
Taxation paid		(2)	(26)
NET CASH GENERATED FROM OPERATING ACTIVITIES		1 895	2 002
Cash flows from investing activities			
Acquisition of preference shares		(294)	–
Acquisition of shares in associate		(194)	(15)
Acquisition of shares in subsidiaries		(143)	–
Acquisition of property and equipment		(3)	(11)
Rights followed in rights issue of associate		–	(1 250)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(634)	(1 276)
Cash flows from financing activities			
Dividends paid to shareholders		(1 738)	(1 694)
Proceeds from preference shares issued		400	1 250
Preference dividends paid		(140)	(57)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(1 478)	(501)
Net (decrease) / increase in cash and cash equivalents for the year		(217)	225
Cash and cash equivalents at the beginning of the year		322	97
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		105	322

NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June

R million	Leasehold improve-ments	Furniture, fittings and equipment	Total
1. PROPERTY AND EQUIPMENT			
30 June 2016			
Net book value at the beginning of the year	9	1	10
Additions	2	1	3
Depreciation (note 18)	(4)	–	(4)
NET BOOK VALUE AT THE END OF THE YEAR	7	2	9
Cost	12	2	14
Accumulated depreciation	(5)	–	(5)
NET BOOK VALUE AT THE END OF THE YEAR	7	2	9
30 June 2015			
Net book value at the beginning of the year	–	–	–
Additions	10	1	11
Depreciation (note 18)	(1)	–	(1)
NET BOOK VALUE AT THE END OF THE YEAR	9	1	10
Cost	10	1	11
Accumulated depreciation	(1)	–	(1)
NET BOOK VALUE AT THE END OF THE YEAR	9	1	10

R million	Company 2016	Company 2015
2. INVESTMENTS IN SUBSIDIARIES		
Unlisted subsidiaries		
Ordinary shares at cost		
OUTsurance Holdings Limited	4 453	4 413
RMB-SI Investments Proprietary Limited	220	220
RMI Investment Managers Group Proprietary Limited	81	–
RMI Investment Holdings Proprietary Limited	22	–
Total investments in subsidiaries	4 776	4 633
Transfer to assets of discontinued operation	(220)	–
INVESTMENTS IN SUBSIDIARIES OF CONTINUING OPERATIONS	4 556	4 633
OUTsurance Holdings Limited		
Number of shares[1]	2 940 480 370	2 935 477 145
% of equity[2]	84,5	84,2
RMB-SI Investments Proprietary Limited		
Number of shares	200 000 000	200 000 000
% of equity[2]	78,1	78,3
RMI Investment Managers Group Proprietary Limited		
Number of shares	8 101	1
% of equity	100,0	100,0
RMI Investment Holdings Proprietary Limited		
Number of shares	2	1
% of equity	100,0	100,0

1. *Held indirectly via Firness International Proprietary Limited.*
2. *After consolidation of share trust.*

	Company	
R million	2016	2015
3. INVESTMENTS IN ASSOCIATES		
Listed associates		
Ordinary shares at cost		
Discovery Limited	4 650	4 650
MMI Holdings Limited	6 295	6 101
TOTAL INVESTMENTS IN ASSOCIATES	10 945	10 751
Discovery Limited		
Balance at the beginning of the year	4 650	3 400
Rights followed during the year	–	1 250
BALANCE AT THE END OF THE YEAR	4 650	4 650
MMI Holdings Limited		
Balance at the beginning of the year	6 101	6 086
Additional shares acquired during the year	194	15
BALANCE AT THE END OF THE YEAR	6 295	6 101
Market value		
Discovery Limited	19 838	20 481
MMI Holdings Limited	9 080	11 849
TOTAL MARKET VALUE OF LISTED ASSOCIATES	28 918	32 330
Discovery Limited		
Number of shares	161 944 576	161 944 576
% of equity[1]	25,1	25,7
MMI Holdings Limited		
Number of shares	401 048 075	392 988 075
% of equity[1]	25,7	25,2

1. *After consolidation of share trust.*

R million	Company 2016	2015

4. EQUITY AND DEBT SECURITIES

R million	2016	2015
Equity securities		
Listed investments		
– fair value through profit or loss	124	146
Debt securities		
Unlisted investments		
– fair value through profit or loss	643	386
TOTAL EQUITY AND DEBT SECURITIES	767	532

The current portion of the equity and debt securities is R2 million (2015: Rnil).

R million	2016	2015
Listed equity securities carried at fair value through profit or loss		
Balance at the beginning for the year	146	115
Fair value movement	(22)	31
BALANCE AT THE END OF THE YEAR	124	146

The unlisted debt securities carried at fair value through profit or loss include an investment in the OUTsurance Investment Trust and investments in preference shares.

R million	2016	2015
Balance at the beginning for the year	386	415
Additions	294	–
Disposals	(4)	–
Investment income accrued	33	32
Dividends received from the OUTsurance Investment Trust	(66)	(61)
BALANCE AT THE END OF THE YEAR	643	386

	Company	
R million	2016	2015
5. DERIVATIVE ASSET		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	29	46
Notional value	159	156

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

	Company	
R million	2016	2015
6. DEFERRED TAXATION		
Deferred taxation asset – Fair value adjustments	10	–
Reconciliation of movement		
Deferred taxation asset at the beginning of the year	–	–
Deferred taxation credit in the income statement	10	–
DEFERRED TAXATION ASSET AT THE END OF THE YEAR	10	–
7. DISCONTINUED OPERATION		
Investment in RMB-SI Investments Proprietary Limited	220	–

As disclosed in more detail in the directors' report, RMI announced on 23 August 2016 that it had reached agreement with Santam regarding the sale of RMB Structured Insurance (excluding its stake in Truffle) to Santam. This transaction is still subject to competition commission and FSB approval. Refer to note 10 of the consolidated annual financial statements on page 162 for more detail.

	Company	
R million	2016	2015
8. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	105	322

Cash and cash equivalents represent current accounts and call deposits.

R million	Number of shares (million)	Ordinary shares	Share premium	Total
9. SHARE CAPITAL AND SHARE PREMIUM				
Share capital and share premium as at 1 July 2014	1 486	–	13 657	13 657
Movement for the year ended 30 June 2015	–	–	–	–
Share capital and share premium as at 30 June 2015	1 486	–	13 657	13 657
Movement for the year ended 30 June 2016	–	–	–	–
SHARE CAPITAL AND SHARE PREMIUM AS AT 30 JUNE 2016	1 486	–	13 657	13 657

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

The total authorised number of cumulative, redeemable par value preference shares is 100 million with a par value of R0.0001 per share. The issued number of par value preference shares is 648 001 (2015: 648 001). As these preference shares are redeemable they are classified as financial liabilities at amortised cost (note 12).

During the 2015 financial year, the company created a new class of 100 million authorised, cumulative, redeemable no par value preference shares. The issued number of no par value preference shares is 1 650 000 (2015: 1 250 000). As these preference shares are redeemable they are classified as financial liabilities at amortised cost (note 12).

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

	Company	
R million	2016	2015
10. RESERVES		
Retained earnings	577	619
11. SHARE-BASED PAYMENT LIABILITY		
Balance at the beginning of the year	35	14
Share-based payment expense accrued during the year	19	34
Amount vesting during the year	(3)	(13)
BALANCE AT THE END OF THE YEAR	51	35

R million	Company 2016	Company 2015
12. PREFERENCE SHARES		
Unlisted		
Fixed rate, cumulative, redeemable par value preference shares	648	648
Fixed rate, cumulative, redeemable no par value preference shares	1 650	1 250
TOTAL CUMULATIVE, REDEEMABLE PREFERENCE SHARES	2 298	1 898
The fair value of the unlisted preference share liability is R2 298 million (2015: R1 898 million).		
Fixed rate, cumulative, redeemable par value preference shares		
The company's issued number of fixed rate, cumulative, redeemable par value preference shares is 648 001 (2015: 648 001), with a par value of R0.0001 each. The share premium is R999.9999 per share. These preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 22 August 2017 and pay dividends at a fixed rate of 6.89% (2015: 6.89%) six-monthly.		
Balance at the beginning of the year	648	349
Conversion of variable rate preference shares into fixed rate preference shares	–	299
BALANCE AT THE END OF THE YEAR	648	648
Variable rate, cumulative, redeemable par value preference shares		
Balance at the beginning of the year	–	299
Conversion of variable rate preference shares into fixed rate preference shares	–	(299)
BALANCE AT THE END OF THE YEAR	–	–
Fixed rate, cumulative, redeemable no par value preference shares		
The company issued 400 000 fixed rate, cumulative, redeemable no par value preference shares during the 2016 financial year. These preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on: – 10 May 2019 in respect of 100 000 of these preference shares, which pay dividends at a fixed rate of 8.04% six-monthly. – 7 December 2020 in respect of 300 000 of these preference shares, which pay dividends at a fixed rate of 8.29% six-monthly. The company issued 1 250 000 fixed rate, cumulative, redeemable no par value preference shares during the 2015 financial year. These preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 29 May 2018 and pay dividends at a fixed rate of 7.02% six-monthly.		
Balance at the beginning of the year	1 250	–
Fixed rate, cumulative, redeemable no par value preference shares issued during the year	400	1 250
BALANCE AT THE END OF THE YEAR	1 650	1 250

R million	Company 2016	Company 2015
13. DERIVATIVE LIABILITY		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	12	36
Notional value	91	90
The derivative is an economic hedge but does not meet the qualifying criteria for hedge accounting and is managed in conjunction with the asset which is fair valued. The notional amount of the derivative does not necessarily indicate the future cash flow involved or the current fair value of the instrument and therefore does not represent RMI's exposure to credit or market risk. The derivative instrument becomes favourable (asset) or unfavourable (liability) based on changes in share prices and counterparty credit risk. The aggregate notional amount and fair value of derivative financial instruments can fluctuate over time.		
14. PROVISIONS		
Staff incentive bonus		
Balance at the beginning of the year	3	1
Provision	3	5
Utilised during the year	(3)	(3)
TOTAL PROVISIONS	3	3
15. TRADE AND OTHER PAYABLES		
Trade payables and accrued expenses	24	20
Accrued redeemable preference share dividends	27	31
TOTAL TRADE AND OTHER PAYABLES	51	51
16. INVESTMENT INCOME		
Investment income from continued operations		
Dividend income from subsidiaries and associates	1 861	1 900
Dividend income from investment in OUTsurance Investment Trust	66	61
Dividend income from listed fair value through profit or loss equity securities	7	5
Interest income on cash and cash equivalents	15	18
TOTAL INVESTMENT INCOME FROM CONTINUED OPERATIONS	1 949	1 984
Dividend income from discontinued operation	32	48
TOTAL INVESTMENT INCOME	1 981	2 032
17. OTHER INCOME		
Underwriting income	–	61
Fee income	22	9
TOTAL OTHER INCOME	22	70

R million	Company 2016	Company 2015
18. MARKETING AND ADMINISTRATION EXPENSES		
Expenses by nature:		
Directors' remuneration	(23)	(36)
Personnel costs	(45)	(33)
Management fees	(8)	(16)
Professional fees and regulatory compliance cost	(13)	(7)
Printing costs	(3)	(2)
Operating lease rentals	(2)	(2)
Depreciation	(4)	(1)
Audit fees	(22)	(1)
Other expenses	(12)	(9)
TOTAL MARKETING AND ADMINISTRATION EXPENSES	**(132)**	(107)
Audit fees		
Statutory audit – current year	(1)	(1)
Fees for other services	(21)	–
Total audit fees	**(22)**	(1)
The company has an operating lease commitment for the office space it occupies. The company's operating lease commitment under non-cancellable operating lease agreements is as follows:		
Up to 1 year	(1)	(2)
Between 1 and 5 years	–	(1)
TOTAL LEASE COMMITMENT UNDER NON-CANCELLABLE OPERATING LEASE AGREEMENTS	**(1)**	(3)
19. FINANCE COSTS		
Cumulative, redeemable preference share dividends	(136)	(74)
20. TAXATION		
SA normal taxation		
Current taxation		
– Current year	1	(25)
Deferred taxation		
– Current year	10	–
TOTAL TAXATION	**11**	(25)
The taxation on the company's profit before taxation differs from the theoretical amount that would arise using the basic rate of taxation in South Africa as follows:		
Profit before taxation from continuing operations	1 653	1 888
Effective tax rate (%)	**(0.67)**	1.32
Net income and expenses not subject to taxation (%)	28.67	26.68
STANDARD INCOME TAXATION RATE IN SOUTH AFRICA (%)	**28.00**	28.00

R million	Company 2016	Company 2015
21. CASH GENERATED FROM OPERATIONS		
Reconciliation of profit before taxation to cash generated from operations:		
Continuing operations		
Profit before taxation from continuing operations	1 653	1 888
Adjusted for:		
Finance costs	136	74
Fair value loss/(gain)	50	(15)
Non-cash income and expenses included in the income statement	22	31
Changes in working capital		
Loans and receivables	–	
Provisions	–	2
Trade and other payables	4	1
CASH GENERATED FROM CONTINUING OPERATIONS	1 865	1 980
Discontinued operation		
Dividends received from discontinued operation	32	48
CASH GENERATED FROM DISCONTINUED OPERATION	32	48
22. DIVIDEND PER SHARE		
Total dividends paid during the year	1 738	1 694
Total dividends declared relating to the earnings for the year	1 753	1 723
Number of ordinary shares in issue (full amount)	1 485 688 346	1 485 688 346
Dividend declared per share (cents)		
– Interim	53.0	52.0
– Final	65.0	64.0
TOTAL DIVIDEND PER SHARE DECLARED (CENTS)	118.0	116.0

23. RELATED PARTIES

PRINCIPAL SHAREHOLDERS

Details of major shareholders are disclosed in the directors' report. The principal shareholders are Remgro Limited and Royal Bafokeng Holdings Proprietary Limited.

KEY MANAGEMENT PERSONNEL

Only RMI's directors are key management personnel. Information on directors' emoluments and their shareholdings in the company appear in the directors' report.

SUBSIDIARIES

Details of investments in subsidiaries are disclosed in note 2.

The following companies are subsidiaries of RMI:

- OUTsurance Holdings Limited
- OUTsurance Insurance Company Limited
- OUTsurance Life Insurance Company Limited
- OUTsurance International Holdings Proprietary Limited
- OUTsurance Shared Services Proprietary Limited
- Youi Proprietary Limited (South Africa)
- Youi Holdings Proprietary Limited
- Youi Proprietary Limited (Australia)
- Youi New Zealand Proprietary Limited
- Youi Properties Proprietary Limited
- Micawber 296 Proprietary Limited
- RMB–SI Investments Proprietary Limited
- RMB Structured Insurance Limited
- RMB Structured Insurance Limited PCC
- RMB Structured Life Limited
- RMB-SI Investments (Mauritius) Limited
- Credit Insurance Solutions Proprietary Limited
- Firness International Proprietary Limited
- AlphaCode Proprietary Limited
- RMI Investment Managers Group Proprietary Limited
- RMI Specialist Managers Proprietary Limited
- RMI Investment Managers Affiliates 1 Proprietary Limited
- RMI Investment Managers Affiliates 2 Proprietary Limited
- RMI Investment Holdings Proprietary Limited
- RMI Invest One Proprietary Limited
- RMI Invest Two Proprietary Limited
- RMI Invest Three Proprietary Limited
- Main Street 1353 Proprietary Limited
- Royal Investment Managers Proprietary Limited
- Royal Fund Managers Proprietary Limited

ASSOCIATES

Details of investments in associates are disclosed in note 3.

The following companies are associates of RMI:

- Discovery Limited
- MMI Holdings Limited
- OUTsurance Insurance Company of Namibia Limited
- Truffle Capital Proprietary Limited
- RTS Construction an Engineering Underwriters Proprietary Limited
- Risk Guard Alliance Proprietary Limited
- HCV Underwriting Managers Proprietary Limited
- CIB Insurance Administrators Proprietary Limited
- Cyan Capital Proprietary Limited
- Northstar Asset Management Proprietary Limited
- Tantalum Capital Management Proprietary Limited
- Sentio Capital Management Proprietary Limited
- Merchant Capital Advisory Services Proprietary Limited

R million	Company 2016	Company 2015
23. RELATED PARTIES continued		
RELATED PARTY TRANSACTIONS		
Transactions of RMI and its subsidiary companies with:		
Principal shareholders		
Dividends paid	787	767
Key management personnel		
Salaries and other benefits	23	37
Subsidiaries		
Income statement effect:		
– Dividends received	986	928
Associates		
Income statement effect:		
– Dividends received	905	1 020

24. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

RMI guaranteed a loan incurred by its subsidiary, RMI Investment Managers Affiliates 2 Proprietary Limited, with FirstRand Bank Limited. The loan of R60 million was incurred on 29 June 2016 and can be repaid at any time, but is compulsorily repayable on 29 June 2019. The interest rate on the loan is calculated based on the three month JIBAR rate plus 2.2%.

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

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

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

As at 30 June 2016, none of the loan facility had been issued to Merchant Capital and in September 2016, an amount of R5 million of the junior loan facility was issued to Merchant Capital.

25. FINANCIAL RISK MANAGEMENT

The company is exposed to various financial risks in connection with its current operating activities, such as market risk, credit risk and liquidity risk.

MARKET RISK

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

Currency risk

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

The company had no exposure to currency risk at 30 June 2016 (2015: none).

Interest rate risk

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

The table below reflects the company's exposure to interest rate risk. An increase or decrease in the market interest rate would result in the following changes in the profit before taxation of the company:

	Company	
R million	2016	2015
Cash and cash equivalents – 200 bps increase	2	6
Cash and cash equivalents – 200 bps decrease	(2)	(6)

Other price risk

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

The table below reflects the company's exposure to equity price risk. A hypothetical 10% increase or decrease in the equity prices would result in the following changes in the profit before taxation of the company:

	30 June 2016		30 June 2015	
R million	10% increase	10% decrease	10% increase	10% decrease
Equity securities at fair value through profit or loss	12	(12)	15	(15)
Derivative asset	17	(17)	18	(18)
Derivative liability	(10)	10	(11)	11
TOTAL	19	(19)	22	(22)

25. FINANCIAL RISK MANAGEMENT continued

CREDIT RISK

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

- Unlisted debt securities;
- Loans and receivables; and
- Cash and cash equivalents.

Significant concentrations of credit risk, if applicable, are disclosed in the financial statements. The credit exposure to any one counterparty is managed by the board of directors and by setting transaction/exposure limits, which are reviewed at each board and audit and risk committee meeting. The creditworthiness of existing and potential clients is monitored by the board.

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

R million	BBB	Not rated	Total
30 June 2016			
Debt securities			
– fair value through profit or loss – unlisted	–	643	643
Derivative asset	–	29	29
Loans and receivables	–	5	5
Cash and cash equivalents	105	–	105
TOTAL	105	677	782
30 June 2015			
Debt securities			
– fair value through profit or loss – unlisted	–	386	386
Derivative asset	–	46	46
Loans and receivables	–	5	5
Cash and cash equivalents	322	–	322
TOTAL	322	437	759

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

Long-term investment grade:

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

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

Not rated – The credit exposure for the assets listed above is considered acceptable by the board even though certain assets do not have a formal rating. The debt securities at fair value through profit or loss include a loan provided to the OUTsurance Investment Trust and investments in preference shares, the values of which are not significantly sensitive to an increase or decrease in the counterparty credit rating due to the collateralised nature of these transactions.

25. FINANCIAL RISK MANAGEMENT continued

LIQUIDITY RISK AND ASSET LIABILITY MATCHING

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company's liabilities are matched by appropriate assets and it has significant liquid resources to cover its obligations. The company's liquidity and ability to meet such calls are monitored quarterly at the board meetings.

R million	Call to 6 months	7 – 12 months	1 – 5 years/no contractual maturity	Total
30 June 2016				
Assets				
Property and equipment	–	–	9	9
Investments in subsidiaries	–	–	4 556	4 556
Investments in associates	–	–	10 945	10 945
Equity securities – fair value through profit or loss	–	–	124	124
Debt securities – fair value through profit or loss	–	–	643	643
Derivative asset	–	–	29	29
Loans and receivables	5	–	–	5
Taxation	–	6	–	6
Deferred taxation	–	–	10	10
Discontinued operation	–	220	–	220
Cash and cash equivalents	105	–	–	105
TOTAL ASSETS	110	226	16 316	16 652
Liabilities				
Share-based payment liability	16	8	27	51
Employee benefit liability	1	–	2	3
Financial liabilities				
Preference shares (undiscounted)	83	82	2 485	2 650
Derivative liability	–	–	12	12
Provisions	3	–	–	3
Trade and other payables	51	–	–	51
TOTAL LIABILITIES	154	90	2 526	2 770

25. FINANCIAL RISK MANAGEMENT continued

R million	Call to 6 months	7 – 12 months	1 – 5 years/no contractual maturity	Total
30 June 2015				
Assets				
Property and equipment	–	–	10	10
Investments in subsidiaries	–	–	4 633	4 633
Investments in associates	–	–	10 751	10 751
Equity securities – fair value through profit or loss	–	–	146	146
Debt securities – fair value through profit or loss	–	–	386	386
Derivative asset	–	–	46	46
Loans and receivables	5	–	–	5
Taxation	–	3	–	3
Cash and cash equivalents	322	–	–	322
TOTAL ASSETS	327	3	15 972	16 302
Liabilities				
Share-based payment liability	7	1	27	35
Employee benefit liability	–	–	3	3
Financial liabilities				
Preference shares (undiscounted)	66	66	2 117	2 249
Derivative liability	–	–	36	36
Provisions	3	–	–	3
Trade and other payables	51	–	–	51
TOTAL LIABILITIES	127	67	2 183	2 377

26. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The table below analyses financial instruments carried at fair value by level of fair value hierarchy. The different levels are based on the extent that quoted prices are used in the calculation of the fair value of the financial instruments. These levels are defined as follows:

- **Level 1:** Fair value is based on quoted market prices (unadjusted) in active markets for identical instruments as measured at the reporting date.
- **Level 2:** Fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly (for example prices) or indirectly (for example derived from prices).
- **Level 3:** Fair value is determined from inputs for the asset or liability that are not based on observable market data.

R million	Level 1	Level 2	Level 3	Total carrying amount
30 June 2016				
Financial assets				
Equity securities				
– fair value through profit or loss	124	–	–	124
Debt securities				
– fair value through profit or loss	–	–	643	643
Derivative asset	–	29	–	29
TOTAL FINANCIAL ASSETS VALUED AT FAIR VALUE	124	29	643	796
Financial liabilities				
Derivative liability	–	12	–	12

	Company	
R million	2016	2015
Reconciliation of movement in level 3 assets		
Balance at the beginning of the year	386	415
Additions in the current year	294	–
Disposals (sales and redemptions)	(4)	–
Investment income accrued	33	32
Dividends received from the OUTsurance Investment Trust	(66)	(61)
BALANCE AT THE END OF THE YEAR	643	386

The level 3 financial assets at fair value through profit or loss include a loan to the OUTsurance Investment Trust and investments in preference shares, the values of which are not significantly sensitive to an increase or decrease in the counterparty credit rating due to the collateralised nature of these transactions.

26. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

R million	Level 1	Level 2	Level 3	Total carrying amount
30 June 2015				
Financial assets				
Equity securities				
– fair value through profit or loss	146	–	–	146
Debt securities				
– fair value through profit or loss	–	–	386	386
Derivative asset	–	46	–	46
TOTAL FINANCIAL ASSETS VALUED AT FAIR VALUE	146	46	386	578
Financial liabilities				
Derivative liability	–	36	–	36

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

Level 1: The fair value of financial instruments traded in an active market is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. If all significant inputs required to fair value an instrument are market observable, the instrument is included in level 2. The derivative asset and derivative liability is calculated with reference to the quoted prices for shares listed on the JSE Limited.

Level 3: The debt securities at fair value through profit or loss accrue interest at a fixed percentage and are reduced by dividends received from the OUTsurance Investment Trust. The investments in the preference shares accrue preference dividends at a fixed rate.

27. EVENTS AFTER THE REPORTING PERIOD

FINAL DIVIDEND DECLARATION

RMI declared a final dividend of 65.0 cents (2015: 64.0 cents) per ordinary share (R966 million) (2015: R951 million) on 12 September 2016, payable on 10 October 2016.

SALE OF RMB STRUCTURED INSURANCE

As disclosed in more detail in the directors' report, RMI announced on 23 August 2016 that it had reached agreement with Santam regarding the sale of RMB Structured Insurance (excluding its stake in Truffle) to Santam. This transaction is still subject to competition commission and FSB approval.

SHAREHOLDER INFORMATION

SHAREHOLDING

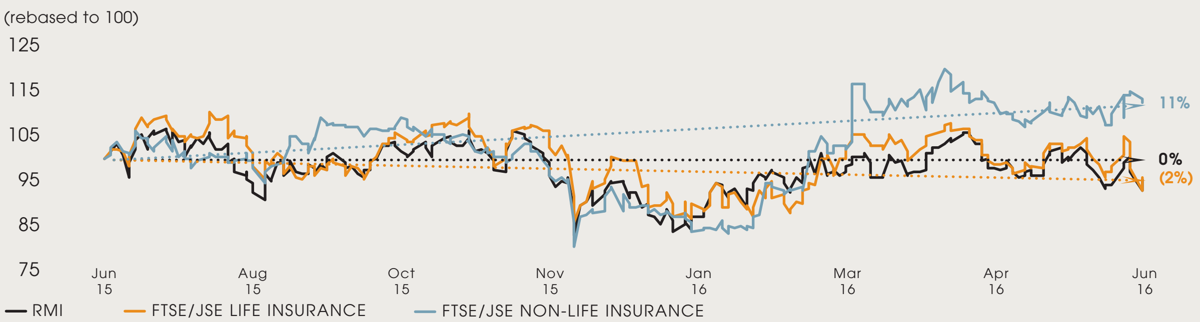
	As at 30 June 2016			As at 30 June 2015		
	Number of shareholders	Shares held (000's)	%	Number of shareholders	Shares held (000's)	%
Analysis of shareholding						
Financial Securities Limited (Remgro)	1	449 665	30.3	1	449 639	30.3
Royal Bafokeng Holdings Proprietary Limited	1	222 853	15.0	1	222 853	15.0
Allan Gray (on behalf of clients)	1	116 212	7.8	1	86 623	5.8
Public Investment Corporation	1	113 956	7.7	1	118 261	8.0
Total of shareholders holding more than 5%	4	902 686	60.8	4	877 376	59.1
Other	35 977	583 002	39.2	35 915	608 312	40.9
TOTAL	35 981	1 485 688	100.0	35 919	1 485 688	100.0
Shareholder type						
Corporates		672 518	45.3		672 492	45.3
Unit trusts		179 355	12.1		173 191	11.6
Pension funds		173 984	11.7		177 890	12.0
Private investors		52 675	3.5		55 305	3.7
Insurance companies and banks		22 758	1.5		20 472	1.4
Other		384 398	25.9		386 338	26.0
TOTAL		1 485 688	100.0		1 485 688	100.0
Public and non-public shareholders						
Public	35 970	670 356	45.1	35 908	670 407	45.1
Non-public	11	815 332	54.9	11	815 281	54.9
– Corporates	2	672 518	45.3	2	672 492	45.3
– Directors and associates	9	142 814	9.6	9	142 789	9.6
TOTAL	35 981	1 485 688	100.0	35 919	1 485 688	100.0
Geographic ownership						
South Africa		1 339 566	90.2		1 330 295	89.5
International		146 122	9.8		155 393	10.5
TOTAL		1 485 688	100.0		1 485 688	100.0

The information above is extracted from the shareholder analysis provided by Orient Capital Limited.

PERFORMANCE ON THE JSE LIMITED

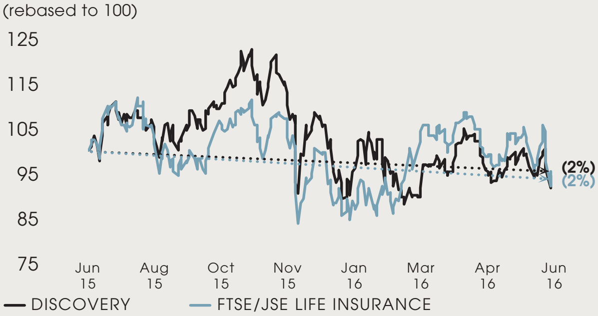
	2016	2015
Number of shares in issue throughout the year (000's)	1 485 688	1 485 688
Market prices (cents per share)		
– Closing	4 120	4 247
– High	4 554	4 894
– Low	3 149	3 101
– Weighted average	4 048	4 041
Closing price/net asset value per share	3.3	3.7
Closing price/headline earnings per share	20.8	19.3
Volume of shares traded during the year (million)	525	442
Value of shares traded during the year (R million)	21 259	17 876
Market capitalisation at year-end (R million)	61 210	63 097
Rank by market capitalisation at year-end	30	33

RMI TOTAL SHAREHOLDER RETURN



RMI'S LISTED INVESTMENTS

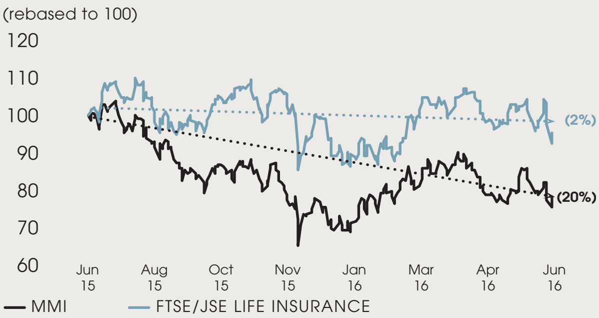
TOTAL SHAREHOLDER RETURN



DISCOVERY

Share price	R122.5
Market capitalisation	R79.3bn
12 month high/low	154.7/110.0
PE (x) (trailing/forward)	20.5/15.1
Dividend yield (%)	1.4

TOTAL SHAREHOLDER RETURN



MMI

Share price	R22.6
Market capitalisation	R35.6bn
12 month high/low	31.3/19.0
PE (x) (trailing/forward)	11.7/9.3
Dividend yield (%)	6.9

SHAREHOLDERS' DIARY

REPORTING

INTERIM RESULTS FOR THE 2017 FINANCIAL YEAR	
Announcement for the six months ending 31 December 2016	Early March 2017
FINAL RESULTS FOR THE 2017 FINANCIAL YEAR	
Announcement for the year ending 30 June 2017	Mid-September 2017
Posting of annual integrated report	End-October 2017
Annual general meeting	End-November 2017
INTERIM DIVIDEND FOR THE 2017 FINANCIAL YEAR	
Declare	Early March 2017
Payable	End-March 2017
FINAL DIVIDEND FOR THE 2017 FINANCIAL YEAR	
Declare	Mid-September 2017
Payable	Mid-October 2017

NOTICE OF ANNUAL GENERAL MEETING

This document (which is available in English only) is important and requires your immediate attention. The action you need to take is set out in this notice. If you are in any doubt as to what action to take, please consult your broker, attorney or other professional advisor immediately.

RAND MERCHANT INVESTMENT HOLDINGS LIMITED
Incorporated in the Republic of South Africa
Registration number: 2010/005770/06
JSE ordinary share code: RMI
ISIN code: ZAE000210688
(RMI or the company)

Notice is hereby given to the holders of the ordinary shares in RMI (shareholders), in terms of section 62(1) of the Companies Act, 71 of 2008 (Companies Act), that the sixth annual general meeting of the shareholders of RMI will be held in the Dr AE Rupert boardroom, Remgro head office, Millennia Park, 16 Stellentia Avenue, Stellenbosch on Thursday, 24 November 2016 at 15:00 to consider and, if approved, pass the following resolutions with or without modification.

The record date in terms of section 59 of the Companies Act for shareholders to be recorded in the securities register of the company to be able to attend, participate and vote at the annual general meeting, is Friday, 18 November 2016. Accordingly, the last day to trade to be able to attend, participate and vote at the annual general meeting is Tuesday, 15 November 2016. This notice will be sent to all shareholders who are recorded as such in the company's securities register on Friday, 21 October 2016.

AGENDA

1. **PRESENTATION OF THE AUDITED CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS**
   The audited consolidated and separate annual financial statements (as approved by the board of directors of the company), including the reports of the external auditor, audit and risk committee, social, ethics and transformation committee and directors for the financial year ended 30 June 2016, all of which are included in the annual integrated report and of which this notice forms a part (annual integrated report) are presented to the meeting.

   Shareholders are referred to **page 81** of the annual integrated report for the report from the social, ethics and transformation committee of RMI and to **page 89** for the annual financial statements.

2. **ORDINARY RESOLUTION NUMBER 1**
   Re-election of directors
   To re-elect, by way of separate resolutions, the following directors, who retire in terms of the company's memorandum of incorporation (MOI) and who, being eligible, offer themselves for re-election.

2.1 Johan Petrus Burger (57)
Independent non-executive director
Date of appointment: 30 June 2014
Educational qualifications: BCom (Hons), CA(SA)
Other listed directorships: FirstRand Limited (chief executive), MMI Holdings Limited and RMB Holdings Limited

2.2 Peter Cooper (60)
Non-executive director
Date of appointment: 8 December 2010
Educational qualifications: BCom (Hons), CA(SA), HDip Tax
Other listed directorships: FirstRand Limited (alternate), Imperial Holdings Limited and RMB Holdings Limited

2.3 **Per-Erik Lagerström (52)**
Independent non-executive director
Date of appointment: 30 June 2014
Educational qualifications: BSc (Accounting), MSc (Economics)(London School of Economics)
Other listed directorships: RMB Holdings Limited

2.4 **Mafison Murphy Morobe (59)**
Independent non-executive director
Date of appointment: 1 August 2014
Educational qualifications: Diploma in Project Management, MCEF – Princeton '91
Other listed directorships: Remgro Limited and RMB Holdings Limited

2.5 **Khehla Cleopas Shubane (60)**
Independent non-executive director
Date of appointment: 8 December 2010
Educational qualifications: BA (Hons), MBA
Other listed directorships: MMI Holdings Limited and RMB Holdings Limited

Additional information in respect of ordinary resolution number 1

A brief CV of each of the persons mentioned above appears on **pages 66, 68** and **69** of the annual integrated report.

3. ORDINARY RESOLUTION NUMBER 2

Election of alternate director

To elect the following alternate director, appointed by the board of directors since the previous annual general meeting, who retires in terms of the MOI and who, being eligible, offers himself for election:

3.1 **Francois Knoetze (53)**
Alternate non-executive director
Date of appointment: 1 April 2016
Educational qualifications: BCom (Hons), FIA
Other listed directorships: FirstRand Limited and RMB Holdings Limited

Additional information in respect of ordinary resolution number 2

A brief CV of Mr Knoetze appears on **page 71** of the annual integrated report.

4. ORDINARY RESOLUTION NUMBER 3

Approval of remuneration policy

Resolved that shareholders endorse the company's remuneration policy and its implementation. The company's remuneration policy is set out on pages 79 and 80 of the annual integrated report.

Additional information in respect of ordinary resolution number 3

In terms of the King Report on Governance for South Africa 2009 (King III), the company's remuneration policy should be tabled for a non-binding advisory vote at the annual general meeting. The essence of this vote is to enable the ordinary shareholders to express their views on the remuneration policy adopted and on its implementation. Shareholders are accordingly requested to endorse the company's remuneration policy.

5. **ORDINARY RESOLUTION NUMBER 4**

Place 5% (five percent) of the authorised but unissued ordinary shares under the control of the directors

Resolved that 5% (five percent) of the authorised but unissued ordinary shares in the company be and are hereby placed under the control of the directors as a general authority until the forthcoming annual general meeting and that the directors be and are hereby authorised to allot, issue and otherwise dispose of such shares to such person or persons upon such terms and conditions as the directors in their discretion deem fit, subject to the Companies Act, the MOI and the JSE Listings Requirements, where applicable.

Additional information in respect of ordinary resolution number 4

Shareholders should note that 5% (five percent) or 25 715 582 of the company's authorised but unissued ordinary shares represents approximately 1.7% (one point seven percent) of the issued ordinary shares. At 30 June 2016, this was valued at approximately R1.1 billion.

6. **ORDINARY RESOLUTION NUMBER 5**

General authority to issue ordinary shares for cash

Resolved that the board of directors of the company be and are hereby authorised, by way of a renewable general authority, to issue those ordinary shares in the share capital of the company under the control of the directors for cash as and when they in their discretion deem fit, subject to the Companies Act, the MOI and the JSE Listings Requirements, where applicable, and provided that:

- this authority shall be valid until the company's next annual general meeting or for 15 (fifteen) months from the date of this resolution, whichever period is shorter;
- the ordinary shares must be issued to public shareholders as defined by the JSE Listings Requirements and not to related parties;
  - the securities which are the subject of the general issue of shares for cash may not exceed 25 715 582 shares, being 1.7% (one point seven percent) of the number of listed equity securities of the company as at the date of this notice of annual general meeting, provided that:
    - any equity securities issued under this authority during the period must be deducted from the number above;
    - in the event of a sub-division or consolidation of issued equity securities during the period contemplated above, the existing authority must be adjusted accordingly to represent the same allocation ratio; and
    - the calculation of the listed equity securities is a factual assessment of the listed equity securities as at the date of the notice of annual general meeting, excluding treasury shares;
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount at which the ordinary shares may be issued is 10% (ten percent) of the weighted average traded price of the company's ordinary shares measured over 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors of the company and the party subscribing for the securities;
- any such general issue is subject to exchange control regulations and approval at that time; and
- a paid press announcement giving full details, including the impact on the net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within the period of this authority, 5% (five per cent) or more of the number of shares in issue prior to the issue.

Additional information in respect of ordinary resolution number 5

Approval for this ordinary resolution is obtained by achieving a 75% (seventy five percent) majority of the votes cast in favour of this resolution at the annual general meeting by all equity security holders entitled to vote thereon and present or represented by proxy.

7. **ORDINARY RESOLUTION NUMBER 6**

Approval of re-appointment of auditor

Resolved that, as nominated by the audit and risk committee, PricewaterhouseCoopers Inc. be re-appointed as auditor of the company until the next annual general meeting.

8. ORDINARY RESOLUTION NUMBER 7

Appointment of the company's audit and risk committee members

Resolved, by way of separate resolutions, that the following persons, who are independent non-executive directors of the company, be and are hereby elected as members of the audit and risk committee with effect from the end of this annual general meeting:

8.1 Sonja Emilia Ncumisa De Bruyn Sebotsa (44)

Independent non-executive director

Date of appointment: 8 December 2010

Educational qualifications: LLB (Hons), LSE, MA (McGill), SFA (UK), Executive Leadership Programme (Harvard)

Other listed directorships: Aquarius Platinum Limited, Discovery Limited, Remgro Limited and RMB Holdings Limited

8.2 Jan Willem Dreyer (65)

Independent non-executive director

Date of appointment: 8 December 2010

Educational qualifications: BCom, LLB, HDip Co Law, HDip Tax

Other listed directorships: RMB Holdings Limited

8.3 Per-Erik Lagerström (52)

Independent non-executive director

Date of appointment: 20 November 2015

Educational qualifications: BSc (Accounting), MSc (Economics)(London School of Economics)

Other listed directorships: RMB Holdings Limited

Additional information in respect of ordinary resolution number 7

A brief CV of each of the persons mentioned above appears on **pages 67** and **68** of the annual integrated report.

9. SPECIAL RESOLUTION NUMBER 1

Approval of non-executive directors' remuneration with effect from 1 December 2016

Resolved, as a special resolution in terms of section 66(9) of the Companies Act, that the following remuneration of the non-executive directors for their services as directors of the company from 1 December 2016, as set out below, be and is hereby approved:

	Per annum
Board (4 meetings per annum)	
– Chairman	R488 980
– Director	R244 490
Audit and risk committee (2 meetings per annum)	
– Chairman	R122 245
– Member	R61 123
Social, ethics and transformation committee (2 meetings per annum)	
– Chairman	R23 280
– Member	R18 624
Investment committee (8 meetings per annum)	
– Chairman	R124 158
– Member	R99 284
Remuneration committee (1 meeting per annum)	
– Chairman	R3 880
– Member	R3 104
Ad hoc meetings (per hour)	R3 880

Additional information in respect of special resolution number 1

The reason for special resolution number 1 is to approve the remuneration of the non-executive directors, effective from 1 December 2016.

10. SPECIAL RESOLUTION NUMBER 2

General authority to repurchase company shares

Resolved that the acquisition by the company and/or any subsidiary of the company, from time-to-time of the issued ordinary shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time-to-time determine, be and is hereby authorised, but subject to the MOI, the Companies Act and JSE Listings Requirements, when applicable, and provided that:

- this authority shall be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing this special resolution;
- any such repurchase be effected through the order book operated by the JSE Limited trading system and done without any prior understanding or agreement between the company and the counterparty (reported trades are prohibited);
- a paid press release, giving such details as may be required in terms of the JSE Listings Requirements, be published when the company or its subsidiaries have cumulatively repurchased 3% (three percent) of the initial number of the relevant class of shares, and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter;
- a general repurchase may not in the aggregate in any one financial year exceed 10% (ten percent) of the number of shares in the company's issued share capital as at the beginning of the financial year, provided that subsidiaries of the company may not at any one time hold more than 10% (ten percent) in aggregate of the number of issued shares of the company;
- no repurchases will be effected during a prohibited period unless there is in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and details thereof have been submitted to the JSE Limited in writing. In this regard, the company will instruct an independent third party, which makes its investment decisions in relation to the company's securities independently of, and uninfluenced by, the company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE Limited;
- at any point in time, the company may only appoint one agent to effect repurchases on the company's behalf;
- a resolution has been passed by the board of directors of the company authorising the repurchase, and the company and its subsidiaries have passed the solvency and liquidity test as set out in section 4 of the Companies Act and that, since the application of the solvency and liquidity test, there have been no material changes to the financial position of the company and the group;
- in determining the price at which shares may be repurchased in terms of this authority, the maximum premium permitted will be 10% (ten percent) above the weighted average traded price of the ordinary shares as determined over the 5 (five) days prior to the date of repurchase; and
- any such general repurchase is subject to exchange control regulations and approvals at the point in time, where relevant.

Additional information in respect of special resolution number 2

The board has no immediate intention to use this authority to repurchase company shares. However, the board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

After having considered the effect on the company of the repurchase contemplated under this general authority, the directors are of the opinion that, and undertake that they will not commence a general repurchase of shares as contemplated above, unless the following can be met:

- the company and the group will, in the ordinary course of business, be able to pay its debts for a period of 12 months after the date of the repurchase;
- the assets of the company and the group will be in excess of the liabilities of the company and group for a period of 12 months after the date of the repurchase. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the audited consolidated annual financial statements for the year ended 30 June 2016;
- the company's and group's ordinary share capital and reserves will be adequate for ordinary business purposes for a period of 12 months following the date of the repurchase; and
- the company and group will, after such repurchase, have sufficient working capital for ordinary business purposes for a period of 12 months following the date of the repurchase.

For purposes of considering this special resolution and in compliance with section 11.26 of the JSE Listings Requirements, the information listed below has been included in the annual integrated report at the places indicated:

1. Major shareholders – refer page 225;
2. There have been no material changes in the financial or trading position of the company and its subsidiaries that have occurred since the end of the last financial period for which audited annual financial statements have been published, as set out in the annual integrated report, of which this notice forms part;
3. Share capital of the company – refer page 211;
4. The directors, whose names are given on pages 66 to 71 of this annual integrated report collectively and individually accept full responsibility for the accuracy of the information given in these notes 1 to 3 and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement in these notes 1 to 3 false or misleading and that all reasonable enquiries to ascertain such facts have been made and that the notice contains all information required by law and the JSE Listings Requirements.

11. SPECIAL RESOLUTION NUMBER 3

Adoption of a revised MOI

Resolved, as a special resolution that the revised MOI, in the form of the draft tabled at this annual general meeting and initialled by the chairman of the meeting for the purposes of identification, be and is hereby adopted in substitution for and to the exclusion of the entire current MOI, subject to obtaining the prior written consent of the company.

The purpose of this proposed special resolution number 3 is the following:

- to bring the company's incorporation documents into harmony with the provisions of the revised JSE Listings Requirements and any applicable new law; and
- to provide for the transmission of dividends or any other amount only by electronic funds transfer.

The effect of special resolution number 3 will be to replace the company's existing MOI with the proposed new MOI referred to in this special resolution.

Additional information in respect of special resolution number 3

Sections 16(1)(c)(ii) and 16(5)(a) of the Companies Act provides that a company's MOI may be amended at any time if a special resolution to amend it is adopted at a shareholders' meeting. The amendment may take the form of a new MOI in substitution for the existing MOI.

The JSE Limited has revised its requirements for the MOI of a listed company and requires companies to amend their MOIs to comply with the new requirements.

In 2013 the Financial Markets Act, 19 of 2012, replaced the Securities Services Act, 36 of 2004, and accordingly references to the latter in the MOI are to be updated.

With a view to enhancing measures against fraud and error, the new MOI shall exclude payments of distributions by cheque or warrant. The transmission of such amounts shall be by way of electronic funds transfer.

The amended new MOI has been approved by the board and JSE Limited and the board's intention is for the shareholders to pass a special resolution adopting the new MOI in substitution for the existing MOI.

Special resolution number 3 is proposed to enable the company to adopt a new MOI that will be in line with the requirements of the new JSE Listings Requirements and any applicable legislation, as well as to allow for the transmission of dividends or any other amount by electronic funds transfer. The principal changes in the proposed MOI are summarised on page 238. The proposed MOI will substitute the company's current MOI in its entirety.

In compliance with section 65(4) of the Companies Act, an explanatory note identifying the salient differences between the current MOI and the proposed MOI is presented on page 238. As the aforementioned explanatory note is not an exhaustive list of the differences between the current MOI and the proposed MOI, shareholders are advised to review the current MOI and proposed MOI prior to this annual general meeting. Both the current MOI and the proposed MOI will be available for inspection from the date of issue of the notice to the date of the annual general meeting, at the company's registered office (3rd floor, 2 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, 2196), during normal business hours from Thursday, 27 October 2016 up to and including Thursday, 24 November 2016 or on the company's website, being **www.rmih.co.za.**

The percentage of voting rights required for this special resolution number 3 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

12. TO TRANSACT ANY OTHER BUSINESS THAT MAY BE TRANSACTED AT AN ANNUAL GENERAL MEETING

Approvals required for resolutions

Ordinary resolutions number 1, 2, 3, 4, 6 and 7 contained in this notice of annual general meeting require the approval of more than 50% (fifty percent) of the votes exercised on each resolution by shareholders present, or represented by proxy, at the annual general meeting.

Ordinary resolution number 5 (general authority to issue ordinary shares for cash) and special resolutions number 1 to 3 contained in this notice of annual general meeting require the approval of at least 75% (seventy five percent) of the votes exercised on each resolution by shareholders present, or represented by proxy, at the annual general meeting.

IMPORTANT NOTICE REGARDING ATTENDANCE AT THE ANNUAL GENERAL MEETING

GENERAL

Shareholders wishing to attend the annual general meeting have to confirm beforehand with the transfer secretaries of the company that their shares are in fact registered in their name.

CERTIFICATED MEMBERS

Shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a shareholder. Proxy forms should be forwarded to reach the company's transfer secretaries, Computershare Investor Services Proprietary Limited at 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) or at fax number 011 688 5238 and be received by them no later than 15:00 on Tuesday, 22 November 2016. Any forms of proxy not lodged by this time must be handed to the chairperson of the annual general meeting immediately prior to a proxy exercising his/her right.

DEMATERIALISED SHAREHOLDERS

Shareholders who have dematerialised their shares, other than those members who have dematerialised their shares with own name registration, should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Voting will be by way of a poll and every shareholder of the company present, whether in person or represented by proxy, shall have one vote for every share held in the company by such shareholder.

Shares held by a share trust or scheme, treasury shares and unlisted shares will not have their votes at the annual general meeting taken into account for the purposes of resolutions proposed in terms of the JSE Listings Requirements.

ELECTRONIC PARTICIPATION

Shareholders or their proxies may participate in the annual general meeting by way of a teleconference call, provided that if they wish to do so they must contact the company secretary by email at schalk.human@rmbh.co.za by no later than 17:00 on Tuesday 22 November 2016 to obtain a PIN number and dial-in details for that conference call.

Voting by way of teleconference call will only be permitted if the applicable shareholder is represented by a proxy who is physically present at the meeting and in respect of whom a proxy form has been duly submitted in accordance with the provisions contained in this notice of annual general meeting.

Shareholders wishing to participate in this manner are reminded that they will be billed separately by their respective telephone service providers.

PROOF OF IDENTIFICATION REQUIRED

Kindly note that, in terms of section 63(1) of the Companies Act, participants at the meeting (including shareholders and proxies) will be required to provide reasonably satisfactory identification and the person presiding at the annual general meeting must be reasonably satisfied that the right of any person to participate in and vote (whether as a shareholder or as proxy for a shareholder) has been reasonably verified, before being entitled to attend or participate in a shareholders' meeting.

Acceptable forms of identification include valid identity documents, driver's licenses and passports.

SUMMARY OF SHAREHOLDER RIGHTS

In compliance with the provisions of section 58(8)(b)(i) of the Companies Act, a summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Companies Act, is set out below:

- A shareholder entitled to attend and vote at the annual general meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the annual general meeting in the place of the shareholder. A proxy need not be a shareholder of the company.
- A proxy appointment must be in writing, dated and signed by the shareholder appointing the proxy and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid only until the end of the annual general meeting.
- A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointing the proxy.
- The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.
- The appointment of a proxy is revocable by the shareholder in question by cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the company as required in the first sentence of this paragraph.
- If the instrument appointing the proxy or proxies has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the MOI to be delivered by the company to the shareholder, must be delivered by the company to (a) the shareholder, or (b) the proxy or proxies, if the shareholder has (i) directed the company to do so in writing; and (ii) paid any reasonable fee charged by the company for doing so.

Attention is also drawn to the notes and instructions on page 242.

By order of the board of directors.

JS Human
MCom (Accounting), CA(SA)
Company secretary

26 October 2016

EXPLANATORY NOTE REGARDING SPECIAL RESOLUTION NUMBER 3

SALIENT DIFFERENCES BETWEEN THE CURRENT MOI AND THE PROPOSED MOI

The explanatory table below is to be read with the special resolution for the approval and adoption of the proposed MOI, which shall be tabled at the annual general meeting to be held on Thursday, 24 November 2016 (or any adjournment or postponement thereof), and which seeks to identify some of the salient amendments made to the existing MOI in order to render them consistent with the provisions of the Companies Act and all relevant provisions of the JSE Listings Requirements.

The MOI has been drafted so as to retain the philosophy of the current MOI and to superimpose (i) amendments required by the unalterable provisions of the Companies Act, (ii) amendments made to adopt, restrict or limit the application of the alterable provisions of the Companies Act, and (iii) to comply with the provisions of the JSE Listings Requirements. In this regard, please note that some alterable provisions of the Companies Act are not capable of amendment in the listed environment, for example, the threshold for a special resolution although alterable in terms of the Companies Act, must be 75% (seventy five percent) for the purposes of the JSE Listings Requirements and, accordingly, the JSE Listings Requirements shall take precedence in these respects.

This table has been compiled, in compliance with provisions of section 65(4) of the Companies Act, to highlight only the salient differences between the current MOI and new MOI. Nonetheless, all shareholders are advised to conduct their own review of the current MOI and the proposed MOI before voting on the adoption of new MOI, as this table is not an exhaustive list of the differences between the current MOI and the proposed MOI but merely sets out the salient differences between the two.

Accordingly, this document must be read in conjunction with the current MOI and the proposed MOI. Both the current MOI and the proposed MOI will be available for inspection from the date of issue of this notice to the date of the annual general meeting, being Thursday, 24 November 2016, at both (i) the registered office of the company during office hours, being 3rd floor, 2 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, 2196 and (ii) on the company's website, being **www.rmih.co.za**.

Clause	Subject	Existing regime in the current MOI	Proposed regime in MOI
1.1.2 1.1.10 1.1.13 1.1.18 1.1.25	Securities Services Act	There are several references to the Securities Services Act, 2004 as this was the applicable regulatory statute in respect of securities at the time of the adoption of the original MOI.	The definition of "Securities Services Act" is deleted and replaced with the Financial Markets Act, 2012. A number of consequential amendments to references, and re-numbering of sub-clauses, are made.

Clause	Subject	Existing regime in the current MOI	Proposed regime in MOI
14.3	Capitalisation Shares	Without derogating from the provisions of clause 37, if any difficulty arises in regard to any distribution under clause 14.1, the Directors may settle the same as they think it expedient. They may make all appropriations and applications of the undivided profits or sum resolved to be capitalised thereby, and all allotments and issues of Shares or debentures, if any, and generally shall do all acts and things required to give effect thereto, with full power to the Directors to provide that whenever fractions would be included in the holding of any Shareholder such fraction will be rounded up or down based on standard rounding convention, thereby resulting in no fractional entitlement. The Directors may also appoint any person to enter, on behalf of all Shareholders entitled to the benefit of such appropriations and applications or to participate in such distribution, into any contract requisite or convenient for giving effect thereto, and such appointment and contract made under such appointment shall be effective and binding on all such Shareholders.	Without derogating from the provisions of clause 37, if any difficulty arises in regard to any distribution under clause 14.1, the Directors may settle the same as they think it expedient. They may make all appropriations and applications of the undivided profits or sum resolved to be capitalised thereby, and all allotments and issues of Shares or debentures, if any, and generally shall do all acts and things required to give effect thereto, with full power to deal with fractional entitlements as prescribed in terms of the JSE Listings Requirements. The Directors may also appoint any person to enter, on behalf of all Shareholders entitled to the benefit of such appropriations and applications or to participate in such distribution, into any contract requisite or convenient for giving effect thereto, and such appointment and contract made under such appointment shall be effective and binding on all such Shareholders.
24.4	Shareholders acting other than at a meeting	The provisions of this clause 24 shall not apply to any Shareholder meetings that are called in terms of the Listings Requirements or the passing of any resolution in terms of clause 25.2 or to any annual general meeting of the Company.	The provisions of this clause 24 shall not apply to any Shareholder meetings that are called in terms of the Listings Requirements (unless the Listings Requirements allow section 60 to be used for the resolution in question) or the passing of any resolution in terms of clause 25.2 or to any annual general meeting of the Company.
37.6	Distributions	Any distribution, interest or other sum payable in cash to a Shareholder may be paid by electronic transfer for credit to an account nominated in writing by the Shareholder, or by cheque or warrant sent by post and addressed to –	Any distribution, interest or other sum payable in cash to a Shareholder may be paid by electronic transfer for credit to an account nominated in writing by the Shareholder.
37.6.1		the Shareholder at his registered address; or	Deleted.
37.6.2		in the case of joint holders, the holder whose name appears first in the Securities Register in respect of the Share, at his registered address; or	Deleted.

Clause	Subject	Existing regime in the current MOI	Proposed regime in MOI
37.6.3		such person and at such address as the holder or joint holders may in writing direct.	Deleted.
37.7		Every such cheque or warrant shall, unless the holder or joint holders otherwise direct –	Deleted.
37.7.1		be made payable to the order of the person to whom it is addressed; and	Deleted.
37.7.2		be sent at the risk of the holder or joint holders.	Deleted.
37.8	Renumbered to 37.7	The Company shall not be responsible for the loss in transmission of any cheque or warrant or of any document (whether similar to a cheque or warrant or not) sent by post as aforesaid or for the loss or misdirection of any electronic transfer. Payment of any such cheque or warrant, or the making of such electronic transfer, to whomsoever effected, shall be a good discharge to the Company.	The Company shall not be responsible for the loss or misdirection of any electronic transfer. The making of such electronic transfer, to whomsoever effected, shall be a good discharge to the Company.
	Clauses 37.8 – 37.15 are renumbered to 37.7 – 37.14	No changes to the content of the clauses.	None.
Schedule 4 1.47	"Issuer"	Rand Merchant Investment Holdings Limited (registration number 2010/005770/06), a public company with limited liability and a registered bank duly incorporated in accordance with the company and banking laws of South Africa;	Rand Merchant Investment Holdings Limited (registration number 2010/005770/06), a public company with limited liability duly incorporated in accordance with the company laws of South Africa;
Schedule 4 1.82	"Registrar of Banks"	the Registrar of Banks designated under section 4 of the Banks Act;	Deleted.
Schedule 4	Clauses 1.83 – 1.106 are renumbered to 1.82 – 1.105	No changes to the content of the clauses.	None.

FORM OF PROXY

Only for use by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.

RAND MERCHANT INVESTMENT HOLDINGS LIMITED

Incorporated in the Republic of South Africa
Registration number: 2010/005770/06
JSE ordinary share code: RMI ISIN code: ZAE000210688
(RMI or the company)

For use by shareholders who have not dematerialised their shares or who have dematerialised their shares but with own name registration, at the annual general meeting to be held at 15:00 on Thursday, 24 November 2016, in the Dr AE Rupert boardroom, Remgro head office, Millennia Park, 16 Stellentia Avenue, Stellenbosch and at any adjournment thereof.

Shareholders who have dematerialised their shares other than with own name registration, must inform their Central Securities Depository Participant (CSDP) or broker of their intention to attend the annual general meeting and request their CSDP or broker to issue them with the necessary authorisation to attend or they must provide their CSDP or broker with their voting instructions should they not wish to attend the annual general meeting in person.

I/We, the undersigned (name) ______________________________

of (address) ______________________________

Telephone number ____________ Cellphone number ____________ Email address ____________

the registered holder of ______________________________

ordinary shares in Rand Merchant Investment Holdings Limited (Registration number 2010/005770/06), hereby appoint

1. ______________________________ , of ______________________________ or failing him

2. ______________________________ , of ______________________________ or failing him

3. the chairman of the annual general meeting, as my/our proxy to be present and act on my/our behalf, speak and on a poll, vote on my/our behalf as indicated below at the annual general meeting of shareholders of the company to be held at 15:00 on Thursday, 24 November 2016 and at any adjournment thereof as follows: (see note 2)

	Insert an X or the number of votes exercisable (one vote per ordinary share)		
	In favour of	Against	Abstain
Ordinary resolution number 1 Re-election of directors:			
1.1 Johan Petrus Burger			
1.2 Peter Cooper			
1.3 Per-Erik Lagerström			
1.4 Mafison Murphy Morobe			
1.5 Khehla Cleopas Shubane			
Ordinary resolution number 2 Election of alternate director:			
2.1 Francois Knoetze			
Ordinary resolution number 3 Approval of remuneration policy			
Ordinary resolution number 4 Place 5% of the authorised but unissued ordinary shares under the control of the directors			
Ordinary resolution number 5 General authority to issue ordinary shares for cash			
Ordinary resolution number 6 Approval of re-appointment of auditor			
Ordinary resolution number 7 Appointment of the company's audit and risk committee members:			
7.1 Sonja Emilia Ncumisa De Bruyn Sebotsa			
7.2 Jan Willem Dreyer			
7.3 Per-Erik Lagerström			
Special resolution number 1 Approval of non-executive directors' remuneration with effect from 1 December 2016			
Special resolution number 2 General authority to repurchase company shares			
Special resolution number 3 Adoption of a revised MOI			

Instructions to my/our proxy are indicated by a cross in the space provided above or by the number of shares in the appropriate boxes where all shares held are not being voted.

____
Signature of registered shareholder (assisted by me as applicable) Date 2016

PLEASE SEE THE NOTES ON THE REVERSE SIDE OF THIS FORM

NOTES

1. A shareholder, who is entitled to attend and vote at the annual general meeting, may appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the company.
2. Every shareholder present in person or by proxy and entitled to vote at the annual general meeting of the company shall, on a show of hands, have one vote only, irrespective of the number of shares such shareholder holds, but in the event of a poll, every ordinary share in the company shall have one vote.
3. Dematerialised shareholders with own names registration are shareholders who appointed Computershare Custodial Services as their Central Securities Depository Participant (CSDP) with the express instruction that their uncertificated shares are to be registered in the electronic sub-register of members in their own names.

INSTRUCTIONS ON SIGNING AND LODGING THE PROXY FORM

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the shareholder. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that shareholder in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the shareholder's exercisable votes. A shareholder or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the shareholder or by his/her proxy.
3. A minor must be assisted by his/her parent or guardian, unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. To be valid, the completed proxy forms must be forwarded to reach the company's transfer secretaries, Computershare Investor Services Proprietary Limited at 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) or at fax number 011 688 5238 to be received by no later than 15:00 on Tuesday, 22 November 2016. Proxy forms may only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.
5. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.
6. The completion and lodging of this proxy form shall not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.
8. The chairman of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions, provided that he is satisfied as to the manner in which a shareholder wishes to vote.

ADMINISTRATION

RAND MERCHANT INVESTMENT HOLDINGS LIMITED (PREVIOUSLY RAND MERCHANT INSURANCE HOLDINGS LIMITED) (RMI)

Registration number: 2010/005770/06
JSE ordinary share code: RMI
ISIN code: ZAE000210688

DIRECTORS
GT Ferreira (Chairman), HL Bosman (CE and FD), JP Burger, P Cooper, (Ms) SEN De Bruyn Sebotsa, LL Dippenaar, JW Dreyer, JJ Durand, PM Goss, PK Harris, P Lagerström, MM Morobe, O Phetwe and KC Shubane.

Alternates: (Ms) A Kekana and F Knoetze.

Mr L Crouse resigned as an alternate director to Mr JJ Durand effective 31 March 2016 and Mr F Knoetze was appointed as alternate director to Mr JJ Durand effective 1 April 2016.

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:	Ground floor, 70 Marshall Street, Johannesburg, 2001
Postal address:	PO Box 61051, Marshalltown, 2107
Telephone:	+27 11 370 5000
Telefax:	+27 11 688 5221

STUDIO 5

RMI

www.rmih.co.za