RMI

OPTIMISE
DIVERSIFY
MODERNISE

INTEGRATED REPORT 2017

About this report

RMI'S VALUE CREATION STORY

This integrated report of Rand Merchant Investment Holdings Limited (RMI) for the year ended 30 June 2017 was prepared for all its stakeholders, including existing and potential shareholders. It contains comprehensive information about RMI's financial performance, stakeholders, governance, material issues, risks and opportunities and how these influence RMI's strategy. We show how we create value and how we will ensure that our value creation is sustainable.

THE CURRENT CONTEXT

This year, particular emphasis was placed on RMI's ability to create **value** over time.

The macroeconomic environment within which the group operates is currently under the extra pressure of political uncertainty and the resultant downgrading of the sovereign risk ratings. This time of turmoil emphasises the need for strong, honest and proactive leadership, underpinned by sound and ethical **values**. We will therefore outline our values-based approach to creating sustainable value for our stakeholders.

HOW THIS REPORT WAS COMPILED

The report is compiled and presented in accordance with the Listings Requirements of the JSE Limited (JSE Listings Requirements), the King IV Report on Corporate Governance for South Africa, 2016 (King IV) and the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework (<IR> Framework).

The most material issues, being those which have the potential to substantially impact RMI's ability to create and sustain value for its stakeholders, are discussed.

The annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 71 of 2008 (Companies Act). External assurance was received from RMI's auditor, PricewaterhouseCoopers Inc. on the fair presentation of these annual financial statements.

The annual financial statements are presented on **pages 100 to 214**.

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**.

FORWARD-LOOKING STATEMENTS

Certain statements in this integrated report may be regarded as forward-looking statements or forecasts but do not represent an earnings forecast. All forward-looking statements are based solely on the views and considerations of the directors. Those statements have not been reviewed and reported on by the external auditor.

RESPONSIBILITY

The board is ultimately responsible for this report. The company secretary and financial manager, Schalk Human MCom(Acc) CA (SA), prepared this report; the chief executive and financial director, Herman Bosman LLM CFA, supervised the preparation; and management convened and contracted the relevant skills and experience to undertake the reporting process and provided management oversight. The board, after consultation with the audit and risk committee and 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.

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Guide to where more information can be found

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

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

ABOUT RMI

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.

Investing is a craft.

Bookbinding is an artistic craft of great antiquity and, at the same time, a highly mechanised industry. Today it still faces the same challenges – how to hold together the pages of a book; how to cover and protect the pages once they are held together and how to label and decorate the protective cover.

Bookbinding relies on numerous basic operations being performed in a specific order and each one relying on accurate completion of the previous step. An extremely durable binding can be achieved by using the best hand techniques and finest materials.

A book craftsmen needs a minimum set of hand tools but with experience will find an extensive collection of secondary hand tools and heavy equipment.

Experience the craft of bookbinding throughout this report, and see how RMI's new corporate identity unfolds.

Value created

for the year ended 30 June 2017

Compound shareholders' return since listing in 2011

27.1% per annum

Normalised earnings

(from continuing operations)

R3 927 million

(2016: R3 342 million)

(+17% to 263.6 cents per share)

+18%

Headline earnings

(from continuing operations)

R3 480 million

(2016: R2 927 million)

(+19% to 234.2 cents per share)

+19%

Dividend

118 cents per share

(2016: 118 cents per share)

unchanged

Who we are

VALUE CREATION

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

INVESTMENT PORTFOLIO

As at 30 June 2017, RMI's investments included Discovery Limited (Discovery), MMI Holdings Limited (MMI), OUTsurance Holdings Limited (OUTsurance), Hastings Group Holdings plc (Hastings), RMI Investment Managers Group Proprietary Limited (RMI Investment Managers), AlphaCode Proprietary Limited (AlphaCode) and its first two next-generation investments, Merchant Capital Advisory Services Proprietary Limited (Merchant Capital) and Entersekt Proprietary Limited (Entersekt). Entersekt, a mobile banking security technology company, was acquired on 30 June 2017 and therefore had no impact on the group's results for the year under review.

The sale of RMI's investment in RMB-SI Investments Proprietary Limited (RMB Structured Insurance) was completed in March 2017. The results of RMB Structured Insurance, excluding Truffle Capital Proprietary Limited (Truffle), are disclosed as a discontinued operation in the RMI group results for the nine months while still under RMI's control. RMB Structured Insurance's stake in Truffle was sold to RMI Investment Managers in February 2017.

Effective 1 March 2017, RMI acquired a 29.9% stake in the UK-listed short-term insurer, Hastings. RMI accounts for its stake in Hastings as an investment in associate from the effective date. RMI funded the acquisition through a combination of redeemable preference shares and a GBP-denominated loan in terms of its domestic medium-term note and

preference share programme. The stake in Hastings was bought in a wholly-owned subsidiary of RMI, Main Street 1353 Proprietary Limited (Main Street 1353). In June 2017, RMI sold 49% of its shareholding in Main Street 1353 to OUTsurance in exchange for additional shares in OUTsurance, as well as cash.

Refer to ***page 5*** *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 2017.*

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. 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.

INVESTMENT POLICY

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

RMI invests 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. The group forges 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 dividends and capital growth.

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, RMI has a business, AlphaCode, which focuses on growing next-generation businesses. On 30 June 2017, the second investment by AlphaCode was made with a 25.1% investment in Entersekt.

DIVIDEND POLICY

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

Our investments

RMI is a strategic, active manager of a R59 billion financial services portfolio:

CONTINUING OPERATIONS

25%	Discovery
25%	MMI HOLDINGS
88%	OUTSURANCE
30%	Hastings
100%	RMI INVESTMENT MANAGERS
100%	ALPHA CODE

DISCONTINUED OPERATION

Sold in March 2017

76%	RMB STRUCTURED INSURANCE

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

RMI's investments which contributed to the group results from continuing operations for the year ended 30 June 2017 include:

	Discovery	MMI Holdings	Hastings	OUTsurance	RMI Investment Managers
Listed or unlisted	JSE-listed	JSE-listed	LSE-listed	Unlisted	Unlisted
Market capitalisation/ implied value (100%)	R82.7 billion	R31.9 billion	R35.1 billion	R33.3 billion	R399 million
RMI's interest	25.0%	25.5%	29.9%	87.7%	100%
RMI's ranking as shareholder	1st	1st	1st	1st	1st
Market value/ implied value of RMI's interest	R20.7 billion	R8.1 billion	R9.9 billion	R29.2 billion	R399 million
Share of RMI portfolio based on value	30%	12%	14%	43%	1%
Normalised earnings (100%)	R4 656 million	R3 208 million	R828 million[1]	R2 463 million	(R5 million)
Embedded value/ valuation (100%)	R57.3 billion	R42.5 billion	R35.1 billion	R31.2 billion	R399 million
Full-time employees	12 106	17 230	2 622	4 301	15

1. Four months from acquisition to 30 June 2017.

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 55% of the open medical scheme market and has built an R83 billion company by creating a business that is centred on 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 approximately 18% of this market and is a company with a value of around R33 billion. The group co-founded OUTsurance in 1998.

SA-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, Japan, Europe and the USA through various business lines. It has an innovative business model that incentivises people to live a healthier lifestyle and offers them protection products.

*Refer to **page 33** for further information on Discovery and its performance, strategy and outlook.*

MMI

MMI is an insurance-based financial services group listed on the JSE Limited. Created in December 2010 from the merger of Metropolitan and Momentum, MMI conducts business in South Africa, various other African countries 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 38** for further information on MMI and its performance, strategy and outlook.*

UK-LISTED INVESTMENTS

HASTINGS

Hastings is a UK-listed short-term insurer. It commenced operations in 1997 and listed on the London Stock Exchange in 2015. It is a fast-growing agile digital general insurance provider operating principally in the UK motor market. It provides private car and other forms of personal insurance cover (home, van and bike). Hastings has a 7% market share of the UK private car insurance market and has 2.5 million live client policies. The group's success in capturing market share has been combined with consistently strong underwriting performance and growing retail profitability. The group is headquartered in Bexhill-on-Sea with offices in Newmarket, Leicester and Gibraltar.

*Refer to **page 47** for further information on Hastings and its performance, strategy and outlook.*

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

*Refer to **note 37** to the consolidated annual financial statements on **page 177** for an explanation of the difference between the effective and actual interests.*

UNLISTED INVESTMENTS

OUTSURANCE

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

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

RMI INVESTMENT MANAGERS

RMI Investment Managers' affiliate model enables the company to access a differentiated part of the investment management industry by investing in and partnering with independent investment managers, as well as specialist investment teams. RMI Investment Managers has taken equity stakes of up to 30% in boutique investment managers and will continue to evaluate 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 52** for further information on RMI Investment Managers and its performance, strategy and outlook.*

ALPHACODE

RMI's next-generation business platform continues to show progress with its strategy of identifying, partnering and growing extraordinary next-generation financial services entrepreneurs. AlphaCode has members operating across the financial services spectrum, with many using leading-edge technology to transform the delivery of financial services. AlphaCode's first investment, Merchant Capital, is a provider of alternative sources of working capital for small and medium enterprises in South Africa. Its second investment, Entersekt, has developed world-class mobile banking security technology. Post year-end, it made two additional investments in Prodigy, an international fintech platform that offers loans to postgraduate students, and Luno, a company that offers clients a wallet to buy, store and use Bitcoin and operates a Bitcoin exchange platform.

*Refer to **page 56** for further information on AlphaCode.*

"Try not to become a man of success but rather try to become a man of value."

Albert Einstein

How RMI creates value

	Inputs
FINANCIAL CAPITAL	The capital from shareholders and the reserves generated are used to invest and generate earnings and future value for shareholders.
MANUFACTURED CAPITAL	RMI's proven business culture, principles, processes and physical infrastructure allow it to create value.
HUMAN CAPITAL	RMI's people have specialised knowledge, skills and experience, which is applied to ensure that sound, sustainable investments are made and managed in line with strategy. Our strong values serve as a guide in all our actions.
INTELLECTUAL CAPITAL	This includes knowledge-based intangible assets, such as the RMI brand and the brands of investees, the capacity to innovate and our strong entrepreneurial reputation, which is leveraged in our activities.
SOCIAL AND RELATIONSHIP CAPITAL	RMI forges and maintains strong relationships with stakeholders, based on shared values and an ongoing commitment to society. Stakeholder satisfaction and the desire to be a good corporate citizen are embedded in our governance model.
NATURAL CAPITAL	The renewable and non-renewable environmental resources and processes and RMI's efforts to preserve them.

Business activities

OUR VALUES

govern all our activities, which are driven by three strategic initiatives:

OPTIMISE – Established relationships with the boards and management ensure that RMI participates in the strategic dialogue and activity across its portfolio.

DIVERSIFY – Geographic, business and product diversification is evaluated and implemented in RMI and across the portfolio.

MODERNISE – New businesses, technologies and industry trends are identified and assessed to complement RMI and its investee companies.

The operating environment

- Low GDP growth in SA
- Corruption and political uncertainty
- Currency fluctuations
- Changing consumer behaviour and expectations
- Rapid technological change
- Increased competition

Outputs How value is created	What value is created	**Outcomes** Value shared
RMI has a moderate risk profile, contributing to a strong, stable financial sector.	▶ **Market capitalisation** R58.7 billion (down 4%) ▶ **Normalised earnings from continuing operations** R3 927 million (up 18%) ▶ **Dividend** 118 cents per share (unchanged)	**Investors** Sustainable dividend and capital (share price) growth. ▶ **Dividend yield** 3% ▶ **Compound shareholders' return since listing in 2011** 27.1%
Comprehensive footprint, both locally and internationally.		**Clients and suppliers** Meeting the needs of the modern consumer.
Our purpose, strategy, values and principles form our culture. We aim to attract, develop and retain the best people by creating a culture of excellence. We continue to make progress in the area of diversity.	▶ **Employees** 36 thousand people gainfully employed by investees	**Employees** We continue to challenge and develop our people and their skills.
The company actively pursues ways to offer its financial expertise, including sharing sector-specific knowledge and promoting social entrepreneurship.	▶ Strong, reliable brands and reputation. ▶ AlphaCode development hub. ▶ International recognition.	**Investees** RMI's collective skills, experience and resources unlock value in investees.
RMI continues to monitor and address the public's trust in us and the economy. By actively engaging stakeholders through dialogue and acting on material issues raised, we continue to strengthen our relationships.	▶ Long-standing reputation for ethical values. ▶ R15 billion in **economic value created**. *See* **page 31**.	**Society at large** RMI is contributing to confidence in the economy and faith in trusted leadership.
RMI and its investees foster sound environmental policies.		**The environment** RMI embraces sustainable, environmentally-friendly business practices.

Our strategy

VISION

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

VALUES

A values-driven culture is integral to RMI's success and long-term sustainability. It is therefore committed to ensuring that the principles of good corporate governance and ethical business practice are applied consistently in interactions with all stakeholders and in a way that upholds our values, which have been formed over decades and should stand us in good stead for the future.

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

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

OPTIMISE

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

DIVERSIFY

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

MODERNISE

RMI is well aware of the renewal in financial services and will acquire proven businesses and invest in start-ups with special opportunities and drivers, which can create **new value**.

	OPTIMISE	DIVERSIFY	MODERNISE
Actions	**BEING AN ACTIVE AND RESPONSIBLE STRATEGIC SHAREHOLDER** RMI's strategy is to position itself amid the key shareholders, have an engaging and long-term approach and play an active role within the governance bodies, particularly when it comes to strategic decision-making. *See* **page 37** *for a case study on Discovery's Shared-Value Insurance model.*	**DIVERSIFYING THE PORTFOLIO TO MAINTAIN A BALANCE BETWEEN GROWTH AND YIELD** 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. *See* **page 50** *for a case study on RMI's geographical expansion.*	**MODERNISATION** We seek to identify new businesses, technologies and industry trends to complement RMI and its investee companies. *See* **page 46** *for a case study on modernisation at OUTsurance.*
Desired outcome	**BETTER VALUE** Constantly growing the net asset and intrinsic value of the portfolio.	**MORE VALUE** Expanding into new segments of financial services, underrepresented segments as well as diversifying into various geographical areas.	**NEW VALUE** Unlocking new avenues to growing value for shareholders.

INVESTMENT MANAGEMENT

RMI manages its investments on a decentralised basis and its involvement is concentrated mainly on being an influential shareholder and providing support rather than on being involved in the day-to-day management of investees. The board considers it in the best interests of all the parties concerned to respect the decentralised business model and the fact that the business is conducted in separate legal entities. The support provided to investees is either in the form of strategic, financial and managerial support or the unlocking of value by means of creating the environment for possible deal-making.

As a shareholder of its investees, RMI also exercises its shareholder rights to ensure, as far as possible, that investees 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.

RMI partners with management in formulating a long-term strategy and capital allocation plan and providing the necessary stability in the shareholder base of investee companies. Management is empowered to execute on strategy.

VALUE CREATION

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

For the detailed calculation of normalised earnings in respect of the current and prior year, refer to **page 27**.

The true value created is measured in terms of capital growth, which reflects the growth in the underlying value of our investments.

Refer to the chief executive's review on **page 24** *for a detailed analysis of RMI's value.*

RMI has a stated strategy to utilise its current balance sheet gearing capacity to add to its existing portfolio of significant stakes in financial services companies. In addition to exploring opportunities to invest in early-stage businesses, RMI has previously indicated that it will seek to add a further large investment (fourth pillar) to its portfolio alongside its existing three large holdings in Discovery, MMI and OUTsurance.

The investment in Hastings during the year is consistent with RMI's current investment mandate and style which focuses on high-quality companies offering long-term growth prospects and are led by empowered and aligned management teams. Furthermore, the investment enhances the geographic diversification of the portfolio into the large and competitive UK short-term insurance market. The opportunity for collaboration between OUTsurance and Hastings is also a significant enhancement to the overall investment proposition. OUTsurance and Hastings employ similar business models, particularly in relation to dynamic and analytical approaches to risk underwriting and the use of modern direct distribution channels.

It is RMI's objective to provide shareholders with a consistent annual dividend flow. In extraordinary circumstances, this can be complemented by other distributions in the form of special dividends or the unbundling of investments to shareholders.

What is material for stakeholders

In order to create sustainable long-term value for RMI and its stakeholders, we engage on the issues that are material to each stakeholder and respond appropriately through the delivery of our strategy:

Key stakeholders	Their material requirements	RMI interaction and strategic response	Value created
SHAREHOLDERS AND ANALYSTS Including present and potential future investors	▶ Clear growth strategy. ▶ Solid operational performance irrespective of volatility in macro-economic environment. ▶ Long-term sustainable growth.	RMI communicates with shareholders through SENS and when it announces interim and year-end results. This is accompanied by comprehensive reports, which are sent to all shareholders. *RMI's interim and final results announcements are accessible on the company's website* **www.rmih.co.za**. The chief executive meets with investors and investment analysts from time-to-time.	Attractive dividend yield and long-term sustainable capital growth.
EMPLOYEES	▶ Being encouraged to innovate. ▶ Open and honest feedback.	RMI's strategy is to attract, develop and retain the best industry talent. They are empowered, held accountable and rewarded appropriately, in line with shareholders' return.	Challenging and fulfilling careers in a values-driven environment.
CLIENTS	▶ Trust.	Our investees aim to provide superior service to enable both corporate and individual clients to achieve their ambitions. The integrity of their various brands, their image and reputation are paramount to ensure the sustainability of their businesses.	Satisfied clients, who trust the brands and contribute to economic growth.
SUPPLIERS	▶ Fair treatment. ▶ Broad-based black economic empowerment (B-BBEE).	The group subscribes to responsible transformation and consistently improves its B-BBEE procurement spend.	Reliable and empowered suppliers.

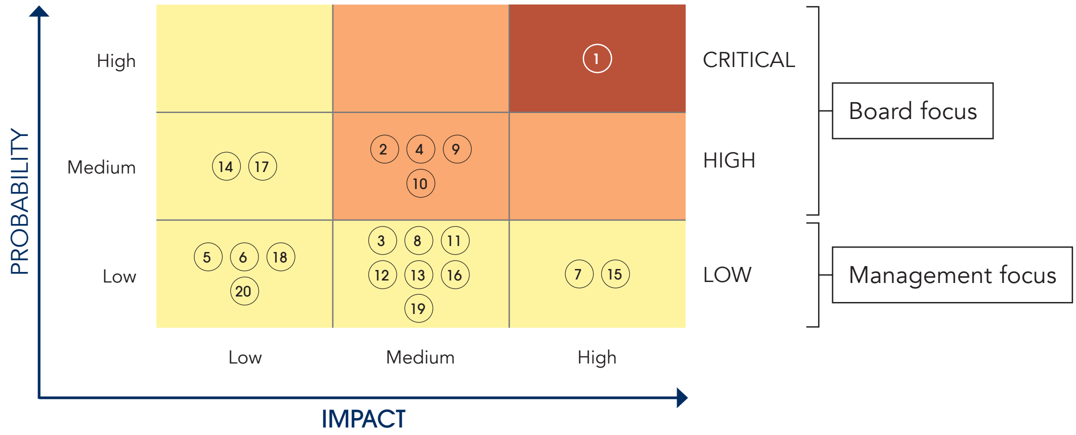
Key stakeholders	Their material requirements	RMI interaction and strategic response	Value created
MEDIA	▶ Sharing expert knowledge. ▶ Transparent performance reporting.	Engagement with the media is open, honest and based on facts. A trustworthy relationship has been established with the media.	Building trusted brands.
COMMUNITIES in which investees operate	▶ Financial inclusion. ▶ Enterprise development. ▶ Win-win.	Our investees are committed to uplifting the societies in which they operate by following sound employment practices and meeting the real needs of the communities.	Reinforcing the importance of open and honest values.
DEVELOPMENT HUB (AlphaCode)	▶ Mentorship. ▶ Financial investment. ▶ Business support and advice.	Communication is primarily through personal interaction, telecommunications and electronic communications.	Breakthrough businesses.
GOVERNMENT AND REGULATORY BODIES Including the SA Reserve Bank, Financial Services Board, JSE and South African Revenue Service.	▶ Open and honest relationship and communication. ▶ Adherence to laws. ▶ Paying taxes.	RMI engages with government and regulatory bodies in a proactive and transparent manner to ensure that South African industry practice remains amongst the best in the world and builds trust and confidence with society.	Leading by example and reducing industry risk.

RMI strives to have meaningful, timely and open communication with its key stakeholders, based on its values of transparency, accountability and integrity.

The risks affecting value creation

The board, assisted by the audit and risk committee, continuously monitors the top risks to ensure timeous value creation or preservation action in line with its approved risk appetite and risk management strategy.

The residual risks facing RMI are reflected on this heat map:



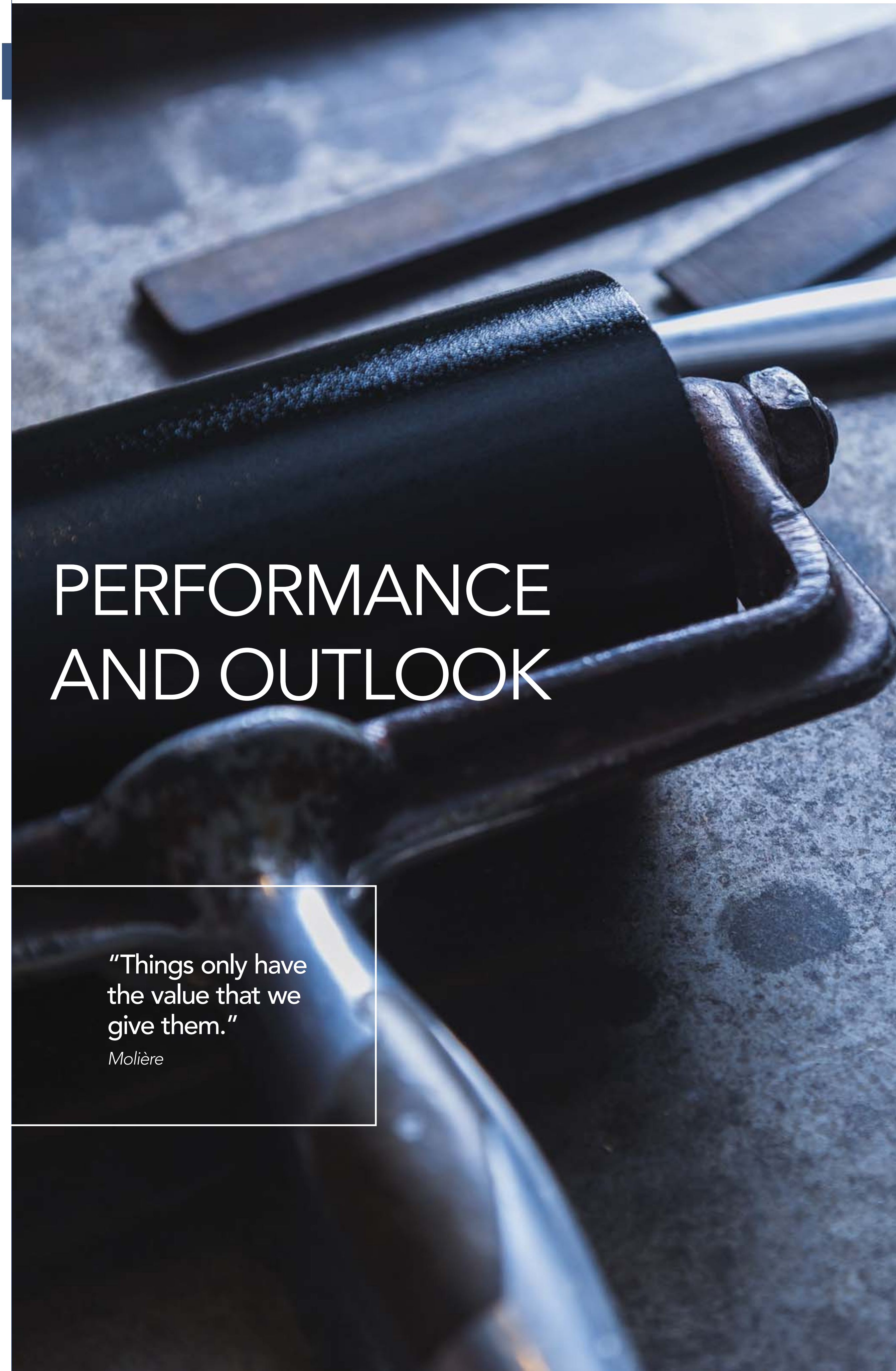
The numbers on the heat map correspond with the table below.

Risks			Possible impact on value creation or preservation	Strategic response in mitigation
EXTERNAL RISKS **Risks associated with external factors such as economic, political or legislative change**	1	**Sovereign risk**	Country downgrades impair the entire stock market.	Geographical diversification. Systematic monitoring of macroeconomic environment.
	2	**Regulatory risk**	Inadvertent and unintentional non-compliance may cause significant loss.	Proactive identification and acting on legislative changes.
	3	**Tax risk**	Unanticipated tax arising from strategic decisions or from unexpected changes in tax legislation may cause significant loss.	Advice from independent tax specialists.
	4	**Competitor risk**	Disruptive technologies cause pressure to adapt investee base, product offerings, processes, systems and policies.	Optimisation, diversification and modernisation.
STRATEGIC RISKS **Risks resulting from the definition, implementation and continuation of the group's guidelines and strategic developments**	5	**Structure of the company**	Diminishing shareholder value due to inefficient structure.	Regular review of the company structure.
	6	**Ownership structure**	Concentrated shareholding could cause illiquidity.	Regular review of top 20 shareholders and tracking of free flow of RMI shares.
	7	**Reputational risk**	The risk that an action, event or transaction may compromise the brand.	Protecting and enhancing the brand and reputation with the highest ethical standards.
	8	**Independence and conflict of interest**	The possibility that a decision of the board could be seen as prejudiced and conflicted.	Delegation of authority in place. Declarations of interests.
	9	**Investment strategy**	The risk of the portfolio value being adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices.	Proper understanding of the businesses of the investee companies. Appropriate RMI representatives on the board of investee companies.

Risks			Possible impact on value creation or preservation	Strategic response in mitigation
FINANCIAL RISKS **Risks associated with the management of cash and cash equivalents, financial instruments and financing**	**10**	**Portfolio risk**	The portfolio may have a particular exposure to certain industrial sectors, geographic areas or regulations.	Systematic portfolio reviews. Diversification of the portfolio. Regular meetings with investees and representation on their boards of directors.
	11	**Liquidity risk**	The risk of not being able to meet payment obligations as they fall due, or being forced to liquidate our positions under adverse conditions.	Monthly forecasting and reporting to determine liquidity requirements.
	12	**Underwriting risk**	The unpredictable nature of insurance business can affect long-term sustainability.	Documented underwriting risk policy monitored closely and regularly.
	13	**Counterparty default risk**	Reinsurance arrangements are very important, especially during extreme weather events.	Reinsurance treaties with reputable reinsurers and diversification amongst multiple reinsurers.
OPERATIONAL RISKS **Risks resulting from inadequacies or failures in internal procedures, staff management or systems in place.** **Risk of non-compliance with quality standards, contractual and legal provisions and ethical norms.**	**14**	**Human resource risk**	The ability to find and retain the human resources required to ensure that it operates effectively and achieves its objectives.	The remuneration policy and operating environment are designed to attract and retain skills and talent. Code of conduct and board charters.
	15	**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. Alternative facilities available.
	16	**Treasury risk**	Any loss of control over cash inflows, outflows and investments in money market instruments.	Limits, rules, formal delegations of authority and segregation of duties in place.
	17	**Information technology (IT) risk**	The risk of IT disruption, breach of information security and cyber-attacks.	Numerous policies, processes and systems in place to ensure the continuity and stability of systems and the security of data.
	18	**Process and systems risk**	Exposure to potential losses caused by internal shortcomings and/or failures.	Reviews by internal audit, quality assurance and risk management functions.
	19	**Fraud risk**	Losses caused by insurance-related fraud, dishonesty, collusion and unauthorised activities.	Significant prevention and detection measures in place.
	20	**Ineffective financial reporting**	The risk that financial information is not prepared timeously and complete.	Financial results reviewed internally, then by the audit and risk committee and the board of directors. External audit.

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

A more comprehensive analysis of the risk management process and financial risks, including those relating to the global economy and currencies, is disclosed in the management of insurance and financial risk on **pages 131 to 146**.



PERFORMANCE AND OUTLOOK

"Things only have the value that we give them."

Molière

Chairman's statement

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.

GT FERREIRA *Chairman*

COMMITMENT TO VALUE CREATION

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

Our investment decisions are influenced by the external environment.

EXTERNAL ENVIRONMENT

The external environment is characterised by the following trends:

Low GDP growth in SA	Global real economic growth accelerated further from 3.6% in 2016Q4 to 3.9% in 2017Q1, due to robust growth in a number of emerging market economies, which achieved 5.7% in total in 2017Q1. This was tempered by the advanced economies. The South African economy went into a technical recession, having recorded a second consecutive quarter of contraction in 2017Q1 – the first such occurrence since the first quarter of 2009. **Real gross domestic product (GDP)** declined at an annualised rate of 0.7% in 2017Q1, following a contraction of 0.3% in 2016Q4. Growth in real activity in the finance, insurance, real estate and business services sector moderated from 1.6% in 2016Q4 to -1.2% in 2017Q1. This was the first quarter-to-quarter decline since the third quarter of 2010. Mining production was, however, supported by increased global demand and higher international commodity prices, while the end of the drought underpinned a strong recovery in agricultural output.
Currency fluctuations	The value of the Rand fluctuated significantly in the 2017 financial year.
Political uncertainty	Heightened domestic political uncertainty resulted in a sharp depreciation in the value of the Rand and culminated in two prominent international credit rating agencies downgrading South Africa's long-term foreign currency credit rating to sub-investment grade in April. South Africa's sovereign credit rating was also downgraded by a third rating agency in June, but this rating remained investment grade. The FTSE/JSE All-Share Price Index (ALSI) surpassed the 54 000 level in May 2017 for the first time in 12 months. The upward trend was predominantly supported by the prices of shares of companies in the industrial sector, the media subsector in particular, and was also in line with higher share prices on international exchanges. Non-resident investors' negative sentiment towards JSE-listed shares persisted in 2017 following significant net sales in 2016. Net sales of JSE-listed shares by non-residents reflected concerns about economic growth prospects amid domestic political uncertainty and South Africa's sovereign credit rating downgrades.
Changing consumer behaviour and expectations	The number of unemployed South Africans looking for work rose at a faster pace than the number of employed persons, resulting in a further increase in the unemployment rate. The level of private sector employment has been trending broadly sideways for the past four years. Headline consumer price inflation slowed from a peak of 6.8% in December 2016 to 5.3% in April 2017. The moderation in consumer price inflation was fairly broad-based, as the slowdown in domestic food price inflation and weak consumer demand contributed to easing inflationary pressures.

Rapid technological change	Technology is changing our world at an astonishing pace. The internet, mobile devices and social media have transformed how we communicate and get information about the world. This has opened up the spread of information. Billions of devices joining the Internet of Things has created new opportunities for productivity and entertainment. Rapid advances in artificial intelligence can accomplish a wide range of tasks previously only done by humans. The result could be tremendous gains in productivity, but also major economic and societal disruption. The internet age is a winner-takes-all age - there is little room for runners-up - and an increasing proportion of work which creates value is not measured by traditional measures. The key to understanding the future is not technology alone, but how humans will use it, perceive it and adapt to it.

With the backdrop of encouraging global growth but prolonged local uncertainty, it was particularly pleasing that RMI managed to produce strong results, in keeping with its commitment to long-term value creation.

The group results are discussed in the chief executive's review, starting on **page 21**.

THE NEED FOR STRONG VALUES IN DELIVERING ON THE STRATEGY

We believe that our insistence on high ethical standards and values at this time will be pivotal to sustain performance, both for RMI and for the investees where we exert our influence.

CHANGES TO THE BOARD OF DIRECTORS

Jannie Durand was appointed deputy chairman effective from 25 November 2016.

Albertina Kekana was appointed as a non-executive director (she used to be an alternate for Obakeng Phetwe) and David Wilson as an alternate non-executive director on 1 September 2017.

THE YEAR AHEAD

Current macroeconomic conditions suggest a negative global economic growth outlook and continued lack of growth locally. The ongoing political and policy uncertainty is expected to continue at least until the ANC's December electoral conference. Inflation in South Africa is expected to remain towards the top end of the target band. The Rand will likely remain weak against the Dollar, especially after the sovereign downgrades and fears that the independence of the central bank could potentially be undermined by the government's efforts to revive the ailing economy.

FNB SA ECONOMIC FORECASTS

	2012	2013	2014	2015	2016	2017F	2018F	2019F
% Real GDP growth	2.2	2.5	1.7	1.3	0.3	0.4	0.9	1.3
% Unemployment	24.9	24.7	25.1	25.4	26.7			
% CPI average	5.6	5.8	6.1	4.6	6.3	5.4	4.9	5.4
Rand/Dollar average	8.21	9.65	10.85	12.78	14.7	13.5	14.9	15.5

RMI remains confident, however, that it will continue to create sound value and steady returns for its shareholders over the medium to long term, given the strength of its underlying investments.

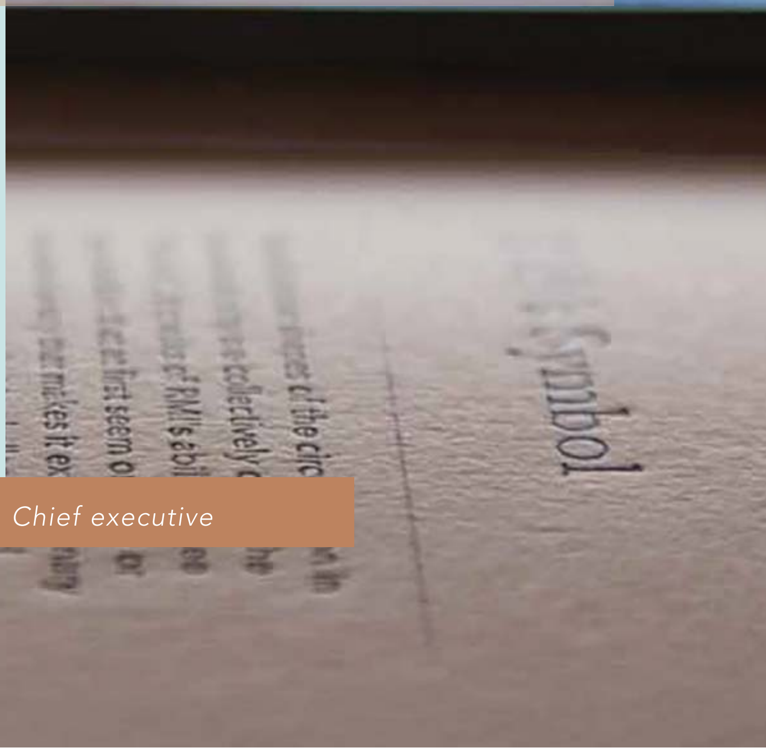
GT Ferreira
Chairman

Sandton

19 September 2017

Chief executive's review

HERMAN BOSMAN *Chief executive*



VALUE CREATED

RMI produced pleasing results for the year ended 30 June 2017:

- **Normalised earnings from continuing operations** increased by 18% to R3 927 million (2016: R3 342 million). Normalised earnings from continuing operations per share amounted to 263.6 cents per share (2016: 225.0 cents per share).
- **Headline earnings from continuing operations** increased by 19% to R3 480 million (2016: R2 927 million). Headline earnings from continuing operations per share amounted to 234.2 cents per share (2016: 197.6 cents per share).
- **Dividends** for the year distributed to shareholders remained unchanged at 118 cents per share.

OVERVIEW OF RESULTS

Discovery's 8% increase in normalised earnings was driven by the performance of its three established South African businesses; Discovery Health (up 11%), Discovery Life (up 10%) and Discovery Invest (up 12%), as well as VitalityHealth in the UK (up 52%). The emerging businesses made significant progress towards profitability. Discovery weathered headwinds in the UK as a result of low interest rates and unfavourable exchange rate movements. Earnings growth was also strained by increased finance charges which emanated from the funding of the new business acquisition costs incurred at VitalityLife and an increase in the utilisation of Discovery's bank syndicated loan programme to fund new initiatives.

MMI maintained its normalised earnings of R3.2 billion from the prior year. Growth in normalised earnings was strained by the impact of weak investment market returns over the past two years on asset-based fees and the negative underwriting experience on group disability business. MMI's expense optimisation project targets annual expense savings of R750 million by the 2019 financial year, with actual savings to date amounting to R323 million. The embedded value amounted to R42.5 billion (or R26.51 per share) as at 30 June 2017, reflecting a 4.7% return for the year.

Normalised earnings from **OUTsurance** increased by 25% to R2.5 billion, mainly due to favourable claims experience across the group. The cost-to-income ratio improved from 26.2% to 25.8%, primarily attributable to the efficiency gains achieved by Youi and OUTsurance Life. There was also a significant reduction in the start-up loss at Youi New Zealand due to the improvement in the claims and cost-to-income ratios. The OUTsurance group achieved a return on equity of 33.7% and a claims ratio of 51.3%.

RMI included normalised earnings of R246 million from Hastings for the four months from 1 March 2017 to 30 June 2017. **Hastings** announced its interim results for the six months ended 30 June 2017 on 9 August 2017. Gross written premiums increased by 28% and normalised earnings by 22% for the six-month period. Hastings recorded a sustained increase in clients, with live client policies increasing by 15% to 2.5 million and market share growing to 7% of the UK private car insurance market. Hastings declared an interim dividend of 4.1 pence per share, an increase of 24% on the interim dividend in the prior year of 3.3 pence per share.

RMI Investment Managers completed its first two years of operations with the financial performance slightly behind expectations. This was primarily due to the impact of weak markets on the profitability of its underlying affiliates. During the year under review, two new affiliates were added to the group, namely Truffle and Polar Star, together adding R26 billion in assets under management across listed equities, bonds and commodities. The total assets under management across the nine affiliates of the group totalled R75 billion as at 30 June 2017.

Royal Investment Managers, established almost a year ago as a joint venture with Royal Bafokeng Holdings, acquired its first affiliate, Sesfikile Capital, a listed property asset manager with assets under management of R18.1 billion.

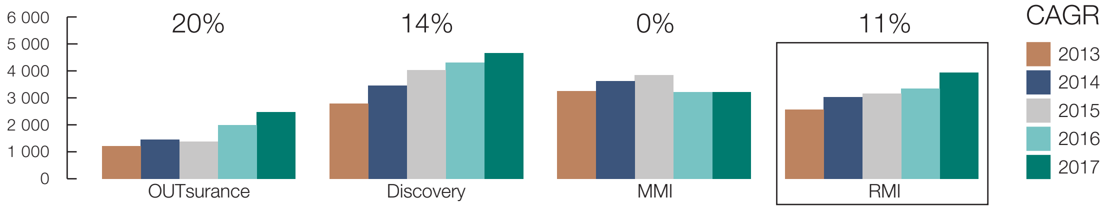
Merchant Capital continued its strong operational performance, as well as investing in its core operations and product development.

RMB Structured Insurance was sold in March 2017 and recorded a loss of R38 million in the nine months to March 2017.

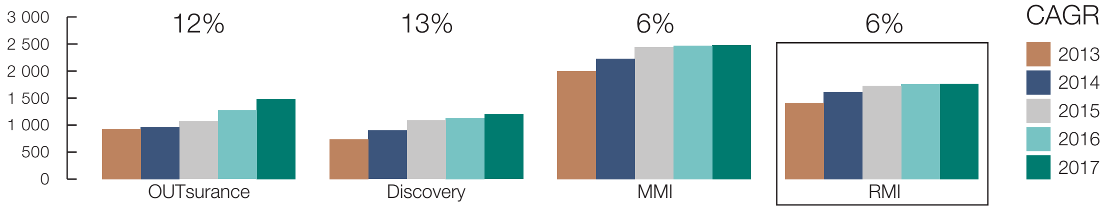
The funding and holding company costs amounted to R389 million, compared to R195 million in the 2016 financial year. The increase is as a result of the net liabilities at holding company level increasing from R1 487 million to R9 789 million following the acquisition of the 29.9% stake in Hastings. The funding rates on the debt are as follows:

- R1 130 million preference shares (three years and one day) – 66% of prime but fixed at 7.119% for one year;
- R1 130 million preference shares (five years) – 68% of prime but fixed at 7.343% for one year;
- R5 650 million preference shares (three years and one day) – 66% of prime;
- R1 800 million preference shares (five years) – 68% of prime; and
- R2 551 million GBP-denominated loan (£150 million) in Main Street 1353, the holding company of the group's investment in Hastings – 50% is a three-year loan at LIBOR (LIBOR fixed at 0.77%) plus 1.5% and the other 50% is a five-year loan at LIBOR (LIBOR fixed at 0.98%) plus 1.95%.

EARNINGS HISTORY (R million)



DIVIDEND HISTORY (R million)



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 2017	2016	% change
Continuing operations			
Discovery	4 656	4 312	8
MMI	3 208	3 206	–
OUTsurance (excluding Hastings)	2 463	1 985	24
– OUTsurance (including Hastings)	2 476	1 985	25
– Hastings included in OUTsurance	(13)	–	–
Hastings (four months ended 30 June 2017)	828	–	–
Other[1]	(5)	(11)	55
Discontinued operation			
RMB Structured Insurance (excluding Truffle)	(38)	8	>(100)

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

A detailed reconciliation between reported headline earnings and normalised earnings of the respective investee companies is provided in **note 38** *to the annual financial statements. The annual financial statements of these investee companies are available on their respective websites.*

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

R million	For the year ended 30 June 2017	2016	% change
Continuing operations	3 927	3 342	18
Discovery	1 167	1 079	8
MMI	816	805	1
OUTsurance (excluding Hastings)	2 092	1 664	26
– OUTsurance (including Hastings)	2 103	1 664	26
– Hastings included in OUTsurance	(11)	–	–
Hastings (four months ended 30 June 2017)	246	–	–
Other[1]	(5)	(11)	55
Funding and holding company costs	(389)	(195)	(100)
Discontinued operation			
RMB Structured Insurance (excluding Truffle)	(30)	6	>(100)
Normalised earnings	3 897	3 348	16
Normalised earnings per share (cents) (continuing operations)	263.6	225.0	17
Normalised earnings per share (cents) (continuing and discontinued operations)	261.6	225.3	16

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

A reconciliation of the adjustments made to headline earnings to derive normalised earnings is presented on **page 27**.

MARKET VALUE OF INVESTMENTS

During the 2017 financial year, RMI's share price decreased by 5% (2016: decreased by 3%), compared to a 2% decrease in the life insurance index and a 12% increase in the non-life insurance index. RMI has delivered a total annual compounded return to shareholders of 27.1% since its listing in March 2011.

The individual investment performances during the 2017 financial year are outlined below:

- **Discovery's** share price increased by 4% (2016: decreased by 3%).
- **MMI's** share price decreased by 11% (2016: decreased by 25%), with a dividend yield of 7.8% (based on the share price of R20.24 as at 30 June 2017).
- On a "look-through" basis, based on share prices as at 30 June 2017, the value attributed to RMI's unlisted investments decreased by 12% (2016: increased by 6%) to R29.8 billion (2016: R33.8 billion). These unlisted investments include **OUTsurance** (excluding OUTsurance's 49% stake in the group's holding in Hastings) (87.7% held), **RMI Investment Managers** (100% held) and the AlphaCode investments.

R million	2017	2016	% change
Market value of interest in:			
– Discovery	20 716	19 838	4
– MMI	8 117	9 080	(11)
– Hastings (RMI's effective holding)	9 857	–	–
– 29.9% holding	10 491	–	–
– Attributable to non-controlling interest of OUTsurance	(634)	–	–
Market value of listed investments	38 690	28 918	34
RMI Investment Managers and AlphaCode at cost	619	103	>100
Discontinued operation (RMB Structured Insurance)	–	364	(100)
Implied market value of RMI's stake in OUTsurance (excluding Hastings)	29 187	33 312	(12)
Gross market value of portfolio	68 496	62 697	9
Net liabilities of holding company	(9 789)	(1 487)	>(100)
RMI market capitalisation	58 707	61 210	(4)
RMI closing share price (cents)	3 899	4 120	(5)

The movement in the net liabilities of the holding company was due to the acquisition of the 29.9% stake in Hastings in March 2017.

FINAL DIVIDEND FOR THE 2017 FINANCIAL YEAR

The policy of paying out all dividends received from underlying investments after servicing any funding commitments at the 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 declared.

The board resolved to declare a final dividend of 65.0 cents (2016: 65.0 cents) per ordinary share with an option to elect scrip in lieu of cash or to reinvest all or part of the cash dividend (net of any applicable taxes) in RMI ordinary shares. The total dividend for the year of 118.0 cents (2016: 118.0 cents) per ordinary share is covered 2.2 times (2016: 1.9 times) by the normalised earnings of 261.6 cents (2016: 225.3 cents) per share.

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

OUTLOOK AND FUTURE VALUE CREATION

	Strategic initiative	Progress made
OPTIMISE	**OPTIMISATION OF OUR ESTABLISHED INVESTMENTS** Management will continue its strategic dialogue and activity across the portfolio. It will assist with creating leadership stability and succession planning.	▶ Extension of the MMI and OUTsurance incentive schemes. ▶ Sale of RMB Structured Insurance to Santam. ▶ Acquired 109 million additional shares in OUTsurance. ▶ Sale of 49% of Main Street 1353 to OUTsurance. ▶ Exploration of new products and strategic projects to diversify revenue streams for OUTsurance. ▶ Ongoing strategic dialogue with Discovery and MMI.
DIVERSIFY	**DIVERSIFICATION OF INCOME STREAM AND DISTRIBUTION OF ASSETS** RMI will evaluate expanding its geographic footprint further, either independently and/or through the existing portfolio.	▶ Acquired a 29.9% stake in Hastings for R8.6 billion, effective 1 March 2017. ▶ Finalisation of the acquisition of the following stakes in RMI Investment Managers: – 26% in Polar Star – 25% in Truffle – 25% in Sesfikile Capital. ▶ Continue to evaluate later-stage, capital-light business models with organic growth potential.
MODERNISE	**MODERNISATION:** RMI will continue to identify new businesses, technologies and industry trends to complement RMI and its investee companies.	▶ AlphaCode has established itself as a centre of fintech excellence in South Africa and a source of innovation and next-generation thinking for the broader RMI portfolio. ▶ Acquired the following investments: – 25.1% in Entersekt – 3.5% in Prodigy Finance – Minority stake in Luno. ▶ Pipeline of potential future investment opportunities created.

In the portfolio review, which commences on **page 32**, *more detail is provided on the outlook and future plans of RMI's investee companies.*

RMI remains confident that both its clear strategy, in conjunction with the solid investment portfolio and underpinned by unwavering values, will allow it to continue delivering on its primary objective of creating sustainable, long-term value for shareholders.

Herman Bosman
Chief executive

Sandton

19 September 2017

Key performance indicators

		2013	2014	2015	2016	2017	% change for 2017	5-year % CAGR[1]
Equity	R million	14 341	16 377	18 083	19 726	20 490	4	9
Normalised earnings from continuing operations	R million							
Discovery		2 787	3 457	4 027	4 312	4 656	8	14
MMI		3 241	3 621	3 836	3 206	3 208	–	–
OUTsurance		1 209	1 448	1 388	1 985	2 463	24	19
Hastings (4 months)		–	–	–	–	828	–	–
Other		–	–	1	(11)	(5)	55	–
Group normalised earnings from continuing operations	R million	2 496	2 944	3 097	3 342	3 927	18	12
Discovery		699	866	1 012	1 079	1 167	8	14
MMI		803	899	956	805	816	1	–
OUTsurance		1 031	1 219	1 166	1 664	2 092	26	19
Hastings (4 months)		–	–	–	–	246	–	–
Other		–	–	1	(11)	(5)	55	–
Funding and holding company costs		(37)	(40)	(38)	(195)	(389)	(100)	>(100)
Earnings and dividends per share from continuing operations	cents							
Earnings		147.3	200.5	217.8	200.5	226.5	13	11
Diluted earnings		146.2	198.3	215.7	197.1	223.0	13	11
Headline earnings		146.4	188.8	215.5	197.6	234.2	19	12
Diluted headline earnings		145.4	186.7	213.5	194.3	230.6	19	12
Normalised earnings		167.9	198.2	208.4	225.0	263.6	17	12
Diluted normalised earnings		166.6	196.1	206.9	221.6	259.7	17	12
Ordinary dividend		95.0	108.0	116.0	118.0	118.0	–	6
Dividend cover	times							
– headline earnings		1.6	1.8	1.9	1.7	2.0		
– normalised earnings		1.8	1.9	1.8	1.9	2.2		
Share price	cents							
– Closing		2 520	3 278	4 247	4 120	3 899	(5)	12
– High		2 638	3 450	4 894	4 554	4 599	1	15
– Low		1 737	2 333	3 101	3 149	3 760	19	21
Market capitalisation	R million	37 439	48 701	63 097	61 210	58 707	(4)	12
Volume of shares traded	million	464	273	442	525	494	(6)	2

1. Compound annual growth rate.

Financial review

OVERVIEW OF RESULTS

This discussion is intended as a brief explanatory addendum to the chief executive's review and consolidated annual financial statements.

The complete annual financial statements are included in this integrated report. Refer **page 100**.

COMPUTATION OF HEADLINE AND NORMALISED EARNINGS

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

R million	2017 Audited	2016 Audited	% change
Earnings attributable to equity holders	3 327	2 977	12
Adjustment for:			
Intangible asset impairments	91	37	
Loss/(profit) on dilution of shareholding	28	(26)	
Profit on sale of subsidiary	(20)	(29)	
Impairment of available-for-sale financial assets	9	3	
Impairment of owner occupied building to below cost	7	–	
Realised profit on sale of available-for-sale financial assets	(2)	(1)	
Loss/(profit) on disposal of property and equipment	1	(2)	
Release of foreign currency translation reserve	–	(23)	
Profit from business combination	–	(2)	
Headline earnings attributable to equity holders	3 441	2 934	17
RMI's share of normalised adjustments made by associates:	456	438	
Amortisation of intangible assets relating to business combinations	238	209	
Basis and other changes and investment variances	117	131	
Non-recurring and restructuring expenses	63	39	
Rebranding and business acquisition expenses	25	91	
Net realised and fair value losses/(gains) on shareholders' assets	13	(53)	
Additional 54.99% share of DiscoveryCard profits	–	22	
Accrual of dividends payable to preference shareholders	–	(1)	
Group treasury shares	–	(24)	
Normalised earnings attributable to equity holders	3 897	3 348	16
Headline earnings from continuing operations	3 480	2 927	19
Headline earnings from discontinued operation	(39)	7	>(100)
Headline earnings from continuing and discontinued operations	3 441	2 934	17
Normalised earnings from continuing operations	3 927	3 342	18
Normalised earnings from discontinued operation	(30)	6	>(100)
Normalised earnings from continuing and discontinued operations	3 897	3 348	16

SEGMENTAL REPORT

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

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

Audited R million	Discovery	MMI	OUTsurance	Discontinued operation	Other[1]	RMI group
Year ended 30 June 2016						
Net income	–	–	14 026	–	52	14 078
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 302)	–	–	(7 302)
Depreciation	–	–	(118)	–	(4)	(122)
Amortisation	–	–	(73)	–	–	(73)
Other expenses	–	–	(3 431)	–	(142)	(3 573)
Finance costs	–	–	–	–	(136)	(136)
Fair value adjustment to financial liabilities	–	–	(204)	–	–	(204)
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
Investments in 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

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

GEOGRAPHICAL SEGMENTS

Audited R million	South Africa	Australia	New Zealand	UK	Total
Year ended 30 June 2017					
Profit/(loss)	2 207	991	(62)	–	3 136
Share of after-tax results of associates	1 367	–	–	335	1 702
Profit/(loss) before taxation	3 574	991	(62)	335	4 838
Taxation	(779)	(305)	–	–	(1 084)
Result from continuing operations	2 795	686	(62)	335	3 754
Discontinued operation	(49)	–	–	–	(49)
Profit/(loss) for the year	2 746	686	(62)	335	3 705
Assets					
Property and equipment	941	41	18	–	1 000
Investments in associates	15 554	–	–	8 901	24 455
Financial assets	5 346	6 722	314	–	12 382
Cash and cash equivalents	2 036	236	30	–	2 302
Other assets	145	921	210	–	1 276
Total assets	24 022	7 920	572	8 901	41 415
Liabilities					
Insurance contract liabilities	1 961	4 697	183	–	6 841
Other liabilities	10 588	828	117	2 551	14 084
Total liabilities	12 549	5 525	300	2 551	20 925
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 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
Assets					
Property and equipment	601	47	31	–	679
Investments in associates	14 888	–	–	–	14 888
Financial assets	5 594	7 274	579	–	13 447
Cash and cash equivalents	374	199	38	–	611
Other assets	5 937	995	113	–	7 045
Total assets	27 394	8 515	761	–	36 670
Liabilities					
Insurance contract liabilities	1 763	5 053	252	–	7 068
Other liabilities	8 400	1 334	142	–	9 876
Total liabilities	10 163	6 387	394	–	16 944

KEY AUDIT MATTERS

The independent auditor's report on **page 91** *highlights the matters that, in their professional judgment, were of most significance during their audit.*

The report also outlines the steps that were taken in addressing the key audit matters. The following items were identified and addressed:

- Valuation of short-term insurance contract liabilities in OUTsurance;
- Equity accounted earnings of MMI;
- Equity accounted earnings of Discovery; and
- Investment in Hastings.

Value-added statement

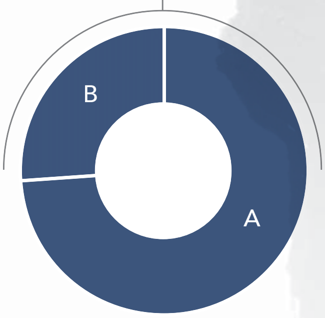
R million	2017	2016
Economic value created		
Premium income and reinsurance recoveries	14 876	13 589
Income from associates, investment income, fees and other income	2 482	2 174
Non-claims payments to outside service providers	(1 610)	(1 553)
Payments relating to profit sharing arrangements and policyholders' interest	(199)	(204)
Finance costs	(414)	(136)
Discontinued operation	(49)	8
Total economic value created	15 086	13 878
Total economic value distributed amongst stakeholders		
Employees		
Salaries and other benefits	2 140	2 093
Policyholders	8 022	7 463
Policyholder claims and increase in reserves	7 623	7 101
Cash bonuses on insurance contracts	399	362
Government (in the form of taxes)	933	884
Providers of capital	2 131	2 068
Ordinary dividends paid to shareholders	1 753	1 738
Earnings attributable to non-controlling interests	378	330
Reinvested to support future growth	1 860	1 370
Retained earnings	1 724	1 248
Depreciation	136	122
Economic value distributed	15 086	13 878
Percentage of economic value distributed		
Employees (%)	14%	15%
Policyholders (%)	53%	54%
Government (%)	6%	6%
Providers of capital (%)	27%	25%
Total	100%	100%

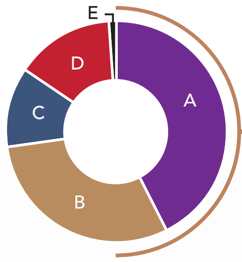
PORTFOLIO OVERVIEW

Relative contribution analysis

GEOGRAPHIC SPLIT

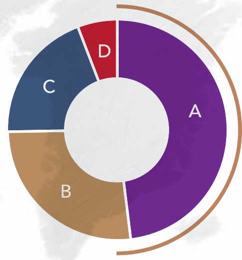
A	Local	74%
B	International	26%





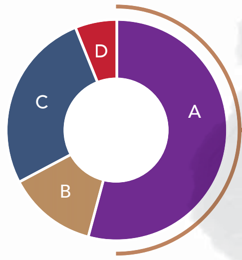
MARKET VALUE

A	OUTsurance	43%
B	Discovery	30%
C	MMI	12%
D	Hastings	14%
E	Other	1%



NORMALISED EARNINGS

A	OUTsurance	48%
B	Discovery	27%
C	MMI	19%
D	Hastings	6%



DIVIDENDS

A	OUTsurance	54%
B	Discovery	13%
C	MMI	27%
D	Hastings	6%

"The major reason for setting a goal is for what it makes of you to accomplish it. What it makes of you will always be the far greater value than what you get."

Jim Rohn

Discovery

VALUE CREATED

MARKET CAPITALISATION

R82.7 billion

2016: R79.3 billion

+4%

NORMALISED EARNINGS

R4 656 million

2016: R4 312 million

+8%

DIVIDENDS PAID

186.0 cents per share

2016: 175.5 cents per share

+6%

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, Japan, Europe and the USA through various business lines. It covers almost ten 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.

TOTAL SHAREHOLDER RETURNS SINCE RMI'S LISTING IN MARCH 2011: 24%

PERFORMANCE

R million (unless stated otherwise)	30 June 2017	30 June 2016	% change
Discovery Health	2 505	2 265	11
Discovery Life[1]	3 588	3 271	10
Discovery Invest[1]	744	665	12
Discovery Vitality	50	44	14
VitalityHealth	283	186	52
VitalityLife	485	678	(28)
Development and other	(607)	(702)	14
Normalised profit from operations	7 048	6 407	10
Earnings per share			
Normalised headline earnings per share (cents)	722.2	676.3	7
Normalised diluted headline earnings per share (cents)	721.5	671.1	8
Dividends			
Ordinary dividend per share (cents)	186.0	175.5	6
Dividend yield (%)	1.45%	1.43%	
Embedded value			
Embedded value per share (Rand)	88.83	82.40	8
Return on embedded value (%)	10.2%	2.6%	
Price to embedded value ratio (x)	1.4x	1.5x	

1. The comparatives have been restated to include the Discovery Retirement Optimiser profits in Discovery Invest. This was previously reported under Discovery Life.

DISCOVERY'S BRANDS AND BUSINESSES – PRIMARY MARKET – SOUTH AFRICA

Discovery Health	Discovery Health is the leading medical scheme administrator in South Africa, providing administration and managed care services to over 3.3 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 Vitality	Discovery Vitality is the largest scientifically-based wellness programme globally, with more than 2.4 million lives impacted in South Africa in 2017. 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'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.
AIA Vitality	The Vitality Shared-Value Insurance model's now available in Singapore, Australia, Hong Kong, the Philippines, Thailand, Malaysia, Sri Lanka and Vietnam. 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 2017 with the first sales occurring in July. Generali also intends to launch in France on 1 January 2018, followed shortly thereafter 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 2017, 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.

2017 PERFORMANCE

- Core new business increased by 16% to R17.0 billion;
- Normalised profit from operations increased by 10% to R7.0 billion;
- Normalised earnings increased by 8% to R4.7 billion;
- Gross inflows under management increased by 10% to R115.1 billion;
- Embedded value increased by 8% to R57.3 billion; and
- The total dividend for the year increased by 6% to 186.0 cents per share.

Discovery's earnings and headline earnings increased by 21%. The main reason for the difference in the growth rate between normalised earnings and headline earnings is the non-recurring rebranding and business acquisition costs in the UK included in headline earnings in the prior year, which have reduced significantly in the current year.

RMI included R1 167 million of Discovery's earnings in its normalised earnings (2016: R1 079 million).

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

STRATEGY AND VALUES

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 roll-out of the model to new geographies and adjacencies, the most recent being the intention to enter banking in South Africa; and for continued roll-out of the Vitality Active Rewards with Apple watch methodology, a global collaboration with Apple.

OUTLOOK

The year under review saw **Discovery** continuing development of its operating model, with refinements in its three components, namely the Vitality Shared-Value Insurance model, its growth engine and capital management philosophy. These together form the group's ambition of being the best insurance organisation globally and a powerful force for social good by 2018. Discovery has set three-dimensional criteria against which to measure the group against the aims of its ambition, namely:

- **Brilliant businesses:** Market-leading businesses with sustainable products that meet complex consumer needs, driving significant engagement and superior loss ratios and lapse rates, supported by an exceptional service ecosystem.
- **Profound impact:** Incentivises millions of people around the world to live healthier and be engaged in their wellness, with a measurable positive effect on their health. A return of risk-free plus 10% on equity and capital, as well as each business meeting an internal rate of return of risk-free plus 10%, with operating profit growth of CPI + 10% and robust cash management.
- **Powerful assets:** A unique business model underpinned by powerful science and data assets. A fully operational global Vitality network and a distinctive global brand.

The year under review saw material progression in all three these criteria, positioning Discovery strongly to meet the goals of its ambition.

STRATEGY CASE STUDY

DISCOVERY COMBINES BEHAVIOURAL SCIENCE AND TECHNOLOGY INTO A SHARED-VALUE INSURANCE MODEL

OPTIMISE

Discovery believes that if you promote healthier behaviour, you can offer more sustainable insurance. Behavioural science dictates that people need incentives to change. Discovery's Shared-Value Insurance model, enabled by its wellness programme Vitality, is based on these two beliefs. The Vitality programme is a complete wellness system that tracks everything from physical activity to nutrition over the course of a person's life.

It combines engaging policyholders through personalised and regular interaction, motivating and incentivising them to manage their wellness, live better and to make healthier choices through tailored programmes. It also provides clients with access to a broad range of wellness and prevention pathways and rewards healthy behaviour. This brings value for them and for society. Behaviour is measured clinically and actuarially through engagement, and in doing so, it enables dynamic pricing of individuals' risk. The client journey starts with clients receiving personalised health goals. Based on the science of behavioural economics, clients will be supported in achieving their personal health and fitness objectives through a three-step approach: know your health, improve your health and enjoy rewards.

The scale of the programme is significant and makes it difficult to copy. The competitive advantage for Discovery lies in its ability to understand how best to structure incentives to get the best health outcome. The programme is therefore dynamic and changes continually as the business learns how individuals respond to incentives and how this impacts health outcomes over the long term.

The result is a structural transformation of insurance. Additional economic value is unlocked, creating benefits for the member (more years of healthy life), the insurer (reduced claims over time), and society (healthier, more productive citizens). Vitality members generate up to 30% lower hospitalisation costs and live from 13 to 21 years longer than the rest of the insured population (up to 41 years longer than comparable uninsured populations).

The Vitality Shared-Value Insurance model is increasingly relevant because it is responsive to current trends and addresses changing realities, including the demand for corporate citizenship, ageing populations, the emergence of technology and the growing burden of lifestyle diseases. Increasingly, four types of behaviour (poor diet, physical inactivity, tobacco use and excessive alcohol intake) are causing preventable diseases which lead to 60% of deaths worldwide.

Technology has been a powerful enabler of the model. Trends also show that people admire institutions with a social impact and which are a force for social good.

DISCOVERY GETS GLOBAL RECOGNITION FOR ITS VITALITY MODEL

Discovery has been globally recognised for its role in successfully creating shared value in insurance. A report published by non-profit consulting firm FSG and the Shared Value Initiative listed Discovery, along with three other companies applying the idea of shared value. The report indicates that insurance companies have a role in benefiting society by protecting individuals and organisations from adverse events. Insurance companies are also more profitable when societal conditions improve. In a shared-value health insurance system, all stakeholders benefit when the system improves.

MMI HOLDINGS

NICOLAAS KRUGER – CHIEF EXECUTIVE

VALUE CREATED

MARKET CAPITALISATION

R31.9 billion

2016: R35.6 billion

-11%

NORMALISED EARNINGS

R3 208 million

2016: R3 206 million

–

DIVIDENDS PAID

157 cents per share

2016: 157 cents per share

–

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. 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: 11%

PERFORMANCE

	30 June 2017	30 June 2016	% change
Momentum Retail	1 271	1 493	(15)
Metropolitan Retail	660	700	(6)
Corporate and Public Sector	835	680	23
International	(166)	(156)	(6)
Operating divisions core earnings	2 600	2 717	(4)
Shareholder capital	608	489	24
Core headline earnings	3 208	3 206	–
Earnings per share			
Diluted core headline earnings per share (cents)	200.0	199.9	–
Dividends			
Ordinary dividend per share (cents)	157	157	–
Dividend yield (%)	7.8%	6.9%	
Embedded value			
Present value of new premiums	41 595	44 090	(6)
Value of new business	547	712	(23)
Value of new business margin (%)	1.3%	1.6%	
Embedded value per share (cents)	2 651	2 680	(1)
Return on embedded value (%)	4.7%	12.8%	
Price to embedded value ratio (x)	0.8x	0.8x	

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	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	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.

MMI HOLDINGS' BRANDS AND BUSINESSES

multiply	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.

2017 PERFORMANCE

- The new business present value of premiums decreased by 6% to R41.6 billion;
- The value of new business decreased by 23% to R547 million, with the new business margin reducing to 1.3%. The decrease in the value of new business is largely attributable to lower sales volumes resulting from the current economic environment;
- The embedded value amounted to R42.5 billion (2 651 cents per share), reflecting a 4.7% return on embedded value for the year;
- MMI recorded normalised earnings of R3.2 billion, in line with the normalised earnings in the prior year. Growth in normalised earnings was strained by the impact of weak investment market returns over the past two years on asset-based fees and the negative underwriting experience on group disability business;
- Earnings and headline earnings decreased by 28% and 11% respectively. Earnings include the impairment of intangible assets (software and goodwill), which is added back for headline earnings. Headline earnings include significant foreign currency and fair value losses on shareholders assets, which are added back for normalised earnings;
- MMI achieved total expense savings of R219 million in the year under review, with a reduction in annual expenses of R750 million targeted for 2019; and
- The total dividend for the year remained in line with the comparative year at 157.0 cents per share.

A capital buffer of R3.7 billion was recorded at 30 June 2017, after allowing for economic capital requirements, strategic growth initiatives and the final dividend.

RMI included R816 million of MMI's earnings in its normalised earnings (2016: R805 million).

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

STRATEGY AND VALUES

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 India.

- **Excellence**
  MMI focuses on excellent delivery of the client-centric promises it makes to clients, as well as on efficiency in delivery.

OUTLOOK

MMI continues to invest in growth initiatives with the aim of enhancing shareholder value over the longer term, with an increasing amount of the investment budget being allocated to initiatives that will broaden the South African distribution footprint.

The partnership with African Bank creates the opportunity to expand MMI's distribution network and solution set. MMI has started the rationalisation of its African portfolio, with the health insurance joint venture in India likely to be its largest ongoing investment initiative outside of South Africa in the near future.

VALUE CREATED

NET ASSET VALUE

R9.7 billion

2016: R5.8 billion

+68%

NORMALISED EARNINGS

R2 476 million

2016: R1 985 million

+25%

DIVIDENDS PAID

40.2 cents per share

2016: 36.0 cents per share

+12%

ABOUT OUTsurance

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

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: 38%

PERFORMANCE

R million (unless stated otherwise)	30 June 2017	30 June 2016	% change
OUTsurance	1 784	1 570	14
Youi Group	578	347	67
OUTsurance Life	112	60	87
OUTsurance Namibia (49%)	32	15	>100
Central (including consolidation adjustments)	10	19	(47)
Non-controlling interest	(40)	(26)	54
Normalised earnings	2 476	1 985	25
Key financial ratios			
Normalised return on equity (%)	33.7	38.4	
Normalised earnings per share (cents)	65.8	57.0	15
Diluted normalised earnings per share (cents)	63.3	54.7	16
Dividend declared per share (cents)	40.2	36.0	12
Key performance metrics			
Gross written premiums	14 908	14 754	1
Net earned premiums	14 064	13 427	5
Operating profit	3 252	2 596	25
Claims ratio (%)	51.3	54.4	
Cost-to-income ratio (%)	25.8	26.2	
Combined ratio (%)	79.0	82.7	

OUTSURANCE'S BRANDS AND BUSINESSES

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.

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.

OUTsurance Namibia was established in 2006 and provides personal lines and commercial lines short-term insurance products directly to the Namibian public.

OUTvest helps investors to set and reach their goals by making it easy to build personal investment plans. It combines state-of-the-art investment technology and human expertise to make investing simple.

OUTSURANCE'S BRANDS AND BUSINESSES

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 insurance for cars, buildings, contents and business liability directly to consumers through an interactive website. It also operates a call centre to offer prospective and current clients professional personal advice.
NEW ZEALAND	**Youi New Zealand** was launched in August 2014 and provides personal lines insurance cover directly to the New Zealand public.
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.

2017 PERFORMANCE

- Group normalised earnings increased by 25% to R2 476 million, mainly driven by a favourable claims ratio across the group;
- Net earned premiums grew by 5% to R14.1 billion, of which the Australasian operations contributed 46%;
- The claims ratio decreased from 54.4% to 51.3%;
- The cost-to-income ratio decreased from 26.2% to 25.8%; and
- The total dividend for the year increased by 12% to 40.2 cents per share.

New policy inceptions for the OUTsurance group, measured in terms of annualised premiums, decreased by 25% for the year under review. The reduction is primarily driven by price competition experienced in the Australasian business, coupled with the recessionary market conditions in South Africa. OUTsurance's philosophy is to maintain pricing discipline throughout the economic cycle, which is evident from the claims ratios achieved.

OUTsurance's South African short-term operations increased net earned premiums by 5%. Business OUTsurance delivered pleasing growth in line with an incremental expansion in product offering and agency distribution.

Despite numerous natural catastrophe events during the year, OUTsurance achieved a favourable claims ratio of 49.2%. Reduced new business strain owing to slower growth, a generally favourable accident claims environment and positive prior year claims development contributed to the reduced claims ratio. As the claims ratio continues to track below the 55% target, significant premium reductions have been implemented, which will place pressure on premium inflation and profitability over the near term. The cost-to-income ratio increased from 18.9% to 19.1%. This increase is attributable to slower premium growth.

OUTsurance Life generated normalised earnings of R112 million, an increase of 87% compared to the prior year. Gross written premiums increased by 12% to R440 million. The strong growth in profitability was aided by enhanced economies of scale. The embedded value increased by 22% to R835 million.

Youi Australia generated normalised earnings of R686 million for the year under review, compared to R497 million in the comparative year. The claims ratio decreased from 58.9% to 55.5% due to a favourable claims environment and positive prior year claims development. The cost-to-income ratio reduced from 30.9% to 30.4%, emanating from slower relative cost growth.

Youi New Zealand's start-up loss reduced from R107 million to R62 million, driven by a significant improvement in the claims and cost-to-income ratios.

Normalised earnings at **OUTsurance Namibia** increased from R30 million to R39 million, driven by an improvement in the cost-to-income ratio.

The OUTsurance group is well prepared to comply with the new prudential standards of the Solvency Assessment and Management regulatory regime, which are expected to become effective on 1 July 2018.

RMI included R2 103 million of OUTsurance's earnings in its normalised earnings (2016: R1 664 million).

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

STRATEGY AND VALUES

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

The South African economy is expected to remain challenging for the foreseeable future, which is likely to result in below inflationary premium growth for **OUTsurance's** South African operations. The **Youi** group is expected to achieve improved growth in the near future following the roll-out of product and service innovations coupled with entering the compulsory third party and commercial insurance markets. These strategies will take some time to contribute to premium growth. OUTsurance is excited about the strength of the client proposition of **OUTvest** and the positive impact this business can have on the savings and investment landscape in South Africa. The advice and administrative offering of this new venture will be expanded in the 2018 financial year. In the likely absence of strong premium growth in the next financial year, OUTsurance will retain its focus on underwriting discipline and the pursuit of operational excellence.

STRATEGY CASE STUDY

OUTSURANCE MODERNISING ON MANY FRONTS

MODERNISE

During the year, OUTsurance acquired an effective 14.7% in Hastings. OUTsurance and Hastings employ similar business models, specifically in relation to their dynamic and analytical approaches to risk underwriting and the use of modern direct distribution channels. OUTsurance and Hastings have identified areas of potential collaboration that may include the sharing of best practices and learnings between the businesses, as appropriate.

NEW LOGO, WEBSITE AND APP

OUTsurance recently unveiled a new corporate identity and simultaneously launched its new website and mobile application.

The app has a number of innovations. For instance, clients can lodge a claim without having to interact with the call centre. They can include an item on their policy and take a photo of the item using their smartphone. The app also allows users to obtain a life insurance quote in under a minute.

SmartDrive, OUTsurance's new telematics programme, provides discounts of up to 25% of your premium – depending on how well you drive. Help@OUT, the 24/7/365 emergency roadside and home-assistance service, is accessible to all registered app users, whether or not they are OUTsurance policyholders.

The new website can be viewed at **www.out.co.za** *and the app is available from the Apple and Google Play stores.*

OUTSURANCE LAUNCHES OUTVEST TO DISRUPT INVESTMENTS

After the year-end, OUTsurance launched an innovative retail investment service to complement its suite of direct to consumer short-term and life insurance products.

The new service, OUTvest, offers goal-based advice and passive investment solutions via a website and an app combining sophisticated technology and financial advisors based in a call centre.

The service's key points of difference include its intuitive do-it-yourself digital front end, low fees and intelligent goal-based calculators – which will help investors understand how much to save to achieve their goals. Clients benefit from both algorithmic passive investment strategies and professional human advice.

In a digital age where people are more comfortable using smart websites and apps to make decisions previously only entrusted to a face-to-face advisor, OUTvest aims to make investing simpler, smarter and more affordable with the consumer at the centre.

See the product at **www.outvest.co.za**.

Hastings

GARY HOFFMAN – CHIEF EXECUTIVE

VALUE CREATED

MARKET CAPITALISATION

30 June 2017:
£2 063 million

31 December 2016: £1 623 million

+27%

NORMALISED EARNINGS

Six months ended 30 June 2017:
£66.9 million

Six months ended 30 June 2016:
£51.9 million

+29%

DIVIDENDS PAID

Six months ended 30 June 2017:
4.1 pence per share

Six months ended 30 June 2016:
3.3 pence per share

+24%

Hastings has a 31 December year-end. The latest published results are for the six months ended 30 June 2017. All the numbers and commentary relate to the six-month period ended 30 June 2017.

ABOUT HASTINGS

Hastings is a UK-listed short-term insurer. It commenced operations in 1997 and listed on the London Stock Exchange in 2015. It is a fast-growing, agile digital general insurance provider operating principally in the UK motor market. It provides private car and other forms of personal insurance cover (home, van and bike). Hastings has a 7% market share of the UK private car insurance market and has 2.5 million live client policies. The group's success in capturing market share has been combined with consistently strong underwriting performance and growing retail profitability. The group is headquartered in Bexhill-on-Sea with offices in Newmarket, Leicester and Gibraltar.

TOTAL SHAREHOLDER RETURNS SINCE ACQUISITION: 37%

PERFORMANCE

£ million (unless stated otherwise)	30 June 2017	30 June 2016	% change
Underlying trading profit after tax	**66.9**	51.9	29
Profit after tax	**57.9**	42.7	36
Key financial ratios			
Earnings per share (pence)	**8.8**	6.5	35
Dividend declared per share (pence)	**4.1**	3.3	24
Key performance metrics			
Gross written premiums	**462.0**	360.6	28
Net revenue	**345.2**	282.7	22
Number of live client policies (million)	**2.54**	2.20	15
UK private car insurance market share (%)	**7.0**	6.2	
Adjusted operating profit margin (%)	**25.1**	25.0	
Loss ratio (%)	**73.4**	74.0	
Expense ratio (%)	**15.5**	15.2	
Combined operating ratio (%)	**88.9**	89.2	
Solvency coverage ratio (%)	**173**	156	
Net debt leverage multiple (x)	**1.7**	1.9	

HASTINGS' BRANDS AND BUSINESSES

Hastings DIRECT	Hastings' largest and best-known brand, delivering great value car, bike, home and van insurance in a refreshingly straightforward way.
Hastings PREMIER	Premium cover, delivering all the benefits of Hastings Direct plus roadside breakdown cover and motor legal expenses included as standard.
Hastings ESSENTIAL	The no-frills car and home insurance, providing just the essentials.
Hastings DIRECT smartmiles	A telematics brand that measures and rewards good driving behaviour, helping young and inexperienced drivers save money on their car insurance.
insure Pink. Supporting the Pink Ribbon Foundation	InsurePink provides competitive car insurance, donating £10 from every policy sold to the Pink Ribbon Foundation.
People's Choice	People's Choice car insurance provides great benefits at a competitive price.

2017 PERFORMANCE

- Continued growth, with gross written premiums up 28% to £462.0 million (30 June 2016: £360.6 million) and net revenue up 22% to £345.2 million (30 June 2016: £282.7 million);
- Sustained increases in clients with live client policies up by 15% to 2.5 million (30 June 2016: 2.2 million);
- Growing market share to 7.0% of UK private car insurance (30 June 2016: 6.2%);
- Loss ratio of 73.4% for the period ended 30 June 2017, below the target range of between 75% and 79% (30 June 2016: 74.0%);
- Consistent growth in profitability with normalised earnings increasing by 29% to £66.9 million (30 June 2016: £51.9 million);
- Ongoing cash generation and reduction in net debt leverage multiple, with free cash generated up 34% to £65.8 million (30 June 2016: £49.1 million) and net debt leverage multiple reduced to 1.7x (31 December 2016: 1.9x);
- Continued investment in the business, including Guidewire, the group's next-generation claims and broking platform, which will enable future growth opportunities and operational efficiencies;
- A significant improvement in solvency, with a Solvency II coverage ratio of 173% (31 December 2016: 140%), benefiting from the use of undertaking specific parameters in the calculation; and
- Interim dividend for 2017 of 4.1 pence per share (30 June 2016: 3.3 pence per share), reflecting increasing earnings and strong cash generation.

RMI included R246 million of Hastings' earnings in its normalised earnings.

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

STRATEGY CASE STUDY

RMI EXPANDS GEOGRAPHICALLY BY INVESTING IN UK-LISTED HASTINGS

DIVERSIFY

During the year, RMI acquired 29.9% of Hastings, becoming their single largest shareholder.

This acquisition was consistent with RMI's previously articulated strategy that, in addition to its role as an active and value-adding shareholder in its existing portfolio companies, RMI intends to optimise, diversify and modernise its investment portfolio through investments across a broad spectrum of scale and lifecycles of financial services businesses.

The acquisition met RMI's objectives of diversifying geographically, adding a significant traditional financial services business alongside its existing portfolio in partnership with a high quality and entrepreneurial management team.

Hastings is a fast-growing, agile digital general insurance provider operating principally in the UK motor market. It provides private car and other forms of personal insurance cover (home, van and bike). In recent years, the group has achieved growth within its chosen insurance verticals through a combination of strategic focus, optimised digital distribution, superior data generation and utilisation, sophisticated risk selection and advanced fraud detection and claims management.

Hastings is led by a highly regarded, experienced and entrepreneurial management team that drives a consumer-centric ethos and culture.

RMI has a stated strategy to utilise its current balance sheet gearing capacity to add to its existing portfolio of significant stakes in financial services companies. In addition to exploring opportunities to invest in early-stage businesses, RMI has previously indicated that it will seek to add a further large investment (fourth pillar) to its portfolio alongside its existing three large holdings in Discovery, MMI and OUTsurance.

The acquisition is consistent with RMI's current investment mandate and style which focuses on high-quality companies offering long-term growth prospects that are led by empowered and aligned management teams. Furthermore, the acquisition facilitates diversification of the portfolio into a new geography and growing market segments.

RMI has an 88% interest in OUTsurance. OUTsurance and Hastings employ similar business models, specifically in relation to their dynamic and analytical approaches to risk underwriting and the use of modern direct distribution channels. OUTsurance and Hastings have identified areas of potential collaboration that may include the sharing of best practices and learnings between the businesses, as appropriate.

Refer to **page 46** *to see how this has already been put in place.*

RMI entered into a relationship agreement with Hastings in terms of which it will be able to nominate for appointment a director to the board of Hastings and appoint an observer to the Hastings board and to all standing committees of the Hastings board (other than the nominations committee) for as long as RMI holds a direct or indirect interest of between 15% and 29.9% in Hastings. The first such appointees are Herman Bosman, CEO of RMI, as the director and Willem Roos, CEO of OUTsurance, as the observer. The agreement will remain in force for as long as RMI holds 10% or more of Hastings' issued shares.

STRATEGY AND VALUES

Grow – Driving profitable growth by targeting 3 million live client policies during 2019

Hastings' simple, straightforward business model coupled with its digitally-focused distribution ensures it is well positioned to benefit from increasing price comparison website (PCW) penetration amongst clients. Capitalising on this natural momentum will drive sustainable, profitable growth in live client policies (LCP) whilst strong client retention rates allow the business to benefit from a naturally maturing portfolio as it develops long-standing relationships with its clients.

Discipline – Focus on prudent underwriting

Hastings has demonstrated its focus on prudent underwriting while growing the number of LCP. Combining its dynamic footprint selection, extensive use of data, advanced pricing process and rigorous fraud detection systems will support its current growth trajectory whilst maintaining its target through the cycle calendar year net loss ratio of between 75% and 79%.

Focus – Continued focus on cash generation and deleveraging

Hastings is strategically focused on the private car market, utilising its own sophisticated risk selection through the PCW digital distribution model. As the business maintains its growth trajectory, its focus remains on continuing to improve the cash efficiency of its model utilising its highly cash generative Retail business with the strategic use of reinsurance in Underwriting to deliver ongoing deleveraging.

Agile – Rapid reaction to market changes

The group's agile and digital business model means it is well placed to respond to changing market conditions driving a significant competitive advantage. The separate structure of the Retail and Underwriting businesses, coupled with the innovative use of data and continuous market analysis, allows the business to benefit from being able to rapidly adjust pricing presented to clients to support market share growth.

KPI – No. 1 car insurance brand on price comparison websites for 2015.

Invest – Invest in digital capability and mobile distribution channels

Hastings continues to invest in complementary digital and mobile channels to further support LCP growth. Applications are being developed for phone and tablet devices, providing enhanced policy management functionality in order to improve the overall client experience. Investment continues within its infrastructure through the end to end implementation of Guidewire for both the Claims and Broking platforms.

Expand – Expand our product offering and invest in our competitive proposition

The group sees significant opportunities to increase LCP volumes and overall profitability by increasing its footprint within in its core private car market with multi-car and telematics two key areas of focus. In addition, Hastings is set to continue its expansion into the home insurance market where its business model is well placed to benefit from increased PCW penetration.

OUTLOOK

Hastings continues on its profitable growth trajectory. Its significant presence and strategic focus on price comparison websites, together with its straightforward insurance offering appeals to clients. It therefore continues to grow market share by both attracting new clients and maintaining strong retention levels. Hastings continues to invest in its digital and data-driven model to ensure agile and responsive pricing. This approach allows Hastings to maintain its robust underwriting discipline, resulting in loss ratios below the target range. Hastings is well on course to deliver on its ambitious 2019 targets set at the time of its listing in October 2015.

RMI INVESTMENT MANAGERS

IDENTIFY. PARTNER. GROW


CHRIS MEYER – CHIEF EXECUTIVE

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 nine managers managing R75 billion across a wide range of asset classes, investment styles and client base.

ROYAL INVESTMENT MANAGERS (ROYAL)

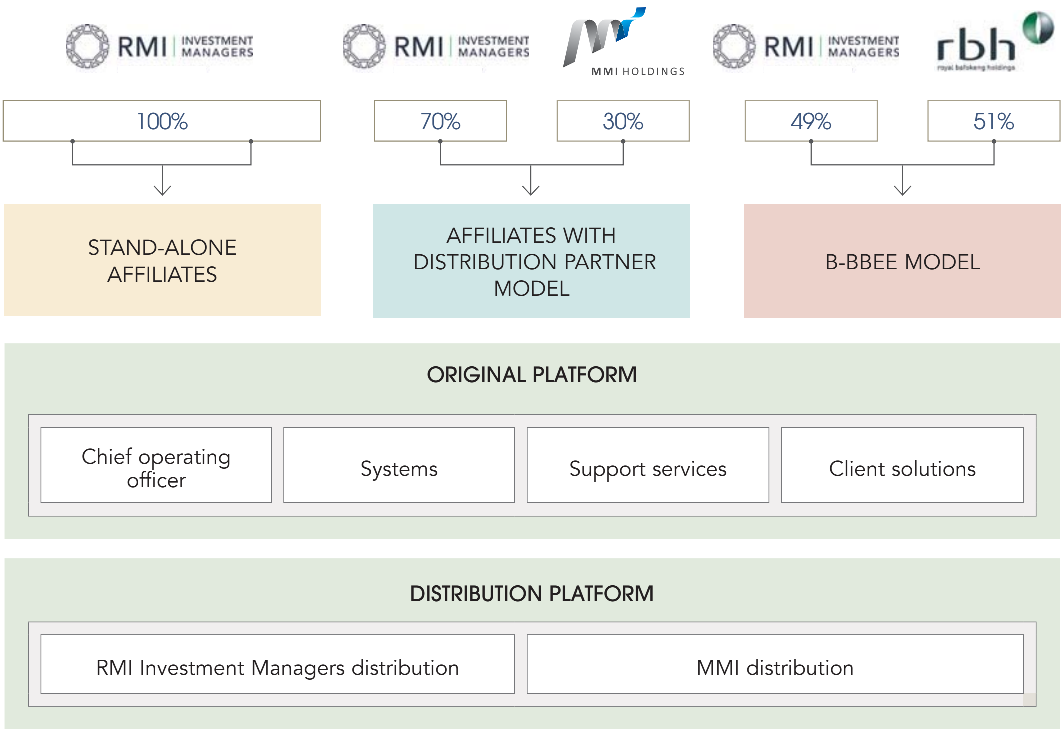
- RMI Investment Managers, together with Royal Bafokeng Holdings established Royal. Royal is deploying the affiliate model with a focus on acquiring asset management entities that require an empowerment partner with a strong knowledge of the asset management sector.

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 its affiliates. MMI is a distribution partner, enabling 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 evaluate 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 advisor (IFA)-focused distribution team and partnering with MMI, a distribution business that has a long history with the advisor industry. RMI Investment Managers use the insights and relationships from these sources to understand how to best service the changing advisor market.

RMIIM HELPS TO ADDRESS THE CHALLENGES BOUTIQUES AND INVESTMENT TEAMS FACE

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

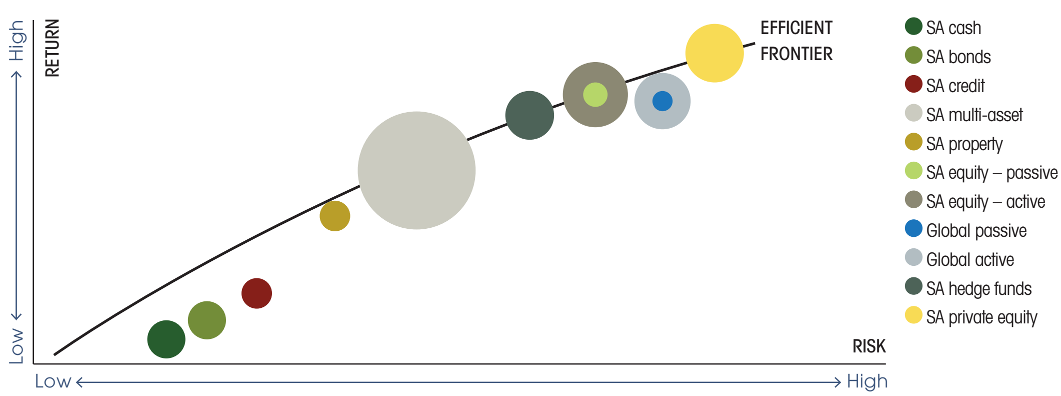
RMI INVESTMENT MANAGERS' AFFILIATES

CORESHARES™	Coreshares is a smart beta and passive exchange-traded fund and index fund manager. A 25% stake was acquired in Q4 2016.
ETHOS	Ethos is an active private equity investment firm, managing investments in private equity and credit strategies in South Africa and selectively in sub-Saharan Africa. Ethos seeks to leverage its understanding of these markets to target small to mid-sized companies best positioned to benefit from the region's unique growth dynamics. RMI Investment Managers acquired a stake in Ethos in Q3 2017.
GRANATE ASSET MANAGEMENT	Granate Asset Management, currently a fixed income, credit and money market active manager, was launched in April 2016.
NORTHSTAR ASSET MANAGEMENT	Northstar Asset Management is an active equity and multi-asset manager. A 30% stake was acquired in Q4 2015.
Perpetua	Perpetua Investment Managers is a value equity and multi-asset manager. An option to acquire a 25% equity stake was concluded in Q4 2015.
POLARSTAR MANAGEMENT	Polar Star Management is a commodity arbitrage hedge fund. A 27% 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 a three-year period.
TANTALUM CAPITAL	Tantalum Capital is a multi-strategy hedge fund and absolute return-focused active asset manager. A 25% stake will be acquired over a three-year period.
Truffle	Truffle Capital is an active equity and multi-asset manager. A 25% equity stake was acquired from RMB Structured Insurance and management in Q1 2017.

ROYAL AFFILIATES

SESFIKILE CAPITAL Listed Property Investments	During Q4 2016, Royal Investment Managers acquired a 25% equity stake in Sesfikile Capital, an active listed property manager.

HOW THE AFFILIATES FIT TOGETHER



* Note: Size of bubble represents estimated revenue pool in each category for SA asset management industry.

	ASSET CLASS								
	SA cash	SA credit	SA bonds	SA multi-asset	SA listed property	SA equity	Global	SA hedge funds	SA private equity
				●	●	●	●		
									●
	●	●	●						
			●	●		●	●		
				●		●			
							●	●	
				●		●		●	
			●	●				●	
			●	●		●		●	
					●		●		

● Affiliate has capability Passive Alternative Active

ALPHA CODE

ABOUT ALPHACODE

A 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 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

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

Adding to its investment in Merchant Capital, the SME working capital financier, AlphaCode acquired 25.1% of Entersekt, an innovator that has developed world-class mobile banking security technology.

AlphaCode also participated in a large capital raise in Prodigy Finance, an international fintech platform that offers loans to postgraduate students accepted into business, engineering and law at the world's top universities, alongside one of Europe's leading venture capital fintech investors, Balderton Capital.

In August 2017, RMI invested in Luno, a company that offers clients a wallet to buy, store and use Bitcoin and operates a Bitcoin exchange platform.

AlphaCode has a strong pipeline of investment opportunities and will continue to invest in this space.

AlphaCode remains committed to building the broader entrepreneurial sector in South Africa by supporting high-impact black technology entrepreneurs, providing mentorship, free office space, support facilities and access to enterprise development funding through its broad-based black economic empowerment centre of excellence.

GOVERNANCE AND SUSTAINABILITY

Corporate governance report

RMI is committed to the highest standards of ethics and corporate governance.

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 IV, where appropriate. RMI and its investees endorse King IV. As a JSE-listed entity, RMI also complies with the JSE Listings Requirements.

KING IV

The King IV Report on Corporate Governance for South Africa, 2016 (King IV) was released on 1 November 2016. Because of the importance to RMI to meet the highest standards of corporate governance, the board satisfied itself that RMI has substantially applied the principles set out in King IV.

King IV advocates an outcomes-based approach and defines corporate governance as the exercise of ethical and effective leadership towards the achievement of four governance outcomes. The desired governance outcomes are listed below, together with the practices implemented and progress made towards achieving the 17 principles in meeting those outcomes. It is done on an "apply and explain" basis, as recommended by King IV:

GOVERNANCE OUTCOME ONE: ETHICAL CULTURE

1. THE BOARD LEADS 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 to monitor this as part of his duties. The results of the performance assessment of individual directors in respect of the ethical characteristics they demonstrated was satisfactory. The board will make an ongoing assessment to ensure that the ethical characteristics demonstrated by the individual directors are continued.

2. THE BOARD GOVERNS THE ETHICS OF RMI IN A WAY THAT SUPPORTS THE ESTABLISHMENT OF AN ETHICAL CULTURE

The board has a fiduciary duty to act in good faith, with due care and diligence and in the best interests of the group and its stakeholders. It is the primary body responsible for the corporate governance values of the group. While control is delegated to management in the day-to-day management of the group, the board retains full and effective control over the group. A formal board charter, as recommended by King IV, 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 interests 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.

RMI's values of commitment, integrity, responsibility, innovation and connectivity guide the behaviour of how everyone goes about their daily duties. The code of ethics guides the ethical behaviour of all RMI employees. This includes interaction between colleagues, with investees, shareholders, clients, suppliers and the communities within which the company operates.

3. THE BOARD ENSURES THAT RMI IS AND IS SEEN TO BE A RESPONSIBLE CORPORATE CITIZEN

The board is the guardian of the values and ethics of the group and ensures that it is seen as 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.

Refer to the report of the social, ethics and transformation committee on **page 78** *for more detail on how RMI addressed responsible citizenship.*

GOVERNANCE OUTCOME TWO: PERFORMANCE AND VALUE CREATION

4. THE BOARD APPRECIATES THAT RMI'S CORE PURPOSE, ITS RISKS AND OPPORTUNITIES, STRATEGY, BUSINESS MODEL, PERFORMANCE AND SUSTAINABLE DEVELOPMENT ARE ALL INSEPARABLE ELEMENTS OF THE VALUE CREATION PROCESS

The board's paramount responsibility is to ensure that RMI creates 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.

This integrated report demonstrates how performance is achieved through the strategic initiatives. RMI sets and achieves its strategic initiatives 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.

Refer to RMI's business model and explanation of how the inseparable elements of the value creation process are linked, which is summarised on **page 8 and 9**.

5. THE BOARD ENSURES THAT REPORTS ISSUED BY RMI ENABLE STAKEHOLDERS TO MAKE INFORMED ASSESSMENTS OF RMI'S PERFORMANCE AND ITS SHORT, MEDIUM AND LONG-TERM PROSPECTS

The board is also responsible for formulating its communication policy and ensuring that spokespeople of the company adhere to it. This responsibility includes clear, transparent, balanced and truthful communication to shareholders and relevant stakeholders.

In its interim and integrated reports to stakeholders, RMI details both its historical performance and future outlook. This, together with further information in those and other communications, enable stakeholders to make informed assessments of RMI's prospects.

RMI's ability to create value in a sustainable manner is illustrated throughout its business model.

See **page 26** *for RMI's five-year historical performance and* **page 22 to 23** *for its detailed performance over the past year.*

See **page 25** *for RMI's outlook for the future.*

GOVERNANCE OUTCOME THREE: ADEQUATE AND EFFECTIVE CONTROL

6. THE BOARD SERVES AS THE FOCAL POINT AND CUSTODIAN OF CORPORATE GOVERNANCE IN RMI

The board's roles and responsibilities and the way that it executes its duties and decision-making are documented and are set out in the board charter.

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 2017, as well as the attendance at the board meetings and annual general meeting by individual directors, are disclosed on **page 62**.

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

RMI has board representation at all investee companies and influence the governance and transformation-related issues through this strategic position.

7. THE BOARD COMPRISES THE APPROPRIATE BALANCE OF KNOWLEDGE, SKILLS, EXPERIENCE, DIVERSITY AND INDEPENDENCE FOR IT TO DISCHARGE ITS GOVERNANCE ROLE AND RESPONSIBILITIES OBJECTIVELY AND EFFECTIVELY

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 roles and responsibilities. The board is satisfied that there is a balance of skills, experience, diversity, independence and knowledge needed to discharge its roles 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.

RMI has a unitary board with a non-executive director as chairman. The chairman is not independent, as defined in the JSE Listings Requirements. However, the board believes that GT Ferreira's specialist knowledge of the financial services industry makes it appropriate for him to hold this position. Pat Goss is the lead independent non-executive director. Seven of the 13 non-executive directors as at 30 June 2017 are independent.

RMI believes that all board members are suitably qualified and that the composition of the board is in the best interests of all stakeholders, without prejudice to them.

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 a high calibre with diverse backgrounds and expertise, facilitating independent judgment and broad deliberations in the decision-making process. New directors are subject to a "fit and proper" test. An informal orientation programme is available to incoming directors. No director has an automatic right to a position on the board. All directors are required to be elected by shareholders at an annual general meeting. In a general meeting, the company may appoint any person to be a director, subject to the provisions ofthe memorandum of incorporation.

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 boards of RMI's major investments are similarly constituted with the necessary mix of skills, experience and diversity. There is also an appropriate mix between executive and non-executive appointments. RMI believes that investee companies have a strong pipeline of executives whose natural career progression would be to serve on the RMI board.

The policy on promotion of race and gender diversity is included in the nominations committee charter which requires that, when appointing new directors, the board takes cognizance of its needs in terms of different skills, experience, cultural and gender diversity, size and demographics. Whilst no specific targets have been set, the board is committed to increasing its gender and race diversity at board and top management level.

For details of directors' full names, their dates of appointment and other listed directorships as well as brief career and sphere of influence synopsis of each of the directors, refer to **pages 63 to 68**.

COMPOSITION OF THE BOARD AS AT 30 JUNE 2017

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

	0 – 3 years	4 – 6 years
Length of service	4	10

	Black	Not black
Transformation	4	10

	Female	Male
Gender	1	13

Black female	1

8. THE BOARD ENSURES THAT ITS ARRANGEMENTS FOR DELEGATION WITHIN ITS OWN STRUCTURES PROMOTE INDEPENDENT JUDGMENT, AND ASSIST WITH BALANCE OF POWER AND THE EFFECTIVE DISCHARGE OF ITS DUTIES

The board established six sub-committees to assist the directors in fulfilling their duties and responsibilities. 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 expense of the company.

Membership of the committees are 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 individual(s) dominate decision-making within governance structures or where undue dependency is caused.

See **page 62** *for the members of each committee.*

It is not a requirement in terms of either the 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 90**.

The audit and risk committee is satisfied that the auditor is independent and the auditor firm has been appointed with the designated partner having oversight of the audit.

The financial director is the head of the finance function and he has a senior manager reporting to him. Internal audit is fully outsourced and the financial director is responsible for overseeing and co-ordinating the effective functioning of the outsourcing arrangement. An assessment of the effectiveness of the financial director function is performed annually by the audit and risk committee.

9. THE BOARD ENSURES THAT THE EVALUATION OF ITS OWN PERFORMANCE AND THAT OF ITS COMMITTEES, ITS CHAIR AND ITS INDIVIDUAL MEMBERS, SUPPORT CONTINUED IMPROVEMENT IN ITS PERFORMANCE AND EFFECTIVENESS

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. Assessments of the performance of the chief executive are conducted annually and no major issues or concerns have been identified.

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.

10. THE BOARD ENSURES THAT THE APPOINTMENT OF, AND DELEGATION TO, MANAGEMENT CONTRIBUTE TO ROLE CLARITY AND THE EFFECTIVE EXERCISE OF AUTHORITY AND RESPONSIBILITIES

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.

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.

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 has an employment contract that can, subject to fair labour practices, be terminated upon one month's notice. In terms of the memorandum of incorporation, the retirement age of an executive director is 60, but the board has the discretion to extend it to 65. 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 company secretary is Schalk Human, MCom (Accounting), CA(SA). The company secretary is appointed on a full-time basis with the requisite knowledge, experience and stature. 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, including signing 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. He is not a director of RMI.

11. THE BOARD GOVERNS RISK IN A WAY THAT SUPPORTS RMI IN SETTING AND ACHIEVING ITS 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 the duty 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 15** *for an overview of the risks to value creation in RMI.*

12. THE BOARD GOVERNS TECHNOLOGY AND INFORMATION IN A WAY THAT SUPPORTS RMI IN SETTING AND ACHIEVING ITS 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 inter-related to the strategy, performance and sustainability of RMI.

13. THE BOARD GOVERNS COMPLIANCE WITH APPLICABLE LAWS AND ADOPTED, NON-BINDING RULES, CODES AND STANDARDS IN A WAY THAT SUPPORTS RMI BEING ETHICAL AND A GOOD CORPORATE CITIZEN

There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations.

14. THE BOARD ENSURES THAT RMI REMUNERATES FAIRLY, RESPONSIBLY AND TRANSPARENTLY SO AS TO PROMOTE THE ACHIEVEMENT OF STRATEGIC OBJECTIVES AND POSITIVE OUTCOMES IN THE SHORT, MEDIUM AND LONG TERM

RMI remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner.

See the remuneration report on **page 73**.

The individual directors' remuneration is disclosed, but not the salaries of the three highest earners who are not directors. RMI believes that this disclosure is sufficient and appropriately demonstrates alignment between remuneration and shareholders' return.

15. THE BOARD ENSURES THAT ASSURANCE SERVICES AND FUNCTIONS ENABLE AN EFFECTIVE CONTROL ENVIRONMENT, AND THAT THESE SUPPORT THE INTEGRITY OF INFORMATION FOR INTERNAL DECISION-MAKING AND OF RMI'S EXTERNAL REPORTS

The board is satisfied that assurance results in an adequate and effective control environment and integrity of reports for better decision-making.

See **page 85** *for information on assurance contained in the audit and risk committee's report.*

GOVERNANCE OUTCOME FOUR: TRUST, GOOD REPUTATION AND LEGITIMACY

16. IN THE EXECUTION OF ITS GOVERNANCE ROLE AND RESPONSIBILITIES, THE BOARD ADOPTS A STAKEHOLDER-INCLUSIVE APPROACH THAT BALANCES THE NEEDS, INTERESTS AND EXPECTATIONS OF MATERIAL STAKEHOLDERS IN THE BEST INTERESTS OF RMI OVER TIME

RMI has identified its stakeholder groups and actively balances their legitimate and reasonable needs, interests and expectations.

See **page 13** *for information on stakeholder relationship and engagements.*

17. THE BOARD ENSURES THAT RESPONSIBLE INVESTMENT IS PRACTICED BY RMI TO PROMOTE THE GOOD GOVERNANCE AND THE CREATION OF VALUE BY THE COMPANIES IN WHICH IT INVESTS

RMI ensures, through active participation and representation, that it exercises its rights and obligations with regard to its investee companies.

ATTENDANCE AND BOARD COMMITTEE MEMBERSHIP

Attendance at the board and committee meetings was as follows:

	Board	Audit and risk committee	Directors' affairs and governance committee	Investment committee	Nominations committee	Remuneration committee	Social, ethics and transformation committee
Non-executive directors							
GT Ferreira (chairman)	C 4 of 4		4 of 4	3 of 7*	4 of 4		
Peter Cooper	4 of 4		4 of 4	7 of 7	4 of 4		
Laurie Dippenaar	4 of 4		4 of 4	6 of 7	4 of 4		
Jannie Durand	4 of 4		4 of 4	5 of 7	4 of 4	C 1 of 1	
Paul Harris	3 of 4		3 of 4	5 of 7	3 of 4		
Obakeng Phetwe	3 of 4		3 of 4		3 of 4		
Albertina Kekana	Alternate		Alternate	7 of 7	Alternate		
Independent non-executive directors							
Johan Burger	4 of 4		4 of 4	C 4 of 7*	4 of 4	0 of 1	
Sonja De Bruyn Sebotsa	3 of 4	1 of 2	3 of 4		3 of 4	1 of 1	C 2 of 2
Jan Dreyer	3 of 4	C 2 of 2	3 of 4		3 of 4		2 of 2
Pat Goss	3 of 4		C 3 of 4		C 3 of 4		
Per Lagerström	4 of 4	2 of 2	4 of 4		4 of 4		2 of 2
Murphy Morobe	4 of 4		4 of 4		4 of 4		
Khehla Shubane	4 of 4		4 of 4		4 of 4		
Executive director							
Herman Bosman	4 of 4			6 of 7			
See the committee's report on page		84	69	71	72	73	78

C = Chairperson * = Input provided prior to meeting.

ANNUAL GENERAL MEETING

Eight directors attended the annual general meeting of shareholders, which was held on 24 November 2016.

Directors

RMI's board epitomises its ethical values. The members are highly skilled and vastly experienced, enabling them to oversee value creation.

NON-EXECUTIVE CHAIRMAN

Gerrit Thomas (GT) Ferreira (69)

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)

NON-EXECUTIVE DEPUTY CHAIRMAN

Jan Jonathan (Jannie) Durand (50)

(chair)

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

CHIEF EXECUTIVE AND FINANCIAL DIRECTOR

Hermanus Lambertus (Herman) Bosman (48)

BCom (Law) 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, Hastings Group Holdings plc and RMB Holdings Limited (chief executive)

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	INDEPENDENT NON-EXECUTIVE DIRECTOR	INDEPENDENT NON-EXECUTIVE DIRECTOR

Johan Petrus (Johan) Burger (58)

(chair)

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) and RMB Holdings Limited

Sonja Emilia Ncumisa (Sonja) De Bruyn Sebotsa (45)

(chair)

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

Discovery Limited, Remgro Limited and RMB Holdings Limited

Jan Willem (Jan) Dreyer (66)

(chair)

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

LEAD INDEPENDENT NON-EXECUTIVE DIRECTOR

Patrick Maguire (Pat) Goss (69) (lead independent)

(chair) (chair)

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 conomics 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 (53)

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 (60)

Diploma in Project Management MCEF (Princeton)

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.

Other listed directorships

Remgro Limited and RMB Holdings Limited

INDEPENDENT NON-EXECUTIVE DIRECTOR

Khehla Cleopas (Khehla) Shubane (61)

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 (61)

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
Imperial Holdings Limited, MMI Holdings Limited and RMB Holdings Limited

NON-EXECUTIVE DIRECTOR

Lauritz Lanser (Laurie) Dippenaar (68)

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

KEY:

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

NON-EXECUTIVE DIRECTOR

Paul Kenneth (Paul) Harris (67)

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

Albertina Kekana (44)

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

NON-EXECUTIVE DIRECTOR

Obakeng Phetwe (39)

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 NON-EXECUTIVE DIRECTOR

Francois (Faffa) Knoetze (54)

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 (alternate)

ALTERNATE NON-EXECUTIVE DIRECTOR

David Ronald (David) Wilson (47)

BCom Accounting CA(SA)

Appointed: 1 September 2017
David is a chartered accountant by profession and is currently employed by Royal Bafokeng Holdings (RBH) as head of portfolio. He is a director of Royal Bafokeng Platinum Limited, representing RBH. Prior to joining RBH, he was a director and head of mergers and acquisitions for sub-Saharan Africa at Deutsche Bank, South Africa. Before joining Deutsche Bank in 2004, he was an associate director, corporate finance at HSBC, South Africa and vice-president, corporate finance at ING Barings, South Africa.

Other listed directorships:
RMB Holdings Limited (alternate) and Royal Bafokeng Platinum Limited

"The first step in the evolution of ethics is a sense of solidarity with other human beings."

Albert Schweitzer

KEY:

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

This committee oversees value creation and safeguarding of the following forms of capital:

HUMAN	INTELLECTUAL

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.

Attendance and membership of the committee are reflected in the table on **page 62**.

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.

NEW DEVELOPMENTS INTRODUCED BY KING IV

King IV makes recommendations regarding which directors should serve on which committees. For instance, it recommends that the social and ethics committee should include executive and non-executive members, with most members being non-executive members of the board.

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.

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 JSE Limited Listings Requirements regarding inside information, transactions and disclosure of transactions.

DEALINGS IN SECURITIES

In accordance with the JSE Limited 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 90**, *contains a table of all directors' interests in the ordinary shares of the company.*

Pat Goss
Chairman of the directors' affairs and governance committee

19 September 2017

This committee oversees value creation and safeguarding of the following forms of capital:

FINANCIAL	INTELLECTUAL

Investment committee report

The investment committee reports as follows:

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 seven times during the year.

Attendance and membership of the committee are reflected in the table on **page 62**.

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

19 September 2017

This committee oversees value creation and safeguarding of the following forms of capital:

HUMAN	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.

Attendance and membership of the committee are reflected in the table on **page 62**.

NEW DEVELOPMENTS INTRODUCED BY KING IV AND THE JSE LISTINGS REQUIREMENTS

King IV recommends that the board should comprise of mostly non-executive members, and that most of them should be independent. Most of RMI's directors (13 of 14) are non-executive and most of them are independent (7 of 13).

The JSE Listings Requirements now include a disclosure obligation regarding the implementation of gender diversity at board level: RMI recognises and embraces the benefits of having a diverse board, and sees increasing diversity at board level as an essential element in maintaining a competitive advantage. A diverse board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between members. These differences will be considered in determining the optimum composition of the board and, when possible, should be balanced appropriately. All board appointments are made on merit, in the context of the skills, experience, independence and knowledge which RMI and the board requires to be effective in delivering value to stakeholders.

The nomination committee reviews and assesses the board composition on its behalf and recommends the appointment of new directors. In reviewing board composition, the committee will consider the benefits of all aspects of diversity, including gender and race diversity. It also oversees the conduct of the annual performance evaluation and assessment of board effectiveness. The committee will discuss and agree proposed objectives, including the setting of voluntary targets, for achieving diversity on the board and recommend these targets to the board for approval and adoption. It will engage the social, ethics and transformation committee for guidance and input around gender and race. The social, ethics and transformation committee is required to report on, among others, the promotion of equality, diversity and the prevention of unfair discrimination.

The committee will report progress in this report in future.

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

19 September 2017

This committee oversees value creation and safeguarding of the following forms of capital:

FINANCIAL	HUMAN	INTELLECTUAL

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 members and chairperson of the committee are appointed by the board. The committee consists of at least three directors, with the majority being independent, non-executive directors. The chairperson of the board may be a member of the committee but not the chairperson of the committee.

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 once during the year.

Attendance and membership of the committee are reflected in the table on **page 62**.

The chairperson or his alternate attends the annual general meeting to answer questions concerning remuneration.

ROLES AND RESPONSIBILITIES

The roles and responsibilities of the remuneration committee include:

- assisting the board in exercising its responsibility of ensuring that fair, responsible and transparent reward practices are implemented in RMI that would promote the achievement of its strategic objectives in the short, medium and long term;
- ensuring that the disclosure of remuneration is in line with King IV 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:

- formulate the group's remuneration philosophy for approval by the board;
- 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 REPORT

BACKGROUND

RMI's remuneration policy supports its strategy and sets forth guiding principles by which all employees are remunerated. The policy aims not only to attract and retain top talent, but is also designed to ensure that the group's people live its "owner-manager" culture and core values of integrity, innovation, individual empowerment and personal accountability.

Creating an environment in which employees are sufficiently challenged and appropriately rewarded based on achieving the end result, is fundamental to the overall remuneration philosophy.

It is the dedication and commitment of a stable, talented and professional management team that ultimately differentiates a holding company such as RMI and helps it fulfil its goal of creating sustainable long-term value and returns.

Human resources are very important in delivering on RMI's value proposition, albeit on a different level to that 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.

REMUNERATION POLICY OVERVIEW

The RMI remuneration policy has the following overall features:

- RMI's rights are protected by means of a standard employment contract;
- Remuneration includes fixed pay and long-term incentives:
  - 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;
  - There are no short-term incentives as it is not appropriate for an investment holding company, with the exception of take-on bonuses as agreed with new employees, where applicable;
  - A long-term incentive plan ensures that employees' personal wealth creation is aligned with those of shareholders; and
  - A management participation structure enables 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 5.5%.

RMI SHARE APPRECIATION RIGHTS (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 are 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.

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 (until 1 February 2017) and Willem Roos, are disclosed as they are viewed as prescribed officers in the RMI group.

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.

APPROVAL OF THE REMUNERATION POLICY

Shareholders approved RMI's remuneration policy at the annual general meeting on 24 November 2016.

As of this year, shareholders are provided with the opportunity to pass separate advisory endorsements of the remuneration policy and the implementation report.

In the event that shareholders exercising at least 25% of voting rights decide against either the remuneration policy or the implementation report, or both, the board shall pro-actively engage with those shareholders to address their concerns.

IMPLEMENTATION REPORT

DIRECTORS' REMUNERATION (AUDITED)

The following directors' emoluments were paid in terms of the remuneration policy for the year ended 30 June 2017:

R'000	Services as director	Cash package	Other benefits[1]	Total 2017
Executive				
HL Bosman[2]	–	6 731	917	7 648
– Paid by RMI	–	8 975	1 223	10 198
– Recovered from RMH	–	(2 244)	(306)	(2 550)
Non-executive				
GT Ferreira	574	–	–	574
JP Burger[3]	363	–	–	363
P Cooper	335	–	–	335
SEN De Bruyn Sebotsa	324	–	–	324
LL Dippenaar	335	–	–	335
JW Dreyer	376	–	–	376
JJ Durand[3]	339	–	–	339
PM Goss	238	–	–	238
PK Harris	335	–	–	335
A Kekana (alternate)[3]	97	–	–	97
F Knoetze (alternate)	–	–	–	–
P Lagerström	316	–	–	316
MM Morobe	238	–	–	238
O Phetwe	238	–	–	238
KC Shubane	238	–	–	238
Total	4 346	6 731	917	11 994

Notes:
1. Other benefits comprise pension fund, provident fund and medical aid contributions.
2. Mr Bosman's executive remuneration is paid 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.

REMUNERATION OF PRESCRIBED OFFICERS

In addition to Mr HL Bosman, financial director and chief executive of RMI, Messrs H Aron (until 1 February 2017) 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 2017	Salary	Performance related[1]
H Aron[2]	9 895	5 816	4 079
WT Roos	7 522	3 761	3 761

Notes:
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. He retired from his executive position with effect from 1 February 2017.

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]	–	–	6 648	531	1 500	8 679
– Paid by RMI	–	–	8 864	708	2 000	11 572
– Recovered from RMH	–	–	(2 216)	(177)	(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	6 648	531	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 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 on an arm's-length basis.

Schedule of emoluments to Messrs H Aron and WT Roos, joint chief executives of OUTsurance Holdings Limited, in respect of the year ended 30 June 2016:

R'000	Total 2016	Salary	Performance related[1]
H Aron[2]	8 729	8 729	–
WT Roos	3 508	3 508	–

Notes:
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. He retired from his executive position with effect from 1 February 2017.

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:

R'000	Total 2017	Total 2016
Executive		
HL Bosman[1]	1 446	1 263
Non-executive		
GT Ferreira	–	–
JP Burger[2]	593	1 470
L Crouse (alternate)[3]	–	555
P Cooper[1]	1 231	541
SEN De Bruyn Sebotsa	1 256	924
LL Dippenaar	377	230
JW Dreyer	–	–
JJ Durand[3]	–	439
PM Goss	–	–
PK Harris	–	–
A Kekana (alternate)	–	–
F Knoetze (alternate)[3]	138	146
P Lagerström	–	300
MM Morobe	–	–
O Phetwe	–	–
KC Shubane	786	778
Total	5 827	6 646

Notes:
1. Directors' fees for serviced 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.
3. Directors' fees for services rendered by Messrs Crouse, Durand and Knoetze were paid to Remgro.

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

RMI SHARE APPRECIATION RIGHTS

Participant	Strike price (cents)	Exercise date	Balance 1 July 2016 000's	Issued 000's	Forfeited 000's	Exercised 000's	Balance 30 June 2017 000's	Benefit derived R'000
P Cooper	2 028	14/09/2015	275	–	–	–	275	–
	2 028	14/09/2016	275	–	–	–	275	–
	2 028	14/09/2017	275	–	–	–	275	–
	2 645	14/09/2016	73	–	–	–	73	–
	2 645	14/09/2017	73	–	–	–	73	–
	2 645	14/09/2017	72	–	–	–	72	–
HL Bosman	2 874	02/04/2017	631	–	–	–	631	–
	2 874	02/04/2018	631	–	–	–	631	–
	2 874	02/04/2019	631	–	–	–	631	–
	4 125	14/09/2018	27	–	–	–	27	–
	4 125	14/09/2019	27	–	–	–	27	–
	4 125	14/09/2020	26	–	–	–	26	–
	4 341	14/09/2019	–	167	–	–	167	–
	4 341	14/09/2020	–	167	–	–	167	–
	4 341	14/09/2021	–	167	–	–	167	–

Further details of the scheme are provided in **note 18** *to the consolidated annual financial statements on* **page 164**.

PRESCRIBED OFFICERS' PARTICIPATION IN THE OUTSURANCE HOLDINGS SHARE INCENTIVE SCHEME

R'000	H Aron	WT Roos
Strike price R3.33 with vesting dates from 1 July 2013 to 1 July 2016		
Opening balance – 1 July 2016	750	750
Taken up during the year	(750)	(750)
Closing balance – 30 June 2017	–	–
Benefit derived	3 863	3 863
Strike price R5.57 with vesting dates from 1 July 2014 to 1 July 2017		
Opening balance – 1 July 2016	500	500
Closing balance – 30 June 2017	500	500
Strike price R7.15 with vesting dates from 1 July 2015 to 1 July 2018		
Opening balance – 1 July 2016	600	600
Closing balance – 30 June 2017	600	600
Strike price R8.48 with vesting dates from 1 July 2016 to 1 July 2019		
Opening balance – 1 July 2016	–	–
Granted in the current year	–	600
Closing balance – 30 June 2017	–	600

Jannie Durand
Chairman of the remuneration committee

19 September 2017

This committee oversees value creation and safeguarding of the following forms of capital:

HUMAN	SOCIAL	NATURAL	MANUFACTURED

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.

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

Attendance and membership of the committee are reflected in the table on **page 62**.

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.

NEW DEVELOPMENTS INTRODUCED BY KING IV

Social and ethics committees enjoy prominence in King IV, with the enhanced focus on ethical governance. King IV recommends that the social and ethics committee uphold, monitor and report on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder-inclusivity beyond mere compliance and towards actual value creation.

The committee will reassess its composition to ensure the requisite skills and experience is present to fulfil the requirement of the oversight of ethics management.

REPORTING FRAMEWORK

During the previous year the committee formulated a reporting framework. Below is a summary of the framework specific to RMI:

Description in terms of Regulation 43	Action taken during the current year
1 Corporate social responsibility	
Corporate social investment	RMI has implemented its stand-alone strategy. Further refinement is required and an independent consulting firm has been appointed to assist management.
Employee educational development	The committee supports staff to participate in the continuing professional development programmes of the professional bodies they are members of.
Employee wellness	Employees are members of a wellness programme.
2 Black economic empowerment	Performed and reviewed the calculation of RMI's B-BBEE rating. An independent consulting firm has been appointed to assist RMI in formulating and refining it B-BBEE strategy. *A copy of the B 100 report is available on RMI's website at* **www.rmih.co.za**.
3 Employment equity (EE) transformation	RMI is in the process on improving the EE transformation of its board. Even though RMI has a small staff complement, it focuses on EE transformation with new appointments made.
4 Culture risk	Undertook an informal assessment of the culture risk of RMI.
5 Environmental and social risk governance	As an investment holding company, environmental and social risk are mainly driven by RMI's investee companies. RMI's role is more of an overseer than a participant. RMI reviewed the environmental and social risk governance framework of investees.
6 Business conduct – standards for employees	Performed an annual review of the code of ethics; personal account trading policy; and "The Company and You."
7 Market conduct – standards for the market	RMI monitored that no anti-trust measures were breached by its investee companies.
8 Monitoring – internal compliance	Assessed whether RMI required a monitoring system.
9 Governance reporting	Provided feedback to the RMI board after each meeting and in the integrated report.

Sebotsa

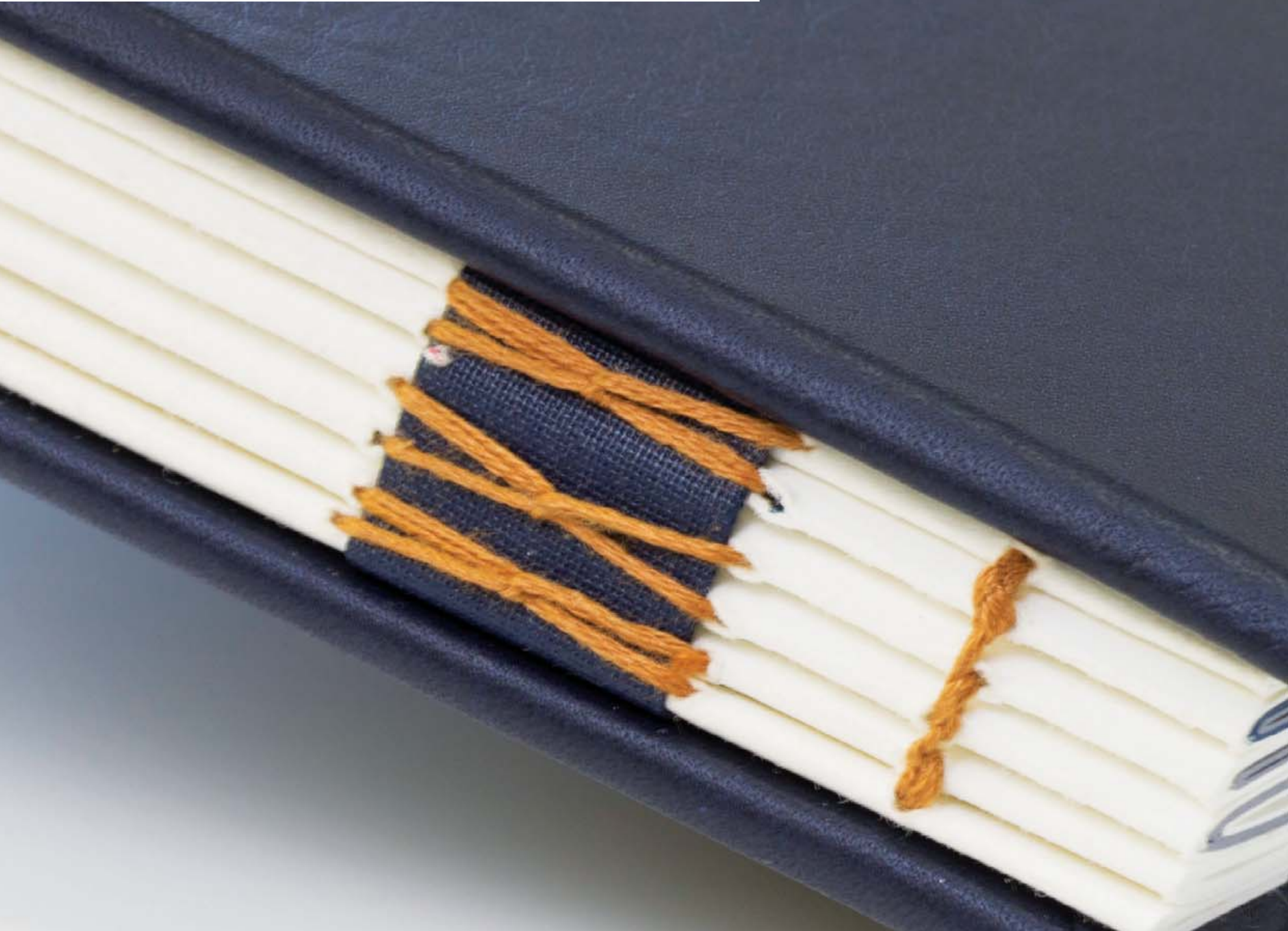
Sonja De Bruyn Sebotsa
Chairperson of the social, ethics and transformation committee

19 September 2017

OUR FINANCIAL PERFORMANCE

"There is no value in life except what you choose to place upon it and no happiness in any place except what you bring to it yourself."

Henri David Thoreau



Group annual financial statements

for the year ended 30 June 2017

contents

These annual financial statements have been audited in terms of the Companies Act, 71 of 2008, and were 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 or 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 information currently available. On the basis of this review and in the light of the current financial position and profitable trading history, the directors are satisfied that the group has adequate resources to continue in business for the foreseeable future. The going concern basis therefore continues to apply and has been adopted in the preparation of the financial statements.

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

Their unqualified report appears on pages 91 to 99.

The consolidated annual financial statements of the group, which appear on pages 100 to 193 and the separate annual financial statements of the company, which appear on pages 196 to 214, were approved by the board of directors on 19 September 2017 and signed on its behalf by:

GT Ferreira	**HL Bosman**
Chairman	Chief executive

Declaration by the company secretary

Declaration by the company secretary in terms 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

19 September 2017

Audit and risk committee report

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

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 its 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 by invitation. The committee also 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:

	August 2016	March 2017
Jan Dreyer BCom LLB HDip Co Law HDip Tax (chairman)	✓	✓
Sonja De Bruyn Sebotsa LLB (Hons) LSE MA (McGill) SFA	✓	*
Per Lagerström BSc (Accounting) MSc (Economics) (London School of Economics)	✓	✓

✓ Attended meeting * Apology received

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 the corporate governance practices;
- review of the integrated report;
- the business conduct of the group and its officials;
- ensuring that the accounting policies applied are consistent, appropriate and in compliance with IFRS; and
- the appointment of the external auditor and the evaluation of their services and independence.

NEW DEVELOPMENTS INTRODUCED BY KING IV

The King IV Report on corporate governance for South Africa, 2016 (King IV) recommends that the audit committee discloses the date of the first appointment of the external auditor and the date of the appointment of the predecessor firm. King IV recommends that the audit committee be responsible for the auditor independence oversight as recommended by the Independent Regulatory Board for Auditors. The audit committee would have to apply the independence test of the external auditor annually to ensure the reporting is reliable, transparent and a fair representation for the use of stakeholders. Audit committees are encouraged to adopt the mandatory audit firm rotation voluntarily that may affect organisations with international operations. All these matters are dealt with below.

Audit quality is enhanced by the external auditor reporting on key audit matters arising from the audit and how the matters were addressed.

*See **pages 92 to 97** for an analysis of the key audit matters which arose during the audit and how they were addressed.*

King IV introduces the term "risk and opportunity governance". The board is encouraged to not take excessive risks that may lead to organisational failure and to consider both negative and positive potential governance outcomes in its risk management. The board sets the risk tolerance levels relevant to the strategy and objectives.

King IV recommends organisations to pro-actively engage with regulators, legislators and industry associations to understand the compliance and regulatory universe as well as build relationships of trust.

King IV expands on the King Report on Governance for South Africa, 2009 (King III) combined assurance model to include "five lines of assurance" to incorporate all assurance providers to enable an effective control environment to strengthen decision-making. Horizontal assurance includes internal audit, risk and compliance whilst vertical assurance includes line managers, frameworks, policies, procedures and system controls. Internal audit remains a pivotal part of governance relating to assurance and King IV therefore expects the board to apply its mind to the assurance standards expected from internal auditors.

THE FINANCE FUNCTION

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

EFFECTIVENESS OF COMPANY'S INTERNAL FINANCIAL CONTROLS

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

INDEPENDENCE OF THE EXTERNAL AUDITOR

PricewaterhouseCoopers Inc. was re-appointed as auditor of the company until the next annual general meeting. They have been RMI's auditor since inception. The committee believes that the auditor has observed the highest level of business and professional ethics. The committee is satisfied that the auditor has at all times acted with unimpaired independence.

*Details of fees paid to the external auditor are disclosed in **note 27** to the annual financial statements.*

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

19 September 2017

Directors' report

NATURE OF BUSINESS

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

- **Optimise** the value created by existing investments by being an active and responsible shareholder of influence;
- **Diversify** the investment portfolio by investing in additional "traditional" financial services businesses and building an asset management business by growing and partnering with world-class asset managers and investment teams; and
- **Modernise** the investment portfolio by identifying, funding and scaling new and 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, a 29.9% investment in the UK short-term insurer, Hastings Group Holdings plc (Hastings), an asset management business and investments in the next-generation financial services companies Merchant Capital Advisory Services Proprietary Limited (Merchant Capital) and Entersekt International Limited and Entersekt Proprietary Limited (Entersekt).

During the 2017 financial year, the following corporate activity took place:

- RMI Investment Managers Group Proprietary Limited (RMI Investment Managers) was capitalised with a further R345 million. In September 2016, RMI Investment Managers Affiliates 1 Proprietary Limited (Affiliates 1) made the following investments:
  - 26.7% of Polar Star Management Proprietary Limited; and
  - 26.2% of Polar Star Management SEZC.
- RMI Investment Managers 2 Proprietary Limited (Affiliates 2) made the following investments:
  - 25.6% of Coreshares Holdings Proprietary Limited in October 2016;
  - 25% of Truffle Capital Proprietary Limited in February 2017; and
  - An additional 7.5% of Tantalum Capital Proprietary Limited in June 2017.
- Royal Investment Managers Proprietary Limited acquired 25% of Sesfikile Capital Proprietary Limited and Sesfikile Global Proprietary Limited in December 2016.
- In December 2016, RMI invested in preference shares issued by a special purpose vehicle owned by a senior MMI executive.
- RMI, via Firness International Proprietary Limited, acquired an additional 17 933 690 shares in OUTsurance in October 2016 and an additional 91 180 000 shares in OUTsurance in April 2017. The first acquisition was funded with a loan. The second acquisition was funded by the issue of 20 000 000 additional ordinary par value shares in terms of a general issue of shares for cash to public shareholders at R38 per share.
- In November 2016, RMI obtained 90% of the OUTsurance Equity Trust.
- In February 2017, RMI completed a group restructure by moving its investments in RMI Investment Managers, AlphaCode Proprietary Limited, RMI Investment Holdings Proprietary Limited, Main Street 1353 Proprietary Limited and all its preference share investments in seven of the special purpose vehicles owned by senior MMI executives into a 100%-owned subsidiary, RMI Asset Holdings Proprietary Limited. All the bridge funding and preference shares in RMI were redeemed with the proceeds from issuing new preference shares in RMI's 100%-owned subsidiary, RMI Treasury Company Limited.
- In March 2017 RMI acquired 29.9% of Hastings via its 100%-owned subsidiary, Main Street 1353 Proprietary Limited, for a total consideration of R8.6 billion. This acquisition was funded with a GBP-denominated loan of GBP150 million and preference shares issued by RMI Treasury Company Limited.
- RMI disposed of its 76% interest in RMB-SI Investments Proprietary Limited in March 2017.
- RMI disposed of a 49% interest in Main Street 1353 Proprietary Limited to OUTsurance in June 2017 in exchange for an additional 280 745 208 shares in OUTsurance and cash of R678 million.
- RMI acquired 25.1% of Entersekt in June 2017. This investment in Entersekt is held in RMI Invest Two Proprietary Limited, a 100%-owned subsidiary of RMI Investment Holdings Proprietary Limited which, in turn, is 100%-owned by RMI Asset Holdings Proprietary Limited.

The table below summarises RMI's actual interests in its investee companies as at 30 June 2017 compared to 30 June 2016:

	30 June	
	2017	2016
Discovery	25.0%*	25.0%*
MMI	25.5%*	25.5%*
OUTsurance Holdings Limited (OUTsurance)	87.7%*	83.6%*
RMB-SI Investments Proprietary Limited (RMBSI)	–	75.5%*
RMI Asset Holdings Proprietary Limited	100.0%	–
RMI Treasury Company Limited	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 37 to the annual financial statements).

Further details regarding the investments are provided in notes 38 and 39 to these annual financial statements.

SHARE CAPITAL

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

ORDINARY SHARES

The total authorised number of ordinary shares is 2 000 000 000, with a par value of R0.0001 per share. The total issued number of ordinary shares at the beginning of the 2017 financial year was 1 485 688 346, issued at a premium of R9.1926 per share. RMI issued an additional 20 000 000 ordinary shares with a par value of R0.0001 per share and a premium of R37.9999 per share on 24 April 2017. 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 100 000 000, with a par value of R0.0001 per share.

As at the beginning of the 2017 financial year, RMI had 648 001 cumulative, redeemable par value preference shares with a par value of R0.0001 per share in issue. These preference shares were redeemed on 22 February 2017.

CUMULATIVE, REDEEMABLE NO PAR VALUE PREFERENCE SHARES

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

As at the beginning of the 2017 financial year, RMI had 1 650 000 cumulative, redeemable no par value preference shares in issue. These preference shares were redeemed on 22 February 2017.

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 100 000 000. None of these shares have been issued to date.

SHAREHOLDER ANALYSIS

Based on information provided 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	
	2017	2016
Financial Securities Limited (Remgro)	29.9%	30.3%
Royal Bafokeng Holdings Proprietary Limited	14.8%	15.0%
Allan Gray (on behalf of clients)	8.0%	7.8%
Public Investment Corporation	7.0%	7.7%

EARNINGS

Earnings attributable to ordinary shareholders for the year ended 30 June 2017 amounted to R3 335 million or 224.4 cents per share (2016: R2 977 million or 200.9 cents per share). Headline earnings amounted to R3 442 million or 231.6 cents per share (2016: R2 935 million or 198.0 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 2016 of 53.0 cents per ordinary share, declared on 13 March 2017 and paid on 3 April 2017 (2016: 53.0 cents per ordinary share, declared on 7 March 2016 and paid on 4 April 2016).
- A final dividend for the year ended 30 June 2017 of 65.0 cents per ordinary share, declared on 19 September 2017 and payable on 9 October 2017 with an option for scrip or to reinvest the dividend (2016: 65.0 cents per ordinary share, declared on 12 September 2016 and paid on 10 October 2016 without an option for scrip or to reinvest the dividend).

The last day to trade in RMI shares on a cum-dividend basis in respect of the final dividend will be Tuesday, 3 October 2017, while the first day to trade ex-dividend will be Wednesday, 4 October 2017. The record date will be Friday, 6 October 2017 and the payment date Monday, 9 October 2017.

No dematerialisation or rematerialisation of shares may be done during the period Wednesday, 4 October 2017 to Friday, 6 October 2017, both days inclusive.

DIRECTORATE

The directorate as at 30 June 2017 comprised:

Name	Date of appointment
GT Ferreira (Chairman)	8 December 2010
JJ Durand (Deputy chairman)	8 December 2010
HL Bosman (CEO)	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
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

Name	Date of appointment
A Kekana	6 February 2013
F Knoetze	1 April 2016

Mr Durand was elected as deputy chairman of the board of directors with effect from 25 November 2016.

DIRECTORS' INTERESTS IN RMI

Details of individual directors' interests in the company are disclosed on **page 90** *of the integrated report.*

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 35 to the annual financial statements.

DIRECTORS' EMOLUMENTS AND SERVICE CONTRACTS

Directors' and prescribed officers' emoluments are disclosed on **pages 75 to 77** *of the integrated report.*

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 and implementation report are endorsed annually by way of an advisory endorsement 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 2017 financial year. Mr Bosman's executive remuneration was paid by RMI. RMI charged management fees to RMH according to the time spent by Mr Bosman on the affairs of that company.

SPECIAL RESOLUTIONS

The following special resolutions were passed at the annual general meeting of RMI held on 24 November 2016:

- approval of non-executive directors' remuneration with effect from 1 December 2016;
- general authority to repurchase company shares; and
- adoption of a revised MOI.

OUTsurance passed the following special resolutions at its annual general meeting held on 23 November 2016:

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

In April 2017, a special shareholders' resolution was passed for the approval of an amended memorandum of incorporation for OUTsurance.

EVENTS SUBSEQUENT TO THE REPORTING DATE

RMI acquired 3.5% of Prodigy Investments Limited in July 2017 via RMI Invest Three Proprietary Limited and a minority stake in Luno Proprietary Limited via AlphaCode Proprietary Limited in August 2017. RMI Investment Managers and Royal Investment Managers acquired a minority stake in Ethos Private Equity in September 2017.

RMI declared a final dividend of 65 cents per ordinary share on 19 September 2017 with an option for scrip or to reinvest the dividend.

DIRECTORS' INTERESTS IN ORDINARY SHARES OF RMI (AUDITED)

Directors have disclosed the following interests in the ordinary shares of RMI at 30 June 2017:

000's	Direct beneficial	Indirect beneficial	Held by associate	Total 2017
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 interests	970	98 661	43 183	142 814

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 interests	970	98 661	43 183	142 814

Since 30 June 2017 to the date of this report, the interests of directors remained unchanged.

Independent auditor's report

To the shareholders of RMI Holdings Limited

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of RMI Holdings Limited (the company) and its subsidiaries (together the group) as at 30 June 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

WHAT WE HAVE AUDITED

RMI Holdings Limited's consolidated and separate financial statements set out on pages 100 to 214 comprise:

- the consolidated and separate statements of financial position as at 30 June 2017;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

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

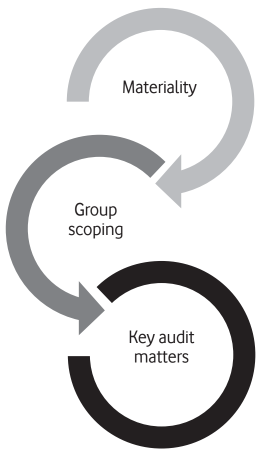
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

OUR AUDIT APPROACH

OVERVIEW



Overall group materiality

Overall group materiality: R242 million, which represents 5% of consolidated profit before tax.

Group audit scope

The components that are in scope include the significant components of the group. The main indicators used to identify significant components are revenue and profit before tax.

Key audit matters

- Valuation of insurance contract liabilities relating to short-term insurance contracts – OUTsurance
- Equity accounted earnings of MMI Holdings Limited
- Equity accounted earnings of Discovery Limited
- Investment in Hastings Group Holdings plc

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

MATERIALITY

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

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

Overall group materiality	R242 million
How we determined it	5% of consolidated profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

HOW WE TAILORED OUR GROUP AUDIT SCOPE

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

We conducted an audit of all significant subsidiaries and associates of the group. For the work performed by local auditors within PwC South Africa and, for selected subsidiaries, by auditors not part of the PwC network operating under our instruction, we issued group instructions and performed cross-reviews on their audit working papers on an ongoing basis. We determined the level of involvement we needed to have in the audit work of those component teams to be satisfied that sufficient audit evidence had been obtained for the purposes of our opinion. We kept regular communication with audit teams throughout the audit and appropriately directed their audits.

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

KEY AUDIT MATTERS

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

The following key audit matters relate to the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements of the company to communicate in our report.

<table>
<tr><th>Key audit matters relevant to the consolidated financial statements</th><th>How our audit addressed the key audit matters</th></tr>
<tr><td colspan="2">VALUATION OF INSURANCE CONTRACT LIABILITIES RELATING TO SHORT-TERM INSURANCE CONTRACTS – OUTSURANCE
Refer to note 8 to the consolidated financial statements on pages 154 to 157.</td></tr>
<tr><td>Insurance contract liabilities relating to short-term insurance contracts include an outstanding claims provision of R1 575 million, a claims incurred but not reported (IBNR) provision of R603 million and an insurance contract non-claims bonus provision of R440 million.

The calculation of these insurance contract liabilities is subject to inherent uncertainty and significant estimation is required. Due to the magnitude of the liabilities and the significance of estimation required, the assessment of these insurance contract liabilities was considered a matter of most significance to our audit.

The estimate for outstanding claims is assessed by OUTsurance management separately on a case-by-case basis, taking into account information available from the insured. The estimates are updated as and when new information becomes available.

IBNR is calculated as a percentage of historic 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 written premium generated by each business class.

The estimate for outstanding claims and IBNR, 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 by OUTsurance management to be an appropriate risk margin.

The provision for insurance contract non-claims 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.

The valuation of the insurance contract liabilities is based on the actuarial guidance contained in Standard of Actuarial Practice (SAP) 104.</td><td>Our audit procedures included evaluating and testing the design and effectiveness of the controls over the data used in the calculation of the insurance contract liabilities relating to short-term insurance contracts. The procedures included tests over both manual controls as well as automated controls.

To assess the validity of the population of claims information recorded on the system (e.g. loss event, claim estimate, item being claimed) and the valuation of the claims, a sample of claims was selected. Claim values were assessed against assessor reports, and the claims were traced to claim documentation which detailed the loss event. The claims were also compared to the information for the underlying policy recorded on the system to test if the claims were valid claims (e.g. if the item being claimed was included on the original policy, if the premium has been paid up). Based on the procedures performed, all claims selected were found to be valid claims.

With regard to the assessment of the IBNR, we performed an assessment of the analysis underlying the actuarial estimates for reasonability and appropriateness and taking into consideration the OUTsurance group accounting policy in respect of the IBNR, with the assistance of our actuarial specialists. The work performed involved:
▶ An assessment of the controls in respect of the data used in the valuation;
▶ An assessment of the methodology and assumptions for reasonability and appropriateness taking into consideration historic experience, actuarial guidance and industry practice, with the assistance of our actuarial experts; and
▶ A re-performance of the IBNR liability at the best estimate and 75th percentile level, on a sample basis at a portfolio, line of business or class of business as performed by OUTsurance management.

Based on the work performed:
▶ The methodology and assumptions applied as at 30 June 2017 were found to be consistent with historic experience, actuarial guidance and industry practice and were unchanged from the previous year-end; and
▶ Our re-performance of the IBNR liability at the best estimate and 75th percentile level on a sample basis did not identify significant differences when compared to OUTsurance management's calculation.

With regard to the provision for insurance contract non-claims bonuses, our audit work included the following:
▶ An assessment of the reasonability and appropriateness of the methodology and assumptions applied given the nature of the business as well our understanding of industry practice; and
▶ Performing high-level checks on the assumptions underlying the estimates to ensure that no significant changes have been observed since the last valuation.

Based on the work performed:
▶ The methodology and assumptions applied were found to be in line with the nature of the business and industry practice; and
▶ No significant changes to the underlying assumptions were noted since the last valuation.</td></tr>
</table>

<table>
<tr><th>Key audit matters relevant to the consolidated financial statements</th><th>How our audit addressed the key audit matters</th></tr>
<tr><td colspan="2">EQUITY ACCOUNTED EARNINGS OF MMI HOLDINGS LIMITED
Refer to note 38 to the consolidated financial statements on pages 178 to 181.</td></tr>
<tr><td>The group accounts for its investments in associates under the equity method. The group has 25.7% ownership interest in a significant associate, MMI Holdings Limited (MMI). The group's share of the after-tax profits of MMI for the year ended 30 June 2017 was R378 million and the group's share of MMI's net assets was R5 909 million as at 30 June 2017.

MMI's equity accounted earnings contribute significantly to RMI Holdings Limited's consolidated financial results. There is also significant judgment applied by MMI management in the determination of the after-tax profits of MMI, as summarised in the following section. Due to underlying complexities in the judgment involved at the MMI level, we treated the equity accounted earnings of MMI as a matter of most significance to the audit of the consolidated financial statements of the current financial year.

In the context of our audit of the consolidated financial statements, the key audit matter relating to the group's share of the profits and net assets of MMI is summarised as follows:

Valuation of insurance contract liabilities:

The valuation of policyholder liabilities is considered a matter of most significance to the audit because of the judgmental assumptions inherent in the valuation. Assumptions are made for both economic and non-economic inputs into the valuation.

Economic assumptions, such as discount rates, investment returns and inflation rates are based on available market information as at the financial year-end. Non-economic assumptions are typically determined using past experience as a guide, which introduces an element of judgment. These non-economic assumptions include future claims experience such as for mortality, morbidity, lapses and for other items such as future expenses.

The valuation of the insurance contract liabilities is based on the actuarial guidance contained in Standard of Actuarial Practice (SAP) 104.</td><td>We obtained the audited financial results of MMI, evaluated the consistency of its accounting policies with those of the group and compared them to the equity accounted results and movements recorded in the consolidated financial statements. We found no exceptions.

Due to the significance of the group's share of the after-tax profits in MMI, we maintained close interaction with the component audit team responsible for MMI. We met with the component audit team and discussed their identified audit risks and audit approach, examined their working papers and discussed with them the results of their work. We also engaged with the component audit team and evaluated the impact of the key audit matters relating to MMI on the group's consolidated financial statements.

Together with their reporting to us in accordance with our instructions, we have determined that the audit work performed and audit evidence obtained were sufficient for our purpose.

The procedures performed on the key audit matter related to the valuation of insurance liabilities included the following:

Making use of actuarial and data expertise and:

▶ Performing audit procedures to verify the completeness and accuracy of data used for the valuations, including performing movement reconciliations for key data fields, as well as reconciling the policyholder data used in the valuation to the data on the administration systems audited results;
▶ Testing the actuarial valuation process through critically assessing the change in policyholder liabilities. Reserves created manually outside of the models were considered by testing the accuracy and methodology of the calculations and critically assessing MMI management's assumptions related to future events against our knowledge of the business and industry;
▶ Assessing the reasonableness of economic assumptions through comparisons to market observable data and non-economic assumptions through consideration of experience investigations and historical variances; and
▶ Assessing the reasonableness of management's explanation of the sources of profits as well as changes in the policyholder liability by considering our understanding of changes in policyholder behaviour, valuation methodology and assumptions, given product structures and relevant actuarial committee approved changes.</td></tr>
</table>

<table>
<tr><th>Key audit matters relevant to the consolidated financial statements</th><th>How our audit addressed the key audit matters</th></tr>
<tr><td colspan="2">EQUITY ACCOUNTED EARNINGS OF DISCOVERY LIMITED
Refer to note 38 to the consolidated financial statements on pages 178 to 181.</td></tr>
<tr><td>As noted above, the group accounts for its investments in associates under the equity method. The group has 25.1% ownership interest in a significant associate, Discovery Limited (Discovery). The group's share of the after-tax profits of Discovery for the year ended 30 June 2017 was R1 097 million and the group's share of Discovery's net assets was R7 914 million as at 30 June 2017.

Discovery's equity accounted earnings contribute significantly to RMI Holdings Limited's consolidated financial results. There is also significant judgment applied by Discovery management in the determination of the after-tax profits of Discovery, as summarised in the following section. Due to underlying complexities in the judgment involved at the Discovery level, we treated the equity accounted earnings of Discovery as a matter of most significance to the audit of the consolidated financial statements of the current financial year.

In the context of our audit of the consolidated financial statements, the key audit matters relating to the group's share of the profits and net assets of Discovery are summarised as follows:

Valuation of assets and liabilities arising from insurance contracts:

The valuation of assets and liabilities from insurance contracts of Discovery was considered a matter of most significance as it involves complex and subjective judgment about future events, policyholder behaviour and economic conditions. Assumptions about these matters are made in determining the value of the policyholder asset or liability and changes to these may result in a material change to the valuation. The most significant matters in this respect relate to:

▶ Impact of Vitality programme on valuation; and
▶ Use of discretionary margins with respect to profit recognition.</td><td>We obtained the audited financial results of Discovery, evaluated the consistency of its accounting policies with those of the group and compared them to the equity accounted results and movements recorded in the consolidated financial statements. We found no exceptions.

Due to the significance of the group's share of the after-tax profits in Discovery, we maintained close interaction with the component audit team responsible for Discovery. We met with the component audit team and discussed their identified audit risks and audit approach, examined their working papers and discussed with them the results of their work. We also engaged with the component audit team and evaluated the impact of the key audit matters relating to Discovery on the group's consolidated financial statements.

Together with their reporting to us in accordance with our instructions, we have determined that the audit work performed and audit evidence obtained were sufficient for our purpose.

The procedures performed on the respective key audit matters included the following:

Valuation of assets and liabilities arising from insurance contracts:

Actuarial experts were utilised to assist in performing the audit procedures with respect to these balances. The procedures included amongst others:

▶ Consideration of Discovery's actuarial control environment and governance such as the functioning of the actuarial committee.
▶ Examination and corroboration of the liability build-up as a control to explain the sources of profit.
▶ Challenging the appropriateness of a sample of assumptions adopted by management through comparison to results of actuarial experience investigations conducted by management of actual policyholder experience, benchmarks of assumptions of South African life insurance industry trends and evaluation of the data used to formulate the assumptions. Discovery management's assumptions were found to be within a reasonable range.

Impact of Vitality programme on the valuation: In terms of IFRS, the valuation of insurance contract liabilities, including the impact of the Discovery Vitality statuses on the assumptions used, is performed using the Financial Soundness Valuation (FSV) method as described in SAP 104. It was found that Discovery management's assumptions were within a reasonable range.

Discretionary margins: The audit of discretionary margins included consideration of the release of profits in subsequent periods, focusing on the pattern of release compared to the risk profile associated with the policyholder liability.</td></tr>
</table>

Key audit matters relevant to the consolidated financial statements	How our audit addressed the key audit matters
Annual assessment of goodwill for impairment: Discovery has a significant goodwill balance (R2.107 million) on its group statement of financial position as at 30 June 2017 which is subject to estimation uncertainty and significant judgment with respect to the inputs to the calculation of the recoverable amount used to assess the goodwill for impairment.	**Annual assessment of goodwill for impairment:** Discovery management's assessment of goodwill as at 30 June 2017 was evaluated to ascertain whether there was any indicator of impairment of the balance. Discovery management's calculation of the recoverable amount of the goodwill was obtained and the following procedures were performed amongst other: ▶ Considered whether or not the methodology and source of information for the calculation were consistent with that used in prior years; ▶ Agreed the cash flows used in the calculation to the cash flows used in the insurance contract and embedded value valuations of the books of business associated with these entities. These were consistently applied and considered reasonable; and ▶ Valuation experts assessed the discount rate and terminal growth rate for reasonableness through comparison to benchmarks for similar entities or transactions. No material differences were observed.
Valuation of intangible assets arising from transactions to establish Discovery Bank: Discovery acquired the right to increase its share of the profits arising from the Discovery Card business by 54.99% within its business partnership with First National Bank Limited. Discovery's right was acquired through a preference share arrangement at an initial cost of R1 421 million. The rights acquired through this transaction have been accounted for as an intangible asset in terms of *International Accounting Standard (IAS) 38 – Intangible Assets*. The carrying value of the intangible asset at year-end was assessed for impairment by Discovery management, using a valuation expert. The value in use calculation is based on discounted projected profits from the business partnership, which is subject to estimation uncertainty and significant audit effort was required in evaluating the reasonableness of the projected future profits and the appropriateness of the discount rate applied.	**Valuation of intangible assets arising from transactions to establish Discovery Bank:** The evaluation of the reasonableness of Discovery management's value in use calculation and consideration of impairment included the following audit procedures: ▶ Audit procedures were performed to assess the competence and objectivity of Discovery management's expert. ▶ The reasonableness of the profits projected by Discovery management was evaluated through benchmarking Discovery management's projections with the actual profits achieved by the business partnership in the current and previous financial years. The audit work performed revealed no unreasonable profit projections or inappropriate discount rates applied. ▶ Valuation experts were utilised in evaluating the soundness of the methodology applied by Discovery management's expert and the reasonableness of the discount rate applied.

Key audit matters relevant to the consolidated financial statements	How our audit addressed the key audit matters
INVESTMENT IN HASTINGS GROUP HOLDINGS PLC Refer to note 38 to the consolidated financial statements on pages 178 to 181.	
In the current financial year, the group concluded the purchase of 29.9% of Hastings Group Holdings plc (Hastings), with an effective date of 1 March 2017. The initial accounting for the transaction was considered a matter of most significance to our current year audit due to the financial significance of the investment on the consolidated financial position of the group and the complexity associated with the initial recognition of the transaction. The complexity associated with the initial recognition of the transaction arose due to the purchase price being contractually determined on 14 December 2016, being the date on which RMI Holdings Limited announced the transaction to the market, whereas the conditions of the transaction were met on 1 March 2017 (considered to be the effective date of the transaction). Management determined that a firm commitment to purchase the associate existed at the date of transaction announcement and, therefore, that a derivative at fair value was required to be recognised between that date and the effective date of the transaction, in accordance with *IAS 32 – Financial instruments: Presentation* and *IAS 39 – Financial instruments: Recognition and measurement*. Management determined the derivative to have no impact on the cost of the investment on the basis that there was no significant change in the underlying value of the investee company between the two dates.	We obtained and evaluated the contractual documentation in respect of the transaction to gain an understanding of the nature and terms of the transaction. We agreed the cash flows associated with settlement of the transaction to the amount at which the investment was initially recognised in the consolidated financial statements. We found no exceptions. Based on our examination of the contractual terms of the transaction, we concurred with management's determination that a firm commitment to purchase an associate holding in Hastings existed at the date of transaction announcement. We assessed the fair value of the derivative with reference to movements in Hastings' listed share price, understood and validated the change in the share price at the transaction announcement and effective date, and found no exceptions.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the directors' report, the audit and risk committee report and the declaration by the company secretary as required by the Companies Act of South Africa, and the directors' responsibility statement, which we obtained prior to the date of this auditor's report and the 2017 integrated report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the 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.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of RMI Holdings Limited for 7 years.

PricewaterhouseCoopers

PricewaterhouseCoopers Inc.
Director: Francois Prinsloo

Registered Auditor
Johannesburg

19 September 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June

		Group	
R million	Note	2017	2016
Assets			
Property and equipment	1	1 000	679
Intangible assets	2	90	113
Investments in associates	3	24 455	14 888
Financial assets			
Equity securities			
– available-for-sale	4	996	805
– fair value through profit or loss	4	229	124
Debt securities			
– available-for-sale	4	105	647
– fair value through profit or loss	4	8 510	9 074
Derivative asset	5	6	29
Loans and receivables including insurance receivables	6	2 536	2 768
Deferred acquisition cost	7	338	365
Reinsurance contracts	8	672	257
Deferred taxation	9	176	204
Taxation		–	6
Assets of discontinued operation	10	–	6 100
Cash and cash equivalents	11	2 302	611
Total assets		41 415	36 670
Equity			
Share capital and premium	12	14 328	13 526
Reserves	13	4 947	5 030
Total shareholders' equity		19 275	18 556
Non-controlling interests	39	1 215	1 170
Total equity		20 490	19 726
Liabilities			
Financial liabilities			
Preference shares	14	9 710	2 298
Interest-bearing loans	15	2 611	60
Financial liabilities at fair value through profit or loss	16	150	144
Derivative liability	17	8	12
Insurance contracts	8	6 841	7 068
Share-based payment liability	18	165	253
Provisions	19	64	41
Insurance and other payables	20	1 199	1 197
Deferred taxation	9	53	–
Taxation		124	245
Liabilities of discontinued operation	10	–	5 626
Total liabilities		20 925	16 944
Total equity and liabilities		41 415	36 670

CONSOLIDATED INCOME STATEMENT
for the year ended 30 June

R million	Note	Group 2017	Group 2016
Continuing operations			
Gross insurance premiums		14 908	14 754
Less: Reinsurance premiums		(882)	(854)
Net insurance premiums		14 026	13 900
Gross change in provision for unearned premiums		57	(504)
Reinsurance relating to provision for unearned premiums		(19)	32
Net insurance premiums earned	21	14 064	13 428
Fee and other income	22	135	110
Investment income	23	688	579
Profit on sale of subsidiary	10	1	–
Net fair value losses on financial assets	24	(43)	(39)
Net income		14 845	14 078
Gross claims paid	25	(7 595)	(7 049)
Reinsurance recoveries received	25	812	161
Provision for cash bonuses	25	(399)	(362)
Transfer to policyholder liabilities under insurance contracts	8.5	(28)	(52)
Acquisition expenses	26	(25)	(29)
Fair value adjustment to financial liabilities	40	(199)	(204)
Marketing and administration expenses	27	(3 861)	(3 739)
Profit before finance costs, results of associates and taxation		3 550	2 804
Finance costs	29	(414)	(136)
Share of after-taxation results of associates	3	1 702	1 524
Profit before taxation		4 838	4 192
Taxation	30	(1 084)	(893)
Profit for the year from continuing operations		3 754	3 299
Profit for the year from discontinued operation	10	(49)	8
Profit for the year		3 705	3 307
Attributable to:			
Equity holders of the company		3 327	2 977
Non-controlling interests		378	330
Profit for the year		3 705	3 307
Earnings per share from continuing and discontinued operations (cents)	32	223.9	200.9
Diluted earnings per share from continuing and discontinued operations (cents)	32	220.4	197.5
Earnings per share from continuing operations (cents)	32	226.5	200.5
Diluted earnings per share from continuing operations (cents)	32	223.0	197.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June

	Group	
R million	2017	2016
Profit for the year	3 705	3 307
Other comprehensive income for the year		
Items that may subsequently be reclassified to profit or loss		
Fair value (losses)/gains on available-for-sale financial instruments	(22)	1
Impairment of available-for-sale financial instruments	13	–
Deferred taxation relating to available-for-sale financial assets	2	(4)
Exchange differences on translation of foreign operations	(248)	364
Share of comprehensive income of associates	(417)	1
Items that may subsequently be reclassified to profit or loss, after taxation	(448)	(26)
Items that will not be reclassified to profit or loss, after taxation	31	27
Other comprehensive income for the year	(672)	362
Total comprehensive income for the year	3 033	3 669
Attributable to:		
Equity holders of the company	2 707	3 264
Non-controlling interests	326	405
Total comprehensive income for the year	3 033	3 669

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June

R million	Share capital	Equity accounted reserves	Transactions with non-controlling interests	Other reserves	Retained earnings	Non-controlling interests	Total equity
Balance as at 1 July 2015	13 526	3 368	(2 017)	182	2 046	978	18 083
Profit per 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
Profit per income statement	–	–	–	–	3 327	378	3 705
Other comprehensive income	–	(417)	–	(203)	–	(52)	(672)
Dividends paid	–	–	–	–	(1 753)	(253)	(2 006)
Issue of shares	760	–	–	–	–	–	760
Income of associate companies retained	–	770	–	–	(770)	–	–
B-BBEE cost	–	1	–	–	–	–	1
Movement in treasury shares	37	6	–	–	3	–	46
Transactions with non-controlling interests	–	1	(902)	–	11	44	(846)
Issue of share capital to non-controlling interests by subsidiaries	–	–	–	–	–	71	71
Share-based payment reserve	–	3	–	5	(165)	(23)	(180)
Sale of subsidiary	5	(3)	10	–	(7)	(120)	(115)
Balance as at 30 June 2017	14 328	4 300	(2 989)	295	3 341	1 215	20 490
Note	12	13	13	13	13	39	

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June

		Group	
R million	Note	2017	2016
Cash flows from operating activities			
Cash generated from operations	31	2 638	2 815
Interest income		503	450
Dividends received		1 085	1 089
Income tax paid		(1 130)	(684)
Cash flows from discontinued operation		190	213
Net cash generated from operating activities		3 286	3 883
Cash flows from investing activities			
Purchase of property and equipment		(484)	(266)
Disposal of property and equipment		2	18
Additions to investments		(9 215)	(6 051)
Disposals of investments		9 572	3 516
Investments in associates		(9 040)	(289)
Proceeds on sale of subsidiary		165	–
Cash flows from discontinued operation		–	(133)
Net cash outflow to investing activities		(9 000)	(3 205)
Cash flows from financing activities			
Proceeds from issue of shares		760	–
Issue of preference share debt		9 710	400
Redemption of preference share debt		(2 298)	–
Cash raised from borrowings incurred		2 367	60
Cost of funding		(59)	–
Dividends paid on preference shares in issue		(271)	(140)
Dividends paid by subsidiaries to non-controlling interests		(253)	(189)
Additional shares acquired in subsidiary		(912)	–
Dividends paid to shareholders		(1 753)	(1 738)
Proceeds on issue of shares to non-controlling interest		71	41
Cash flows from discontinued operation		–	(72)
Net cash inflow from/(outflow to) financing activities		7 362	(1 638)
Net increase/(decrease) in cash and cash equivalents for the year		1 648	(960)
Unrealised foreign currency translation adjustment – continuing operations		43	675
Unrealised foreign currency translation adjustment – discontinued operation		–	1
Cash and cash equivalents at the beginning of the year		611	2 142
Cash and cash equivalents transferred to assets of discontinued operation		–	(1 247)
Cash and cash equivalents at the end of the year		2 302	611

ACCOUNTING POLICIES

1. BASIS OF PREPARATION

RMI is an investment holding company. RMI's separate and consolidated 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; and
- 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 order of line items disclosed on the statement of financial position has been changed to more appropriately reflect the order of liquidity of the respective line items. This change has no impact on the amounts shown in the statement of financial position and does not have a material effect on presentation of the financial results.

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

2. CONSOLIDATION

The consolidated 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 19, 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.

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

Any excess or deficit of the consideration transferred in a common control transaction over the cumulative total of the at acquisition date net asset value of the acquiree, the relevant non-controlling interest and the fair value of any previous equity interests held, 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 financial statements using the equity accounting method, from the effective date of investment to the effective date of disposal. Equity accounted earnings, net of dividends received, are transferred to equity accounted reserves. The investment is initially recognised at cost. The group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss.

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

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

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

SEPARATE FINANCIAL STATEMENTS

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

3. BUSINESS COMBINATIONS

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the

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

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

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

4. 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 CONTRACTS

Revenue treatment is detailed in accounting policy 19.

5. 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.

6. DIRECT TAXES

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

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

7. RECOGNITION OF ASSETS

ASSETS

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

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.

8. 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 which are 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.

9. 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 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. Refer to accounting policy 21.

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 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 become realised and are included in income or expense.

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 or 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 different bases; 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 expire, 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 it shall 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 any 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 on the trade date.

DERIVATIVES

Derivatives are either designated as hedging instruments in effective hedging relationships or are classified as held for trading and measured at fair value through profit or loss.

HEDGE ACCOUNTING

Derivative instruments are classified as held either for trading or formally designated as hedging instruments as required by *IAS 39*, which impacts the method of recognising the resulting fair value gains or losses.

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

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

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

NET INVESTMENT HEDGE ACCOUNTING

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

10. 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 values of these assets to their 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
▶ Leasehold improvements	3 years
▶ Computer equipment	3 years
▶ Furniture, fittings and office equipment	6 years
▶ Motor vehicles	4 years

The residual values and useful lives of the assets 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 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.

11. INTANGIBLE ASSETS

GOODWILL

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

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

OTHER INTANGIBLE ASSETS

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

12. 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 or receivable 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 available-for-sale financial assets. 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 available-for-sale equity instruments 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.

13. DEFERRED TAXATION

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

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

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

14. 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 employee benefit expenses when they are due.

POST-RETIREMENT MEDICAL BENEFITS

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

LEAVE PAY

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

BONUSES

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

INTELLECTUAL PROPERTY BONUSES

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

15. SHARE CAPITAL

SHARE ISSUE COSTS

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

DIVIDENDS PAID

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

TREASURY SHARES

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

DISTRIBUTION OF NON-CASH ASSETS

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

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

16. 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.

17. 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 reassesses 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.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on 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.

19. 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, an 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:

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 provision 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 claims handling and assessing costs. Estimates are adjusted for management's expectations of trends relating to the development of such claims.

Salvage and subrogation recoveries

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

Deferred acquisition costs (DAC)

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

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

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

Deferred acquisition revenue (DAR)

Reinsurance commission is recognised as a liability and amortised over the duration of the reinsurance agreement as reinsurance premiums are 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 objective evidence that an insurance receivable is impaired by using the same process adopted for loans and receivables. The impairment loss is calculated using the same method applied to 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; and
- Where the impact of discounting is considered to be material, the expected future obligation is discounted to the present value using an appropriate discount rate to reflect the time value of money.

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 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 comprise 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 if 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 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 or premiums levied for recouping these costs and recognising day one profits up to the amount of acquisition costs. 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.

ACCOUNTING FOR PROFIT SHARING ARRANGEMENTS

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

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

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

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

20. 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 to non-redeemable preference shares at the option of the debenture holder. The carrying amount equals the amount at which the debentures can be converted to non-redeemable preference shares. The dividend rights to the non-redeemable preference shares are 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.

21. 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 as current liabilities.

22. 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.

23. 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*.

24. 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 geographical 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 in 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 losses previously recognised. A gain or loss not previously recognised by the date of the sale is recognised at the date of derecognition.

25. 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.

26. ASSET FOR SHARE TRANSACTIONS

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

27. AMENDMENTS TO PUBLISHED STANDARDS EFFECTIVE IN THE CURRENT YEAR

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

Standard	Effective date	Executive summary and impact on the group
Amendments to *IAS 1 Presentation of financial statements*	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. This amendment does not have a material impact on the group.
Amendments to *IFRS 10 Consolidated financial statements* and *IAS 28 Investments in associates and joint ventures* on applying the consolidation exemption	1 January 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. This amendment has no impact on the group.
Amendments to *IFRS 11 Joint arrangements*	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. This amendment has no impact on the group.
IFRS 14 Regulatory deferral accounts	1 January 2016	The IASB issued *IFRS 14 Regulatory deferral accounts* specific to first-time adopters (of *IFRS 14*), an interim standard on the accounting for certain balances that arise from rate-regulated activities (regulatory deferral accounts). This standard does not have an impact on the group.
Amendments to *IAS 16 Property, plant* and *equipment and IAS 38 Intangible assets*	1 January 2016	In this amendment the IASB clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB 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.
Amendment to *IAS 16 Property, plant and equipment* and *IAS 41 Agriculture*	1 January 2016	In this amendment to *IAS 16* the IASB scoped in bearer plants, but not the produce on bearer plants. This amendment has no impact on the group.
Amendment to *IAS 27 Separate financial statements*	1 January 2016	In this amendment the IASB 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. This amendment does not have an impact on the group.

Standard	Effective date	Executive summary and impact on the group
Annual Improvements 2012-14 cycle	1 January 2016	*IFRS 5 Non-current assets held for sale and discontinued operations* When an asset (or disposal group) is reclassified from held for sale to held for distribution or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such. This amendment does not have a material impact on the group. *IFRS 7 Financial instruments: disclosures* The additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by *IAS 34*. This amendment does not have a material impact on the group. *IFRS 7 Financial instruments: disclosures* Specific guidance relating to transferred financial assets is given to help management determine whether the terms of a servicing arrangement constitute continuing involvement and, therefore, whether the asset qualifies for derecognition. This amendment does not have a material impact on the group. *IAS 19 Employee benefits* When determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise. This amendment does not have an impact on the group. *IAS 34 Interim financial reporting* The amendment includes what is meant by the reference in the standard to information disclosed elsewhere in the interim financial report. Entities taking advantage of the relief must provide a cross-reference from the interim financial statements to the location of that information and make the information available to users on the same terms and at the same time as the interim financial statements. This amendment does not have a material impact on the group.

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

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

Standard	Effective date	Executive summary
Amendment to *IAS 12 Income taxes* Recognition of deferred tax assets for unrealised losses	1 January 2017 (published February 2016)	The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base and other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under *IAS 12*. It does not change the underlying principles for the recognition of deferred tax assets. This amendment is not expected to have a material impact on the group.
Amendment to *IAS 7 Statement of Cash Flows* Statement of cash flows on disclosure initiative	1 January 2017 (published February 2016)	The amendment introduces additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is not expected to have a material impact on the group.
Amendments to *IFRS 2 Share-based payments* Clarifying how to account for certain types of share-based payment transactions	1 January 2018 (published June 2016)	This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in *IFRS 2* that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. This amendment is not expected to have a material impact on the group.
IFRS 15 Revenue from contracts with customer.	1 January 2018 (published May 2014)	This standard establishes a single, comprehensive revenue recognition model for all contracts with customers (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 good or service transfers to a customer (client). The impact of the standard on the group is currently under assessment. It is not expected to have a material impact on the results of the group.
Amendment to *IFRS 15 – Revenue from contracts with customers*	1 January 2018 (published April 2016)	The IASB amended *IFRS 15* to clarify the guidance, but there were no major changes to the standard itself.
IFRS 9 – Financial Instruments	1 January 2018 (published July 2014)	This standard replaces the guidance in *IAS 39*. It includes requirements on the classification and measurement of financial assets and liabilities. It also includes an expected credit losses model that replaces the current incurred loss impairment model. An assessment of the impact is currently underway to ensure that group is fully prepared for implementation on the effective date.

Standard	Effective date	Executive summary
IFRS 16 Leases	1 January 2019 – earlier application permitted if *IFRS 15* is also applied (published January 2016)	The new standard requires lessees to recognise assets and liabilities arising from all leases in the statement of financial position. Lessor accounting has not substantially changed in the new standard. A lessee will measure the lease liabilities, including costs directly related to entering into the lease. Lease assets will be amortised in a similar way to other assets such as property, plant and equipment. A lessee will not be required to recognise assets and liabilities for short-term leases (less than 12 months) and leases for which the underlying asset is of low value (such as laptop computers and office furniture). *IFRS 16* supersedes *IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives* and *SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. An assessment of the impact is currently underway to ensure that the group is fully prepared for implementation on the effective date.
IFRS 4 Insurance contracts Regarding the implementation of *IFRS 9 Financial instruments*	1 January 2018 (published September 2016)	These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will: ▶ Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when *IFRS 9* is applied before the new insurance contracts standard is issued; and ▶ Give companies whose activities are predominantly connected with insurance an optional exemption from applying *IFRS 9* until 2021. The entities that defer the application of *IFRS 9* will continue to apply the existing financial instruments standard, *IAS 39*. An assessment of the approaches is currently underway to determine the most effective approach for the group.
IAS 40 Investment property Transfers of investment property	1 January 2018 (published December 2016)	These amendments clarify that to transfer to, or from, investment properties there must be a change in use. This amendment has no impact on the group.
IFRIC 22 Foreign currency transactions and advance consideration	1 January 2018 (published December 2016)	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment or receipt is made as well as for situations where multiple payments or receipts are made. The guidance aims to reduce diversity in practice. This interpretation is not expected to have a material impact on the group.

Standard	Effective date	Executive summary
Annual improvements 2014 – 2016	Annual periods beginning on or after 1 January 2017 and 2018 (published December 2016)	These amendments impact three standards: ▸ *IFRS 1 First-time adoption of IFRS*, regarding the deletion of short-term exemptions for first-time adopters regarding *IFRS 7*, *IAS 19* and *IFRS 10*, effective 1 January 2018. This amendment has no impact on the group. ▸ *IFRS 12 Disclosure of interests in other entities* regarding clarification of the scope of the standard. The amendment clarified that the disclosure requirements of *IFRS 12* are applicable to interests in entities classified as held for sale except for summarised financial information (paragraph B17 of *IFRS 12*). Previously, it was unclear whether all other *IFRS 12* requirements were applicable to these interests. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. An assessment of the impact of the amendment is currently underway to ensure that the group is fully prepared for implementation on the effective date. ▸ *IAS 28 Investments in associates and joint ventures* regarding measuring an associate or joint venture at fair value. Effective 1 January 2018. The amendment has no impact on the group.
IFRS 17 Insurance Contracts	1 January 2021 (published May 2017) Earlier application is permitted if both *IFRS 15 Revenue from Contracts with Customers* and *IFRS 9 Financial Instruments* have also been applied	*IFRS 17 Insurance Contracts* establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of *IFRS 17* is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. *IFRS 17* supersedes *IFRS 4 Insurance Contracts*. The standard will have an impact on the group's current reported financial position and future revenue recognition. An assessment of the impact is currently underway to ensure that the group is fully prepared for implementation on the effective date.
Amendments to *IFRS 10 Consolidated financial statements* and *IAS 28 Investments in associates and joint ventures* on sale or contribution of assets	Effective date postponed (initially 1 January 2016)	The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to *IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures.* Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures. The amendments are not expected to have a material impact on the group.

29. 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 integrated report of Discovery Limited (at **www.discovery.co.za**) for more detail information on critical accounting assumptions and estimates with specific reference to valuation of assets and liabilities arising from insurance contracts, annual assessment of goodwill for impairment and the valuation of intangibles arising from transactions to establish Discovery Bank.

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

SHORT-TERM INSURANCE

CLAIMS RESERVES

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

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

The claims reserve is held so as to be at least sufficient at the 75^{th} percentile of the ultimate cost distribution. The difference between this 75^{th} 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.

	South African short-term operations R million	Australasian short-term operations AUD million
70^{th} percentile	714	90
75^{th} percentile	728	92
80^{th} percentile	744	93

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 and 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 that used in the previous year's valuation, except for the economic assumptions which have been changed in line with market rates. Refer to accounting policy 19 for more detail.

As at 30 June 2017, 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 mortality and morbidity assumptions both have a discretionary margin of 10%.

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

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

The group calculates its investment return assumption using a full yield curve as opposed to using a point estimate on the underlying yield curve. The comparative point estimate of the current yield curve at the appropriate duration at the valuation date is 11.8% (2016: 11.2%).

Inflation

The group calculates its inflation assumption using a full inflation curve as opposed to using a point estimate on the underlying inflation curve, derived from nominal and real curves. The comparative point estimate of the current inflation curve at the appropriate duration at the valuation date is 9.1% (2016: 9.4%).

Taxation

Future taxation and taxation relief are allowed for at the rates and on the bases applicable to section 29A of the Income Tax Act, 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 estimated outstanding claims as at year-end.

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

INITIAL ACCOUNTING – INVESTMENT IN HASTINGS

In the current financial year, the group concluded the purchase of 29.9% of Hastings, with an effective date of 1 March 2017. The initial accounting for the transaction was considered an area of critical judgment due to the complexity associated with the initial recognition of the transaction.

The complexity associated with the initial recognition of the transaction arose due to the purchase price being contractually determined on 14 December 2016, being the date on which RMI announced the transaction to the market, whereas the conditions of the transaction were only met on the effective date of the transaction (1 March 2017).

Management determined that a firm commitment to purchase Hastings existed from the date of transaction announcement (date of agreement) until the effective date. A derivative (forward contract) was required to be recognised between the transaction announcement and the effective date (as required by *IAS 32* and *IAS 39*). An additional complexity and area of judgment related to the determination of the fair value of the derivative.

Management determined the fair value of the derivative to be insignificant due to the fact that there were no significant changes in the underlying value of the investee between the two dates as well as no observable data to support any changes in the valuation.

VALUATION OF INTANGIBLE ASSETS

The group identified intangible assets on three of the acquisitions made in the 2017 financial year:

- Hastings;
- Polar Star; and
- Sesfikile Capital.

During the purchase price allocation (PPA) process as required by *IFRS 3*, the group identified client relationships and brand as intangible assets in the Hastings transaction and client relationships as intangible assets in the Polar Star and Sesfikile Capital transactions. The PPA process and the estimation of fair value of intangible assets are inherently uncertain. The valuation of the intangible assets at acquisition date may be refined over the next twelve months, resulting in a prospective restatement.

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

CLIENT RELATIONSHIPS

The fair value of the client relationships were derived from a discounted cash flow calculation of the expected future profit and losses to be derived from the in-force client relationship on date of acquisition. The following assumptions are key to determining the fair value of the client relationships:

- Claims ratio;
- Expense ratio;
- Lapse rate; and
- Participation in ancillary products.

The discounted cash flow calculation also allows for the following capital and infrastructural charges:

- Brand usage;
- Workforce usage;
- Regulatory and working capital usage; and
- Property and equipment usage.

The fair value of client relationships are particularly sensitive to the following assumptions:

- Lapse rate;
- Regulatory capital charge; and
- Participation in ancillary products.

The client relationships intangible asset identified in the Hastings transaction is amortised over a five-year period.

The calculations of the client relationships intangible assets for Polar Star and Sesfikile Capital were performed based on the present value of management's best estimate of future earnings to be derived from clients existing at the acquisition date. Some of the key assumptions include lapse rates, expense growth, profit margins and market growth in assets.

The client relationships intangible assets identified in the Polar Star and Sesfikile Capital transactions are amortised over a ten-year period.

BRAND

The fair value of the Hastings brand was derived from a perpetuity calculation. A royalty rate was applied to the present value of premium income expected to be generated over the five years following the acquisition date. This royalty rate was derived from estimating the current marketing spend as a percentage of premium income.

The intangible asset for the brand is amortised over a five-year period.

The group reported provisional amounts for these intangible assets in the financial statements for the year ended 30 June 2017. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a business combination. During the measurement period, the group will retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date. During the measurement period, the group will also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed at the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities at that date. The measurement period ends as soon as the group receives the information it was seeking about facts and circumstances that existed at the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

MANAGEMENT OF INSURANCE AND FINANCIAL RISK

Risk management framework

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

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

1. MANAGEMENT OF INSURANCE RISK

1.1 BACKGROUND AND INSURANCE RISK MANAGEMENT PHILOSOPHY

The group's consolidated insurance businesses used to be conducted in two separate subsidiaries, namely OUTsurance and RMBSI. As RMBSI was sold in March 2017, the commentary that follows focuses on the risk management activities at OUTsurance for the 2017 financial year.

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

R million	30 June 2017	30 June 2016
Gross insurance contracts		
Short-term insurance contracts		
– outstanding claims provision	1 575	1 453
– claims incurred but not reported	603	605
– unearned premiums	3 990	4 396
– insurance contracts cash bonuses	440	418
Long-term insurance contracts	233	196
Total gross insurance contract liabilities	6 841	7 068

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

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

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

1.2 SHORT-TERM INSURANCE

TERMS AND CONDITIONS OF INSURANCE CONTRACTS

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

	Percentage of total gross written premium	
Types of insurance contracts written	Personal lines	Commercial
Personal accident	<1.0%	<1.0%
Liability	–	14.4%
Miscellaneous	<1.0%	–
Motor	64.9%	57.6%
Property	34.4%	25.9%
Transportation	<1.0%	1.9%

The personal lines segment of the business (85.3% of total short-term insurance business) sells insurance to the general public, allowing them to cover their personal possessions and property. The commercial segment of the business (14.7% of total short-term insurance business) targets medium and small businesses in South Africa. Insurance products are sold with either a monthly or an annual premium payable by the covered party or entity. The following gives a brief explanation of each risk:

Personal accident

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

Liability

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

Miscellaneous

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

Motor

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

Property

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

Transportation

Provides cover to risks relating to stock in transit.

INSURANCE RISKS

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

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

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

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

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

UNDERWRITING STRATEGY

The group aims to diversify the pool of insured perils by writing a balanced portfolio of insurance risks over a large geographical area. Products are priced using statistical regression techniques, which identify risk factors through correlations identified in past loss experiences. Risk factors would typically include factors such as age of the insured person, past loss experiences, insurance history, type and value of asset covered, security measures taken to protect the asset, major use of the covered item and so forth. Risks are priced and accepted on an individual basis and, as such, there is minimal cross-subsidy between risks. Insurance premiums charged for a certain pool of risks are adjusted frequently according to the normalised loss ratios experienced 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 pre-determined thresholds that vary by risk type. Risks with larger exposure than the thresholds are automatically referred and underwritten individually by the actuarial department. These limits are set at a substantially lower level than the reinsurance retention limits. No risks which exceed the upper limits of the reinsurance can be accepted without the necessary facultative cover being arranged. No-claims bonuses, which 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 as 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 which they could have on risk concentrations are considered before they are accepted. Marketing efforts are also coordinated to attract business from a wide geographical spread. Risks which could lead to an accumulation of claims as the result of a single event are declined due to inadequate diversification and overall pool of risk covered. Attention is paid to attract large numbers of relatively small independent risks which would lead to very stable and predictable claims experience.

Based on gross written premium, 53% of the short-term insurance business is exposed to South Africa and 47% is exposed to Australasia. The South African operation is exposed to a concentration of insurance risk in the Gauteng province of South Africa, where 52.44% (2016: 53.87%) of the total sum insured is domiciled. The Australian operation is exposed to a concentration of insurance risk in South East Queensland, where 21.4% (2016: 21.3%) of the total sum insured is domiciled. The New Zealand operation is exposed to a concentration of insurance risk in Auckland, where 53.6% (2016: 59.9%) of the total sum insured is domiciled. The concentration risk which arises in each insurance entity is mitigated through the catastrophe excess of loss programme entered into by that entity.

EXPOSURE TO CATASTROPHES AND POLICIES MITIGATING THIS RISK

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

PROFIT SHARING ARRANGEMENTS

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

1.3 LONG-TERM INSURANCE

TERMS AND CONDITIONS OF INSURANCE CONTRACTS

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

- Underwritten Life; and
- Life Protector.

The following gives a brief explanation of each product:

Underwritten Life

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

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

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

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

Life Protector

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

- death cover;
- disability cover;
- critical illness cover;
- retrenchment cover;
- temporary disability cover;
- family funeral cover; and
- premium waiver.

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

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 basis 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 the life insurance business being higher than expected. Morbidity risk is the risk of loss arising due to policyholder health-related claims being higher than expected.

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

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

Underwriting experience risk

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

Underwriting experience risk is managed through:

- **Product design and pricing**

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

- **Underwriting**

  Underwriting ensures that only insurable risks are accepted and that premiums accurately reflect the unique circumstances of each risk. The group has developed an advanced medical underwriting system which captures detailed information regarding the clients' medical history and condition and which is used for premium adjustments as well as 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 that underwriting rules are followed strictly.

- **Reinsurance**

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

- **Experience monitoring**

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

Lapse risk

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

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

Modelling and data risk

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

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

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

Expense risk

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

Non-claims bonus risk

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

2. MANAGEMENT OF FINANCIAL RISK

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

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

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

2.1 MARKET RISK

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

2.1.1 CURRENCY RISK

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

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

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

	30 June 2017				
R million	Rand	Australian Dollar	New Zealand Dollar	British Pound	Total
Total assets	33 178	8 177	60	–	41 415
Total liabilities	12 762	5 581	31	2 551	20 925
Exchange rates:					
Closing rate		10.03	9.57	17.007	
Average rate		10.25	9.71	16.651	

	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	

Currency translation risk

The potential effect on the group total 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:

	30 June 2017					
R million	10% AUD Appreciation	10% AUD Depreciation	10% NZD Appreciation	10% NZD Depreciation	10% GBP Appreciation	10% GBP Depreciation
Comprehensive income after tax	(65)	65	6	(6)	(336)	336
Net asset value	(213)	213	(37)	37	(336)	336

	30 June 2016			
R million	10% AUD Appreciation	10% AUD Depreciation	10% NZD Appreciation	10% NZD Depreciation
Comprehensive income after tax	(51)	51	11	(11)
Net asset value	(184)	184	(37)	37

Currency risk

The potential impact on the group total comprehensive income after tax and the net asset value of the group in respect of the £150 million loan incurred to partially fund the investment in Hastings is provided in the following table:

	30 June 2017	
R million	10% GBP Appreciation	10% GBP Depreciation
Comprehensive income after tax	255	(255)
Net asset value	255	(255)

2.1.2 INTEREST RATE RISK

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

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

The table below reflects the exposure to interest rate risk, which represents a fair value risk for fixed rate instruments and a cash flow risk for variable rate instruments. An increase or decrease in the market interest rate would result in the following changes in profit or loss and other comprehensive income before tax of the group:

	30 June 2017		30 June 2016	
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	2	(2)	–	–
Money market instruments	4	(4)	1	(1)
Cash and cash equivalents	1	(1)	–	–
Variable rate instruments				
Listed preference shares	–	–	8	(8)
Unlisted preference shares	2	(2)	13	(13)
Collective investment scheme	1	(1)	1	(1)
Term deposits	89	(89)	104	(104)
Government, municipal and public utility securities	7	(7)	8	(8)
Money market instruments	47	(47)	52	(52)
Cash and cash equivalents	45	(45)	12	(12)

2.1.3 OTHER PRICE RISK

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

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

All equities are split between listed and unlisted securities. 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 total comprehensive income of the group:

	30 June 2017		30 June 2016	
R million	10% increase	10% decrease	10% increase	10% decrease
Financial assets				
Listed preference shares	38	(38)	39	(39)
Derivative asset	17	(17)	17	(17)
Collective investment scheme	10	(10)	–	–
Listed equity shares	75	(75)	53	(53)
Unlisted preference shares	11	(11)	65	(65)
Financial liabilities				
Derivative liability	(10)	10	(10)	10

2.2 CREDIT RISK

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

- unlisted preference shares;
- debt securities;
- 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 and exposure limits, which are reviewed at each board and audit committee meeting. The credit worthiness of existing and potential clients is monitored quarterly at the board meeting and bi-annually by the actuarial committee and investment committee.

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

R million	AAA	AA	A	BBB	BB	B	Not rated	Total
	30 June 2017							
Collective investment schemes	–	–	–	–	–	–	45	45
Zero-coupon deposits	–	–	–	–	208	–	–	208
Term deposits	–	4 429	–	–	–	–	–	4 429
Money market instruments	158	99	137	195	1 688	15	259	2 551
Debt securities – available-for-sale	–	–	–	102	3	–	–	105
Debt securities at fair value through profit or loss	–	13	–	159	269	–	836	1 277
Derivative asset	–	–	–	–	–	–	6	6
Loans and receivables	–	–	–	–	–	–	2 536	2 536
Reinsurance contracts	–	547	125	–	–	–	–	672
Cash and cash equivalents	–	312	–	–	1 990	–	–	2 302
Total	158	5 400	262	456	4 158	15	3 682	14 131

R million	AAA	AA	A	BBB	BB	B	Not rated	Total
	30 June 2016							
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	–	–	100	547	–	–	–	647
Debt securities at fair value through profit or loss	–	–	–	316	115	–	643	1 074
Derivative asset	–	–	–	–	–	–	29	29
Loans and receivables	–	8	3	2	–	–	2 755	2 768
Reinsurance contracts	1	122	43	91	–	–	–	257
Cash and cash equivalents	–	241	–	370	–	–	–	611
Total	1	5 591	461	3 603	219	–	3 511	13 386

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

Where available, the group uses the credit ratings per counterparty provided by each of the major credit rating agencies to determine the credit quality of a specific instrument. Where the instrument credit rating is not available, the credit rating of the counterparty as provided by the major credit ratings agencies is used.

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

The ratings are defined as follows:

LONG-TERM RATINGS

AAA	Highest credit quality. This rating denotes the lowest expectation of credit risk. 'AAA' ratings are assigned only in the case of exceptionally strong capacity or payment of financial commitments.
AA	Very high credit quality. An 'AA' rating denotes expectations of very low credit risk. It indicates a very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' rating denotes 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. It indicates 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' rating indicates that there is a possibility of credit risk developing, particularly as a result of adverse economic change over time, however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.
B	Highly speculative. 'B' rating indicates that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met, however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

REINSURANCE CREDIT EXPOSURES

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

IMPAIRMENT OF FINANCIAL ASSETS

None of the group's financial assets exposed to credit risk are past due or impaired.

2.3 LIQUIDITY RISK

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

In addition to the financial assets presented in the tables below, the group has significant investments in large listed entities (Discovery, MMI and Hastings), with a combined market value of R38.7 billion (2016: R28.9 billion). Should the need arise, the group can sell a portion of these shares to repay the debt raised with the acquisition of the 29.9% stake in Hastings. However, the group's intention is to refinance the preference share debt and bank borrowings when they become due.

R million	2017	2016
Liquid financial assets		
Realisable within 30 days		
– Cash and cash equivalents	2 302	611
– Collective investment schemes	144	41
– Government, municipal and public utility securities	457	431
– Money market securities	2 552	2 657
– Exchange traded funds – ordinary shares	619	412
– Listed equities	129	124
Realisable between 1 and 12 months		
– Term deposits	4 429	5 219
– Taxation	–	6
– Loans and receivables	2 535	2 768
Total liquid financial assets	13 167	12 269
Illiquid assets		
Realisable in more than 12 months		
– Zero-coupon deposits	208	83
– Listed perpetual preference shares	377	393
– Unlisted preference shares	105	647
– Unlisted equities	1	–
– Debt securities designated as fair value through profit or loss	820	643
– Derivative asset	6	29
Total illiquid assets	1 517	1 795
Total financial assets held	14 684	14 064
Insurance contract assets		
Realisable within 30 days	147	45
Realisable between 1 and 12 months	388	119
Realisable after more than 12 months	137	94
Total insurance contract assets held	672	258
Total assets (excluding non-monetary assets)	15 356	14 322

MATURITY PROFILE OF LIABILITIES

R million	2017 Total	Call to 12 months	1 – 5 years	> 5 years
Expected discounted cash flows				
Insurance contract liabilities	6 841	5 932	(149)	1 058
Contractual undiscounted cash flows				
Preference shares	11 955	683	11 272	–
Interest-bearing loans	2 868	66	2 802	–
Financial liabilities at fair value through profit or loss	150	111	–	39
Insurance and other payables	257	257	–	–
	15 230	1 117	14 074	39
Other liabilities				
Share-based payment liability	165	153	12	–
Provisions	64	64	–	–
Tax liabilities	124	124	–	–
Insurance and other payables	942	942	–	–
Derivative liability	8	–	8	–
	1 303	1 283	20	–
Total liabilities	23 374	8 332	13 945	1 097
Liquid asset coverage ratio	0.56	1.58		
Financial assets coverage ratio	0.63			

R million	2016 Total	Call to 12 months	1 – 5 years	> 5 years
Expected discounted cash flows				
Insurance contract liabilities	7 067	5 772	362	933
Contractual undiscounted cash flows				
Preference shares	2 650	165	2 485	–
Interest-bearing loans	60	–	60	–
Financial liabilities at fair value through profit or loss	143	104	–	39
Insurance and other payables	568	568	–	–
	3 421	837	2 545	39
Other liabilities				
Share-based payment liability	254	226	28	–
Provisions	41	41	–	–
Tax liabilities	245	245	–	–
Insurance and other payables	628	628	–	–
Derivative liability	12	–	12	–
	1 180	1 140	40	–
Total liabilities	11 668	7 749	2 947	972
Liquid asset coverage ratio	1.05	1.58		
Financial assets coverage ratio	1.21			

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

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

3. CAPITAL MANAGEMENT

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

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

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

RMI's investments in RMI Investment Managers, Main Street 1353, RMI Investment Holdings and AlphaCode, as well as its preference share holdings in special purpose entities were transferred from RMI to RMI Asset Holdings on 22 February 2017.

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

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

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

The group's objectives when managing capital are:

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

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

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

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

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

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

The table below summarises the statutory solvency requirements for each of the regulated group companies and the actual solvency achieved.

	Jurisdiction	Actual solvency 2017	Actual solvency 2016	Target minimum CAR*
Group		3.6	2.0	1.2
Short-term insurance				
OUTsurance Insurance Company Limited	South Africa	2.0	1.8	1.2
OUTsurance Insurance Company of Namibia (associate)	Namibia	2.0	1.6	1.2
Youi Australia	Australia	3.3	2.5	1.5
Youi New Zealand	New Zealand	6.2	6.3	1.5
Long-term insurance				
OUTsurance Life Insurance Company Limited	South Africa	5.1	3.9	1.5

* Solvency coverage ratio, which is defined as the ratio of regulatory admissible net assets to the solvency capital requirement.

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

SOUTHERN AFRICAN OPERATIONS – SHORT-TERM INSURANCE OPERATIONS

The Financial Services Board (FSB) requires short-term insurers to hold a solvency capital adequacy requirement (CAR) calculated in accordance with Board Notice 169 of 2011 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 insurer were 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 solvency capital adequacy requirement (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 an approximately 95% confidence level that the insurer will be able to meets its obligations to policyholders.

SOUTHERN AFRICAN OPERATIONS – SOLVENCY AND ASSESSMENT MANAGEMENT (SAM)

In addition to the above, the group monitors its capital adequacy in terms of the SAM regime, which is expected to become effective for the group and the South African insurance entities on 1 July 2018. SAM is a risk-based prudential solvency regime which is closely aligned with the principles of *Solvency II*, the European prudential standard for insurance operations. The regime also prescribes risk management and governance standards.

The group and its operating entities are well-prepared to adopt the requirements of the SAM regime.

R million	Land and buildings	Property under develop-ment	Leasehold improve-ments	Furniture, fittings and equipment	Motor vehicles	Total
1. PROPERTY AND EQUIPMENT						
30 June 2017						
Net book value at the beginning of the year	488	–	33	156	2	679
Additions	–	327	3	153	1	484
Disposals	–	–	(1)	(2)	–	(3)
Transfer of property under development	(206)	206	–	–	–	–
Foreign exchange adjustments	–	(18)	(2)	(4)	–	(24)
Depreciation (refer note 27)	(17)	–	(12)	(106)	(1)	(136)
Net book value at the end of the year	265	515	21	197	2	1 000
Cost	350	515	63	808	3	1 739
Accumulated depreciation	(85)	–	(42)	(611)	(1)	(739)
Net book value at the end of the year	265	515	21	197	2	1 000
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 (refer note 27)	(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

Land and buildings are utilised by the group in the normal course of operations to provide services. The South African head office of OUTsurance is situated in Centurion, Gauteng. This property is owner-occupied. The group is in the process of establishing a new head office for Youi on the Sunshine Coast in Australia. Building will be completed by the end of 2017. The property will be owned by the group.

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

The fair value of the OUTsurance head office building at 30 June 2017 was R485 million (2016: R485 million) as derived per an independent valuation calculated using a value-in-use methodology. The capitalisation rate used in the valuation was 9.37% (2016: 8.92%) and a cost-to-income ratio of 25.0% (2016: 20.2%).

Refer to note 42 for the split between current assets and non-current assets.

R million	Goodwill	Intellectual property bonuses	Total
2. INTANGIBLE ASSETS			
30 June 2017			
Net book value at the beginning of the year	3	110	113
Additions	–	70	70
Service cost relating to intellectual property (refer note 27)	–	(88)	(88)
Foreign exchange adjustments	–	(2)	(2)
Sale of subsidiary	(3)	–	(3)
Net book value at the end of the year	–	90	90
Cost	–	253	253
Accumulated amortisation	–	(163)	(163)
Net book value at the end of the year	–	90	90
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 (refer note 27)	–	(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

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 note 42 for the split between current assets and non-current assets.

R million	2017	2016
3. INVESTMENTS IN ASSOCIATES		
Shares at cost	20 116	11 073
Treasury shares	(89)	(121)
Equity accounted reserves	4 428	3 936
Investments in associates	24 455	14 888
Analysis of the movement in the carrying value of associates		
Balance at the beginning of the year	14 888	14 063
Transfer to assets of discontinued operation	–	(32)
Additional acquisition of associates	9 040	289
Treasury shares	32	(1)
Equity accounted earnings for the year	1 702	1 524
Dividends received for the year	(933)	(914)
Share of associates' other reserves	(274)	(41)
Balance at the end of the year	24 455	14 888
Carrying value comprises:		
Discovery Limited	8 938	8 517
MMI Holdings Limited	5 956	6 209
OUTsurance Insurance Company of Namibia Limited	49	39
Truffle Capital Proprietary Limited	41	26
Northstar Asset Management Proprietary Limited	39	41
Tantalum Capital Proprietary Limited	19	15
Sentio Capital Management Proprietary Limited	21	19
Polar Star Management SEZC	164	–
Polar Star Management Proprietary Limited	85	–
Coreshares Holdings Proprietary Limited	–	–
Royal Investment Managers Proprietary Limited	48	–
Merchant Capital Advisory Services Proprietary Limited	22	22
Entersekt Proprietary Limited	30	–
Entersekt International Limited	142	–
Hastings Group Holdings plc	8 901	–
Total carrying value	24 455	14 888
Market value of listed associates (RMI's share)		
Discovery Limited	20 716	19 838
MMI Holdings Limited	8 117	9 080
Hastings Group Holdings plc	10 491	–
Total market value of listed associates	39 324	28 918

R million	2017	2016
3. INVESTMENTS IN ASSOCIATES continued		
The group's interests in associates are as follows:		
Discovery Holdings Limited – Number of shares	**161 944 576**	161 944 576
Discovery Holdings Limited – % of equity	**25.1**	25.1
MMI Holdings Limited – Number of shares	**401 048 075**	401 048 075
MMI Holdings Limited – % of equity	**25.7**	25.7
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	**6 876**	56
Truffle Capital Proprietary Limited – % of equity	**25.0**	22.4
Northstar Asset Management Proprietary Limited – Number of shares	**16 216**	16 216
Northstar Asset Management Proprietary Limited – % of equity	**30.0**	30.0
Tantalum Capital Proprietary Limited – Number of shares	**720**	480
Tantalum Capital Proprietary Limited – % of equity	**22.5**	15.0
Sentio Capital Management Proprietary Limited – Number of shares	**24**	24
Sentio Capital Management Proprietary Limited – % of equity	**17.8**	17.8
Polar Star Management SEZC – Number of shares	**30 000**	–
Polar Star Management SEZC – % of equity	**26.7**	–
Polar Star Management Proprietary Limited – Number of shares	**125 000**	–
Polar Star Management Proprietary Limited – % of equity	**26.2**	–
Coreshares Holdings Proprietary Limited – Number of shares	**1 000**	–
Coreshares Holdings Proprietary Limited – % of equity	**25.6**	–
Royal Investment Managers Proprietary Limited – Number of shares	**450 000**	–
Royal Investment Managers Proprietary Limited – % of equity	**45.0**	–
Merchant Capital Advisory Services Proprietary Limited – Number of shares	**307 630**	307 630
Merchant Capital Advisory Services Proprietary Limited – % of equity	**25.1**	25.1
Entersekt Proprietary Limited – Number of shares	**102 588**	–
Entersekt Proprietary Limited – % of equity	**25.1**	–
Entersekt International Limited – Number of shares	**102 588**	–
Entersekt International Limited – % of equity	**25.1**	–
Hastings Group Holdings plc – Number of shares	**196 508 074**	–
Hastings Group Holdings plc – % of equity	**29.9**	–

Effective holdings are disclosed after consolidation of share trusts.

The group is believed to exercise significant influence over Sentio Capital Management Proprietary Limited through board representation, notwithstanding the fact that it owns less than 20% of the issued share capital.

Further details of significant associates are disclosed in note 38.

Refer to note 42 for the split between current assets and non-current assets.

R million	2017	2016
4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES		
The group's equity and debt securities are summarised by measurement category below:		
Available-for-sale	1 101	1 452
– Equity	996	805
– Debt	105	647
Fair value through profit or loss	8 739	9 198
– Equity	229	124
– Debt	8 510	9 074
Total financial assets – equity and debt securities	9 840	10 650
Current portion of equity and debt securities	6 148	7 886
The assets included in each of the categories above are detailed below:		
Available-for-sale financial assets		
Equity securities		
– Listed shares	619	412
– Listed preference shares	377	393
Total equity securities	996	805
Debt securities		
– Unlisted preference shares	105	647
Total available-for-sale equity and debt securities	1 101	1 452

The unlisted preference shares are redeemable with a notice period of one year. Dividend yields are 65% of the prime overdraft rate. The fair value of the preference shares with a maturity date of longer than one year is calculated on a discounted cash flow basis, with the discount rate adjusted for changes in credit risk of the ultimate counterparty. Due to the redeemable nature, the preference shares are deemed to be debt securities.

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

R million	2017	2016
4. FINANCIAL ASSETS – EQUITY AND DEBT SECURITIES continued		
Financial assets at fair value through profit or loss		
Equity securities		
– Listed		
– Designated upon initial recognition	129	124
– Unlisted		
– Designated upon initial recognition	100	–
Total equity securities	229	124
Debt securities		
– Collective investment scheme assets	45	41
– Zero-coupon deposits	208	83
– Term deposits	4 429	5 219
– Money market instruments	2 551	2 657
– Designated upon initial recognition		
– Variable rate	373	423
– Fixed rate	904	651
Total debt securities	8 510	9 074
Total equity and debt securities at fair value through profit or loss	8 739	9 198

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

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

Refer to note 40 for information relating to the fair value of investment securities.

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

R million	Available-for-sale	Fair value through profit or loss	Held-to-maturity	Total
30 June 2017				
Financial assets at the beginning of the year	1 452	9 198	–	10 650
Additions (including net interest accruals)	193	9 022	–	9 215
Interest accrued	–	5	–	5
Dividends accrued	–	28	–	28
Disposals (sales and redemptions)	(535)	(9 037)	–	(9 572)
Net fair value losses				
– Recognised in the income statement	(9)	(16)	–	(25)
Foreign exchange difference	–	(461)	–	(461)
Financial assets at the end of the year	1 101	8 739	–	9 840
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	–	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

R million	2017	2016
5. DERIVATIVE ASSET		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	6	29
Notional value	164	159

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 note 42 for the split between current assets and non-current assets.

6. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES

R million	2017	2016
Receivables arising from insurance and reinsurance contracts		
– Due from policyholders	2 271	2 510
– Due from reinsurers	103	32
Other receivables		
– Other receivables and prepayments	162	226
Total loans and receivables including insurance receivables	2 536	2 768

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 35 for further details thereof.

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

7. DEFERRED ACQUISITION COST (DAC)

R million	2017	2016
Balance at the beginning of the year	365	362
Transfer to assets of discontinued operation	–	(30)
DAC raised	857	912
DAC charged to the income statement	(852)	(936)
Foreign exchange movement	(32)	57
Balance at the end of the year	338	365

Refer to note 42 for the split between current assets and non-current assets.

R million	2017	2016
8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS		
Gross insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	1 575	1 453
– Claims incurred but not reported	603	605
– Unearned premiums	3 990	4 396
– Insurance contract cash bonuses	440	418
Total short-term insurance contracts	6 608	6 872
Long-term insurance contracts	233	196
Total gross insurance liabilities	6 841	7 068
Recoverable from reinsurers		
Short-term insurance contracts		
– Outstanding claims provision	(352)	(44)
– Claims incurred but not reported	(168)	(51)
– Unearned premiums	(54)	(73)
Total short-term insurance contracts	(574)	(168)
Long-term insurance contracts	(98)	(89)
Total recoverable from reinsurers	(672)	(257)
Net insurance contracts		
Short-term insurance contracts		
– Outstanding claims provision	1 223	1 409
– Claims incurred but not reported	435	554
– Unearned premiums	3 936	4 323
– Insurance contract cash bonuses	440	418
Total short-term insurance contracts	6 034	6 704
Long-term insurance contracts	135	107
Total net insurance liabilities	6 169	6 811

Analysis of movement in short-term insurance contract liabilities

R million	Gross	Re-insurance	Net
8.1 ANALYSIS OF MOVEMENT IN CLAIMS RESERVES			
30 June 2017			
Opening balance			
– Outstanding claims provision	1 453	(44)	1 409
– Claims incurred but not reported	605	(51)	554
Total	2 058	(95)	1 963
Current year			
– Claims incurred	7 636	(660)	6 976
– Claims paid	(6 121)	299	(5 822)
Prior year			
– Claims incurred	(91)	16	(75)
– Claims paid	(1 161)	52	(1 109)
Movement in incurred but not reported	(1)	(117)	(118)
Change in risk margin	(9)	(30)	(39)
Change in claims handling cost	(11)	–	(11)
Foreign exchange difference	(122)	15	(107)
Closing balance			
– Outstanding claims provision	1 575	(352)	1 223
– Claims incurred but not reported	603	(168)	435
Total	2 178	(520)	1 658

R million	Gross	Re-insurance	Net
8. INSURANCE CONTRACTS AND REINSURANCE CONTRACTS continued			
8.1 ANALYSIS OF MOVEMENT IN CLAIMS RESERVES continued			
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 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	Gross	Re-insurance	Net
8.2 ANALYSIS OF MOVEMENT IN UNEARNED PREMIUM PROVISION (UPP)			
30 June 2017			
Balance at the beginning of the year	4 396	(73)	4 323
UPP raised	7 503	(710)	6 793
UPP earned	(7 561)	729	(6 832)
Foreign exchange movement	(348)	–	(348)
Balance at the end of the year	3 990	(54)	3 936
30 June 2016			
Balance at the beginning of the year	4 088	(49)	4 039
Transfer to liabilities 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

R million	2017	2016
8.3 ANALYSIS OF CHANGE IN UNEXPIRED RISK PROVISION		
Balance at the beginning of the year	–	336
Transfer to liabilities of discontinued operation	–	(336)
Balance at the end of the year	–	–
8.4 ANALYSIS OF MOVEMENT IN INSURANCE CONTRACT CASH BONUSES		
Balance at the beginning of the year	418	402
Cash bonuses paid during the year	(363)	(346)
Charge to profit or loss for the year	385	362
Balance at the end of the year	440	418

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 the measurement date. The policyholder liability is calculated by present valuing the expected future cash flows derived from the best estimates of the variables which influence these cash flows.

R million	Gross long-term insurance contract liabilities	Reinsurer's share of 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 2017					
Balance at the beginning 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
Transfer to policyholder liabilities under insurance contracts	58	(9)	49	(21)	28
Unwind of discount rate	104	(17)	87	–	87
Experience variance	(1)	2	1	–	1
Change in non-economic assumptions	(33)	4	(29)	–	(29)
Change in economic assumptions	(28)	7	(21)	–	(21)
New business	1	(1)	–	–	–
Incurred but not reported claims	(1)	–	(1)	–	(1)
Change in outstanding claims reserve	16	(4)	12	–	12
Deferral of acquisition costs	–	–	–	(21)	(21)
Balance at the end of the year	386	(98)	288	(153)	135
Policyholder liability reserve	339	(84)	255	(153)	102
Incurred but not reported reserve	6	–	6	–	6
Outstanding claims reserve	41	(14)	27	–	27
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 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

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:

R million	Short-term insurance contract liability	10% increase	10% decrease
30 June 2017			
Outstanding claims provision	6 034	122	(122)
Claims incurred but not reported provision	6 034	44	(44)
Insurance contract cash bonus provision	6 034	44	(44)
30 June 2016			
Outstanding claims provision	6 704	141	(141)
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.

		Impact on liability	
R million	Change in variable	Increase in variable	Decrease in variable
30 June 2017			
Lapses	10%	(10)	15
Investment return	1%	(39)	53
Mortality, morbidity, disability, retrenchment	10%	123	(125)
Mortality, morbidity, disability, retrenchment	5%	62	(62)
Expenses	10%	34	(34)
30 June 2016			
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 note 42 for the split between current liabilities and non-current liabilities.

R million	2017	2016
9. DEFERRED TAXATION		
Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.		
Deferred taxation assets		
Provisions	238	330
Special transfer credit	21	–
Fair value adjustment	32	21
Payment received in advance	–	1
Assessed loss	–	1
Service cost on employee benefits	7	8
Difference between accounting and tax values of assets	4	4
Set-off in same legal entities	(126)	(161)
Total deferred taxation assets	176	204
Deferred taxation liabilities		
Deferred acquisition costs	(144)	(109)
Available-for-sale financial assets	(22)	(23)
Deferred expenditure immediately deductible	(8)	(9)
Special transfer credit	–	(19)
Prepayments	(5)	(1)
Set-off in same legal entities	126	161
Total deferred taxation liabilities	(53)	–
Reconciliation of movement		
Deferred taxation asset at the beginning of the year	365	348
Transfer to assets of discontinued operation	–	(28)
Deferred taxation charge for the year	(122)	(1)
Foreign exchange movement	(22)	42
Transfer to share-based payment reserve	80	4
Prior year adjustment	1	–
Deferred tax asset before set-off in same legal entities	302	365
Set-off in same legal entities	(126)	(161)
Total deferred taxation asset at the end of the year	176	204
Deferred taxation liability at the beginning of the year	(161)	(212)
Transfer to liabilities of discontinued operation	–	80
Deferred taxation charge for the year	(30)	(7)
Available-for-sale financial assets	2	(4)
Foreign exchange movement	10	(18)
Deferred tax liability before set-off in same legal entities	(179)	(161)
Set-off in same legal entities	126	161
Total deferred taxation liabilities at the end of the year	(53)	–

The group reviews the carrying amount of deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

A deferred tax 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 tax asset will be recognised once reasonable certainty exists that the losses are recoverable against future profits. The deferred tax asset for the current financial year that has not been recognised is R82 million (2016: R83 million). A deferred tax asset relating to the individual policyholder fund in OUTsurance Life amounting to R195 million (2016: R199 million) has not been recognised.

Refer to note 42 for the split between current assets and liabilities and non-current assets and liabilities.

10. SALE OF SUBSIDIARY

Regulatory approval was obtained in March 2017 to sell RMI's stake in RMBSI (excluding RMBSI's stake in Truffle Capital Proprietary Limited) to Santam.

In terms of *IFRS 5*, RMBSI (excluding its investment in Truffle Capital Proprietary Limited) was disclosed as a discontinued operation in the 2016 financial year. All the assets and liabilities were included in two separates lines on the statement of financial position as at 30 June 2016. The income statements for the 2017 and 2016 financial years were split between continuing and discontinued operations.

R million	Assets and liabilities at date of sale 31 March 2017	Assets and liabilities of discontinued operation 30 June 2016
Assets of discontinued operation		
Property and equipment	15	16
Intangible assets	1	1
Investments in associates	17	31
Financial assets		
Equity securities		
– fair value through profit or loss	2 029	2 126
Debt securities		
– held-to-maturity	514	295
– fair value through profit or loss	1 799	1 565
Loans and receivables including insurance receivables	1 029	428
Deferred acquisition cost	9	11
Reinsurance contracts	391	354
Deferred taxation	–	26
Cash and cash equivalents	1 044	1 247
Assets of discontinued operation	6 848	6 100
Liabilities of discontinued operation		
Insurance contracts	2 242	1 886
Financial liabilities		
Convertible debentures	15	15
Preference shares	104	106
Interest-bearing loans	508	4
Policyholders' interest	1 597	1 572
Cellholders' interest	87	56
Investment contracts at fair value through profit or loss	1 551	1 552
Deferred acquisition revenue	2	2
Provisions	10	13
Insurance and other payables	350	343
Deferred taxation	86	77
Taxation	14	–
Liabilities of discontinued operation	6 566	5 626
Assets less liabilities	282	
Non-controlling interest	(121)	
Goodwill	3	
Group carrying value at date of sale	164	
Sale consideration	165	
Profit on sale of subsidiary	1	

10. SALE OF SUBSIDIARY continued

Results of discontinued operation for the nine months ended 31 March 2017 (2016: Year ended 30 June 2016)

R million	9 months 31 March 2017	Year ended 30 June 2016
Income statement		
Gross insurance premiums	1 523	1 605
Less: Reinsurance premiums	(575)	(689)
Net insurance premiums	948	916
Change in provision for unearned premiums net of reinsurance	(378)	(196)
Net insurance premiums earned	570	720
Fee income	233	299
Investment income	55	79
Net fair value gains on financial assets	48	336
Net income	906	1 434
Gross claims paid	(711)	(933)
Reinsurance recoveries received	510	504
Investment contract benefits	(44)	(189)
Transfer to policyholders' interest	(34)	(56)
Transfer to cellholders' interest	(32)	(48)
Acquisition expenses	(218)	(293)
Marketing and administration expenses	(349)	(386)
Result of operating activities	28	33
Finance costs	(29)	(44)
Share of after-tax results of associates	(6)	7
Loss before taxation	(7)	(4)
Taxation	(42)	12
Loss for the period (2016: Profit for the year)	(49)	8

R million	2017	2016
11. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	2 254	597
Money market investments	48	14
Total cash and cash equivalents	2 302	611

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

12. SHARE CAPITAL AND SHARE PREMIUM

R million	Number of shares after treasury shares (millions)	Ordinary shares*	Share premium	Treasury shares	Total
30 June 2017					
Balance at the beginning of the year	1 482	–	13 657	(131)	13 526
Issue of shares	20	–	760	–	760
Movement in treasury shares	1	–	–	42	42
Balance at the end of the year	**1 503**	**–**	**14 417**	**(89)**	**14 328**
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

* Amount less than R500 000.

The total authorised number of ordinary shares is 2 000 000 000, with a par value of R0.0001 per share. The total number of issued ordinary shares as at 30 June 2016 was 1 485 688 346 shares, issued at a premium of R9.1926 per share. On 24 April 2017, RMI issued an additional 20 000 000 ordinary shares with par value of R0.0001 at a premium of R37.9999 per share. This increased the number of issued ordinary shares as at 30 June 2017 to 1 505 688 346 shares. 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 100 000 000 with a par value of R0.0001 per share. The issued number of par value preference shares is nil (2016: 648 001). As these preference shares are redeemable they are classified as financial liabilities at amortised cost (refer note 14).

The total authorised number of cumulative, redeemable no par value preference shares is 100 000 000. The issued number of no par value preference shares is nil (2016: 1 650 000). As these preference shares are redeemable they are classified as financial liabilities at amortised cost (refer note 14).

During the 2016 financial year, the company created a new class of 100 000 000 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 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 2017 was 2 512 383 (2016: 3 637 229).

R million	2017	2016
Number of treasury shares held at 30 June (millions)	3	4
Weighted number treasury of shares held during the year (millions)	3	4
Cost of treasury shares held at 30 June	89	131
Fair value adjustment	10	20
Fair value of treasury shares	99	151
The treasury sharers are eliminated from the weighted number of shares in issue for the purposes of calculating earnings and headline earnings per share:		
Weighted number of issued shares (millions)	1 489	1 486
Less: Weighted number of treasury shares (millions)	(3)	(4)
Weighted number of shares in issue (millions)	1 486	1 482

R million	2017	2016
13. RESERVES		
Distributable reserves		
Retained earnings	3 341	2 695
Equity accounted reserves		
Balance at the beginning of the year	3 939	3 368
Income from associates retained	770	612
Other comprehensive income	(417)	1
Treasury shares	6	11
Non-distributable reserves	5	(53)
Sale of subsidiary	(3)	–
Balance at the end of the year	4 300	3 939
Transactions with non-controlling interests	(2 989)	(2 097)
Other reserves		
Currency translation reserve	233	431
Available-for-sale reserve	50	55
Share-based payments reserve	12	7
Total other reserves	295	493
Total reserves	4 947	5 030

The significant movement in the transactions with non-controlling interests reserve relate mainly to the increase in the group's holding in OUTsurance following the acquisition of shares from minorities.

R million	2017	2016
14. PREFERENCE SHARES		
Unlisted		
Fixed rate, cumulative, redeemable par value preference shares issued by the company	–	648
Fixed rate, cumulative, redeemable no par value preference shares issued by the company	–	1 650
Cumulative, redeemable non-participating preference shares issued by a subsidiary	9 710	–
Total preference shares	9 710	2 298

The fair value of the unlisted preference shares is approximated by the carrying amount. These preference shares are classified as Level 2 instruments in terms of the fair value hierarchy described in note 40.

Refer to note 42 for the split between current liabilities and non-current liabilities.

FIXED RATE, CUMULATIVE, REDEEMABLE PAR VALUE PREFERENCE SHARES

The company's issued number of fixed rate, cumulative, redeemable par value preference shares is nil (2016: 648 001), with a par value of R0.0001 each. The share premium of the issued shares was R999.9999 per share. These preference shares were redeemed on 22 February 2017.

R million	2017	2016
Balance at the beginning of the year	648	648
Preference shares redeemed during the year	(648)	–
Balance at the end of the year	–	648

FIXED RATE, CUMULATIVE, REDEEMABLE NO PAR VALUE PREFERENCE SHARES

The company had 1 650 000 fixed rate, cumulative, redeemable no par value preference shares in issue as at 30 June 2016. These preference shares were all redeemed on 22 February 2017.

R million	2017	2016
Balance at the beginning of the year	1 650	1 250
Preference shares issued during the year	–	400
Preference shares redeemed during the year	(1 650)	–
Balance at the end of the year	–	1 650

R million	2017	2016
14. PREFERENCE SHARES continued		
CUMULATIVE, REDEEMABLE NON-PARTICIPATING PREFERENCE SHARES ISSUED BY A SUBSIDIARY		
Class A cumulative, redeemable non-participating preference shares	1 130	–
Class B cumulative, redeemable non-participating preference shares	1 130	–
Class C cumulative, redeemable non-participating preference shares	5 650	–
Class D cumulative, redeemable non-participating preference shares	1 800	–
Total cumulative, redeemable non-participating preference shares issued by a subsidiary	9 710	–

RMI Treasury Company Limited issued 1 130 class A cumulative, redeemable non-participating preference shares on 22 February 2017. These preference shares are redeemable at the discretion of the company at any time and compulsorily redeemable on 23 February 2020. These preference shares will pay dividends at a fixed rate of 7.119% for the first year after issue and thereafter at a floating rate of 66% of the prime rate, compounded monthly in arrears. Dividends are payable on 30 April and 31 October every year.

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

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

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

R million	2017	2016
15. INTEREST-BEARING LOANS		
Bank borrowings at amortised cost	2 611	60
Balance at the beginning of the year	60	4
Transfer to liabilities of discontinued operation	–	(4)
New loans incurred	2 367	60
Foreign currency movement	184	–
Balance at the end of the year	2 611	60

On 29 June 2016, RMI Investment Managers Affiliates 2 Proprietary Limited incurred a loan of R60 million. It 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 loan is guaranteed by RMI.

On 22 March 2017, Main Street 1353 Proprietary Limited incurred a loan of £150 million (R2 367 million) as part of the funding raised to acquire a 29.9% stake in Hastings Group Holdings plc. Half of the loan is a three-year loan at LIBOR (LIBOR fixed at 0.77%) plus 1.5% and the other half is a five-year loan at LIBOR (LIBOR fixed at 0.98%) plus 1.95%.

These interest-bearing loans are classified as Level 2 instruments in terms of the fair value hierarchy described in note 40.

Refer to note 42 for the split between current liabilities and non-current liabilities.

R million	2017	2016
16. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Shareholders for preference dividends on profit shares	111	105
Other loans designated at fair value through profit or loss	39	39
Total financial liabilities at fair value through profit or loss	150	144

Financial liabilities at fair value through profit or loss relate to the preference shares issued by OUTsurance Insurance Company Limited to FirstRand Limited for the profit sharing arrangements. Profits arising from these arrangements are distributed by way of bi-annual preference dividends payable in February and August each year. The preference dividend attributable to the profit share for the year is recognised in 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 other loans have no fixed terms of repayment and carry no interest.

Refer to note 42 for the split between current liabilities and non-current liabilities.

R million	2017	2016
17. DERIVATIVE LIABILITY		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	8	12
Notional value	93	91

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 note 42 for the split between current liabilities and non-current liabilities.

R million	2017	2016
18. SHARE-BASED PAYMENTS		
Cash-settled share-based payment liability	165	253
Balance at the beginning of the year	253	182
Charge for the year	40	143
Liability settled	(134)	(72)
Liability transferred	6	–
Balance at the end of the year	165	253
Refer to note 42 for the split between current liabilities and non-current liabilities.		
The income statement charge for share-based payments comprise:		
Equity-settled scheme	(6)	–
Cash-settled scheme	(40)	(143)
Total share-based payment expense	(46)	(143)

18. SHARE-BASED PAYMENTS 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 have performance conditions that have to be met before vesting, but the exercise period has been increased from five to seven years. The performance condition for 90% of the share appreciation rights is growth in normalised earnings of the established investments of at least the real GDP growth rate. The remaining 10% of the vesting of the share appreciation rights is dependent on the performance of the new investments, at the discretion of the remuneration committee.

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; and
- 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:

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

OUTSURANCE 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 7.5% (2016: 10.1%) 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.

18. SHARE-BASED PAYMENTS continued

OUTSURANCE continued

MARKET DATA CONSISTS OF THE FOLLOWING:

- Since OUTsurance Holdings Limited is not listed, expected volatility is derived with reference to the volatility of RMI, the 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 Holdings Limited ordinary shares.

EMPLOYEE STATISTIC ASSUMPTIONS

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

YOUI

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.

RMBSI

The RMB-SI Investments Share Trust (RMBSI trust) was created to give certain employees of RMB Structured Insurance Limited the opportunity to acquire shares in RMB-SI Investments Proprietary Limited.

Granting of share options to certain employees is at the discretion of the remuneration committee.

RMB-SI Investments Proprietary Limited issues shares to the trust, with every offer to the beneficiaries. The maximum number of scheme shares shall not exceed 10% of the issued ordinary share capital of RMB-SI Investments Proprietary Limited.

18. SHARE-BASED PAYMENTS continued

The sale of the shares between the trust and the beneficiary arising from the exercise of the option in respect of those shares may only be implemented as follows:

- up to 33.3% of the total shares which were the subject of the option and which have been exercised after the third year from the option date.
- up to 67% of the total shares which were the subject of the option and which have been exercised after the fourth year from the option date.
- up to 100% of the total shares which were the subject of the option and which have been exercised after the fifth year from the option date.

The table below summarises the options issued under the various schemes as at 30 June 2017:

	RMI	OUTsurance cash-settled	Youi equity-settled
Number of options at the beginning of the year (000's)	4 815	63 853	292 801
Range of strike prices of opening balances (cents)	0 – 4 125	333 to 715	AUS$ 0.10 – AUS$ 0.49
Number of options granted/transferred during the year (000's)	1 225	19 270	7 400
Strike price of options granted/transferred during the year (cents)	2 028 – 4 341	848	AUS$ 0.53
Number of options delivered during the year (000's)	(225)	(24 320)	(71 190)
Range of strike prices on date of delivery (cents)	4 038 – 4 272	333 to 370	AUS$ 0.10
Number of options cancelled/forfeited during the year (000's)	(47)	(2 510)	–
Range of strike prices of forfeited options (cents)	0 – 4 125	557 to 8.48	–
Number of options in force at the end of the year (000's)	5 768	56 293	229 011
Range of strike prices of closing balances (cents)	0 – 4 341	557 to 848	AUS$ 0.10 – AUS$ 0.53

The table below summarises the options issued under the various schemes as at 30 June 2016:

	RMI	OUTsurance cash-settled	Youi equity-settled	RMBSI
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$ 0.486	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$ 0.49	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)	–	280 to 370	AUS$ 0.10	183
Number of options cancelled/forfeited during the year (000's)	–	(314)	–	–
Range of strike prices of forfeited options (cents)	–	557 to 715	–	–
Number of options in force at the end of the year (000's)	4 815	63 853	292 801	9 605
Range of strike prices of closing balances (cents)	0 – 4 125	333 to 715	AUS$ 0.10 – AUS$ 0.49	183 – 195

R million	2017	2016
19. PROVISIONS		
Provision for bonuses (short-term employee benefits)	43	41
Provision for onerous contract	21	–
Total provisions	64	41
Balance at the beginning of the year	41	55
Transfer to liabilities of discontinued operation	–	(17)
Additional provisions	88	64
Amount utilised during the year	(64)	(62)
Foreign currency translation difference	(1)	1
Balance at the end of the year	64	41

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	2017	2016
20. INSURANCE AND OTHER PAYABLES		
Insurance related payables		
Due to intermediaries	1	3
Due to reinsurers	116	111
Other payables	9	20
Non-insurance related payables		
Trade creditors and accrued expenses	157	66
Short-term employee benefits – leave pay liability	135	124
Redeemable preference share dividends payable	111	27
VAT liability	39	48
Indirect tax on debtors	367	404
Other payables	264	394
Total insurance and other payables	1 199	1 197

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 note 42 for the split between current liabilities and non-current liabilities.

R million	2017	2016
21. NET INSURANCE PREMIUMS EARNED		
Long-term insurance contracts		
– Premiums written	426	378
– Policyholders' fees written	15	14
Short-term insurance contracts		
– Premiums written	14 334	14 223
– Policyholders' fees written	133	139
– Change in unearned premium provision	57	(504)
Premium revenue arising from insurance contracts issued	14 965	14 250
Long-term reinsurance contracts		
– Premiums payable	(36)	(33)
Short-term reinsurance contracts		
– Premiums payable	(846)	(821)
– Change in unearned premium provision	(19)	32
Premium revenue ceded to reinsurers on insurance contracts issued	(901)	(822)
Net insurance premiums earned	14 064	13 428

R million	2017	2016
22. FEE AND OTHER INCOME		
Commission earned from reinsurers, net of deferred acquisition revenue	107	92
Other income	28	18
Total fee and other income	135	110
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.		
23. INVESTMENT INCOME		
Available-for-sale		
– Dividend income	49	51
– Interest income	33	38
Assets at fair value through profit or loss		
– Dividend income	103	75
Cash and cash equivalents interest income	503	415
Total investment income	688	579
24. NET FAIR VALUE GAINS/(LOSSES) ON FINANCIAL ASSETS		
Fair value gains – Designated upon initial recognition	32	57
Fair value losses – Designated upon initial recognition	(62)	(92)
Impairment – Available-for-sale financial assets	(13)	(4)
Net fair value losses on financial assets	(43)	(39)
Net fair value gains/(losses) comprise:		
Equity securities		
– Unrealised mark-to-market	5	(22)
Debt securities	(30)	(25)
– Unrealised mark-to-market	(22)	(1)
– Realised mark-to-market	4	(20)
– Impairment	(12)	(4)
Derivative instruments		
– Unrealised mark-to-market	(18)	8
Total net fair value losses	(43)	(39)

R million	Gross	Re-insurance	Net
25. INSURANCE BENEFITS AND CLAIMS INCURRED			
30 June 2017			
Short-term insurance	(7 524)	791	(6 733)
– Claims paid net of salvages and recoveries	(7 282)	351	(6 931)
– Change in claims reserves	(242)	440	198
Long-term insurance			
Claims paid	(71)	21	(50)
– Life claims	(59)	19	(40)
– Disability claims	(2)	–	(2)
– Retrenchment claims	(2)	–	(2)
– Critical illness claims	(8)	2	(6)
Total insurance benefits and claims incurred	(7 595)	812	(6 783)
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)
Total insurance benefits and claims incurred	(7 049)	161	(6 888)

R million	2017	2016
Provision for cash bonuses		
– Short-term insurance business	(385)	(362)
– Long-term insurance business	(14)	–
Total provision for cash bonuses	(399)	(362)

26. ACQUISITION EXPENSES

R million	2017	2016
Commission paid	(25)	(29)

R million	2017	2016
27. MARKETING AND ADMINISTRATION EXPENSES		
Expenses by nature		
Employee benefit expenses	(2 140)	(2 093)
Professional fees and regulatory compliance costs	(73)	(73)
Depreciation (refer note 1)	(136)	(122)
Operating lease expenses	(111)	(109)
Operating lease expenses – onerous contract	(21)	–
Asset management services	(9)	(7)
Audit fees	(12)	(31)
(Loss)/profit on sale of property and equipment	(1)	2
Other expenses	(1 358)	(1 306)
Total marketing and administration expenses	(3 861)	(3 739)
Employee benefit expenses		
Salaries and incentive bonuses	(1 760)	(1 640)
Retirement funding	(166)	(159)
Service cost relating to intellectual property (refer note 2)	(88)	(73)
Share-based payment charge (including *IAS 19* share liability charge)	(50)	(149)
Medical aid contributions	(76)	(72)
Total employee benefit expenses	(2 140)	(2 093)
Depreciation		
Buildings	(17)	(16)
Leasehold improvements	(12)	(12)
Furniture, fittings and equipment	(106)	(92)
Motor vehicles	(1)	(2)
Total depreciation (refer note 1)	(136)	(122)
Audit fees		
Statutory audit – current year	(9)	(10)
Fees for other services	(3)	(21)
Total audit fees	(12)	(31)
Operating lease rentals		
The group's operating lease commitments under non-cancellable operating lease agreements are as follows:		
Up to 1 year	(34)	(53)
Between 1 and 5 years	(64)	(100)
Between 5 and 10 years	(24)	(55)
Total operating lease commitments	(122)	(208)

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

28. RETIREMENT BENEFITS

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

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

R million	2017	2016
29. FINANCE COSTS		
Interest on bank borrowings	(59)	–
Dividends on redeemable preference shares	(355)	(136)
	(414)	(136)
30. TAXATION		
South African normal taxation		
Current taxation		
– Current year	(765)	(681)
– Prior year	–	1
Deferred taxation		
– Current year	(14)	14
– Prior year	3	–
Withholding taxation	(3)	(3)
Australian taxation		
Current taxation		
– Current year	(169)	(201)
– Prior year	4	–
Deferred taxation		
– Current year	(137)	(24)
– Prior year	(3)	1
Total taxation	(1 084)	(893)
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	4 838	4 192
Effective tax rate	22.41	21.30
Income not subject to taxation	1.39	1.48
Finance costs not deductible	(2.40)	(0.90)
Other non-deductible expenses	(1.20)	(2.65)
Fair value adjustments	(1.19)	–
Income taxation rate differential	(0.40)	(0.33)
Capital gains tax	0.03	(0.18)
Deferred tax asset not recognised	(0.49)	(0.85)
Associates equity accounted using after-taxation profits	9.62	10.08
Prior year over- and under-provisions	0.08	0.05
Other permanent differences	0.15	(0.00)
Standard income taxation rate in South Africa	28.00	28.00

R million	2017	2016
31. CASH FLOWS FROM OPERATING ACTIVITIES		
RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS		
Profit before taxation	4 838	4 192
Adjusted for:		
Loss/(profit) on sale of property and equipment	1	(2)
Profit on sale of subsidiary	(1)	–
Foreign currency translation difference	(152)	(337)
Equity accounted earnings	(1 702)	(1 524)
Depreciation	136	122
Service cost relating to intellectual property	88	73
Intellectual property bonuses paid	(70)	(115)
Provisions	2	3
Share option expenses	45	149
Cash paid in terms of share option liability	(134)	(72)
Investment income	(688)	(579)
Finance costs	414	136
Net fair value losses on assets at fair value through profit or loss	449	11
Fair value adjustment to financial liabilities	6	37
Other non-cash items	(150)	(112)
Changes in insurance balances:		
– Gross provision for unearned premiums	(58)	504
– Reinsurers' share of provisions for unearned premiums	19	(32)
– Gross provision for claims incurred but not reported	(1)	47
– Provision for cash bonuses on insurance contracts	399	362
– Cash bonus paid on insurance contracts	(363)	(346)
– Insurance contracts	(638)	908
– Deferred acquisition costs	27	(33)
Changes in working capital		
– Current receivables and prepayments	232	(855)
– Current payables	(61)	278
Cash generated from operations	2 638	2 815

R million	2017	2016
32. 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	3 327	2 977
Earnings attributable to ordinary shareholders – continuing operations	3 367	2 971
Weighted average number of ordinary shares in issue (number)	1 486 341 047	1 481 887 407
Earnings per share from continuing and discontinued operations (cents)	223.9	200.9
Earnings per share from continuing operations (cents)	226.5	200.5
Earnings attributable to ordinary shareholders	3 327	2 977
Dilution on earnings	(52)	(50)
Diluted earnings attributable to ordinary shareholders	3 275	2 927
Weighted average number of ordinary shares in issue (number)	1 486 341 047	1 481 887 407
Diluted earnings per share from continuing and discontinued operations (cents)	220.4	197.5
Diluted earnings per share from continuing operations (cents)	223.0	197.1
33. HEADLINE EARNINGS PER SHARE		
Headline earnings per share is calculated by dividing the adjusted earnings attributable to shareholders by the weighted number of ordinary shares in issue during the year.		
HEADLINE EARNINGS RECONCILIATION		
Earnings attributable to ordinary shareholders	3 327	2 977
RMI's share of headline earnings adjustments made by associates	77	(19)
– Intangible asset impairments	91	37
– Profit on sale of subsidiary	(19)	(29)
– Impairment of owner occupied building below cost	7	–
– Realised profit on sale of available-for-sale assets	(2)	(1)
– Profit on disposal of property and equipment	–	(1)
– Release of foreign currency translation reserve	–	(23)
– Gain from business combination	–	(2)
Profit on dilution of shareholding	28	(26)
Impairment of available-for-sale instruments	9	3
Loss/(profit) on disposal of property and equipment	1	(1)
Profit on sale of subsidiary	(1)	–
Headline earnings attributable to ordinary shareholders	3 441	2 934
Weighted average number of ordinary shares in issue (number)	1 486 341 047	1 481 887 407
Headline earnings per share from continuing and discontinued operations (cents)	231.5	198.0
Headline earnings per share from continuing operations (cents)	234.2	197.6
Headline earnings attributable to ordinary shareholders	3 441	2 934
Dilution on earnings	(53)	(49)
Diluted headline earnings attributable to ordinary shareholders	3 388	2 885
Weighted average number of ordinary shares in issue (number)	1 486 341 047	1 481 887 407
Diluted headline earnings per share from continuing and discontinued operations (cents)	227.9	194.7
Diluted headline earnings per share from continuing operations (cents)	230.6	194.3
34. DIVIDEND PER SHARE		
Total dividends paid during the year	1 753	1 738
Total dividends declared relating to the profit for the year	1 766	1 753
Number of ordinary shares in issue until 23 April 2017 (2016: As at 30 June 2016) (number)	1 485 688 346	1 485 688 346
Number of ordinary shares in issue from 24 April 2017 (2016: As at 30 June 2016) (number)	1 505 688 346	1 485 688 346
Dividend declared per share (cents)	118.0	118.0

35. 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 (2016: Remgro Limited and Royal Bafokeng Holdings Proprietary Limited).

KEY MANAGEMENT PERSONNEL

Only RMI's directors are key management personnel. Information on directors' emoluments appears in the remuneration committee report. Information on directors' 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 39.

The following companies are subsidiaries of RMI:

- AlphaCode Proprietary Limited
- Firness International Proprietary Limited
- Granate Asset Managers Proprietary Limited
- Main Street 1353 Proprietary Limited
- OUTsurance Holdings Limited
- OUTsurance Insurance Company Limited
- OUTsurance International Holdings Proprietary Limited
- OUTsurance Life Insurance Company Limited
- OUTsurance Properties Proprietary Limited
- OUTsurance Shared Services Proprietary Limited
- OUTvest Nominees RF Proprietary Limited
- OUTvest Proprietary Limited
- RMI Asset Holdings Proprietary Limited
- RMI Invest One Proprietary Limited
- RMI Invest Three Proprietary Limited
- RMI Invest Two Proprietary Limited
- RMI Investment Holdings Proprietary Limited
- RMI Investment Managers Affiliates 1 Proprietary Limited
- RMI Investment Managers Affiliates 2 Proprietary Limited
- RMI Investment Managers Group Proprietary Limited
- RMI Treasury Company Limited
- Youi Holdings Proprietary Limited
- Youi New Zealand Proprietary Limited
- Youi Properties Proprietary Limited
- Youi Proprietary Limited (Australia)
- Youi Proprietary Limited (South Africa)

ASSOCIATES

Details of income from and investments of RMI's main associates are disclosed in note 38.

The following companies are associates of RMI:

- Coreshares Holdings Proprietary Limited
- Discovery Limited
- Entersekt International Limited
- Entersekt Proprietary Limited
- Hastings Group Holdings plc
- Merchant Capital Advisory Services Proprietary Limited
- MMI Holdings Limited
- Northstar Asset Management Proprietary Limited
- OUTsurance Insurance Company of Namibia Limited
- Polar Star Management Proprietary Limited
- Polar Star Management SEZC
- Royal Investment Managers Proprietary Limited
- Sentio Capital Management Proprietary Limited
- Tantalum Capital Proprietary Limited
- Truffle Capital Proprietary Limited

35. RELATED PARTIES continued

R million	2017	2016
Related party transactions		
Transactions of RMI and its subsidiary companies with:		
Principal shareholders		
Dividends paid	794	787
Key management personnel		
Salaries and other benefits	13	23
Transactions of RMI's key management with associates of the group		
Investment products		
Balance at the beginning of the year	1 452	1 657
Net withdrawals	(19)	(359)
Net investment return	(22)	165
Commission and other transaction fees	(11)	(11)
Balance at the end of the year	1 400	1 452
Associates		
Income statement effect:		
– Dividends received	933	919
– Investment income	3	5
– Asset manager administration fees	–	3
– Retirement fund contributions	85	78
– Group life	7	7
– Medical aid premiums paid	74	71
Effect on the statement of financial position:		
– Preference share investment	49	50

36. POST-REPORTING DATE EVENTS, CONTINGENCIES AND COMMITMENTS

FINAL DIVIDEND DECLARATION

RMI declared a final dividend of 65.0 cents per ordinary share (2016: 65.0 cents per ordinary share) amounting to R978 million (2016: R966 million) on 19 September 2017 (2016: 12 September 2016), payable on 9 October 2017 (2016: paid on 10 October 2016), with an option to receive scrip in lieu of cash or to reinvest the cash dividend after deduction of dividend withholding tax in new RMI ordinary shares. This is a non-adjusting event.

ACQUISITION OF 3.5% OF PRODIGY INVESTMENTS LIMITED

In July 2017, RMI acquired 3.5% of Prodigy Investments Limited, an international fintech platform that offers loans to postgraduate students. This is a non-adjusting event.

INVESTMENT IN LUNO LIMITED

In August 2017, RMI invested in Luno, a company that offers clients a wallet to buy, store and use Bitcoin and operates a Bitcoin exchange platform. This is a non-adjusting event.

ETHOS PRIVATE EQUITY

RMI acquired a minority stake in Ethos Private Equity in September 2017.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

- RMI acquired 25.1% of the equity of Merchant Capital in September 2015.
- A junior loan facility to Merchant Capital of not less than R9 228 000.
- A senior loan facility to Merchant Capital of not less than R200 000 000.

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

As at 30 June 2017, R7 million of the senior loan facility and R5 million of the junior loan facility has been issued to Merchant Capital.

COMMITMENTS

The group's operating lease commitments under non-cancellable operating lease agreements are disclosed in note 27.

37. 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:

	2017	2016
Continuing operations		
Discovery – effective	**25.1%**	25.1%
Discovery – actual	**25.0%**	25.0%
MMI – effective	**25.7%**	25.7%
MMI – actual	**25.5%**	25.5%
OUTsurance – effective	**88.5%**	84.5%
OUTsurance – actual	**87.7%**	83.6%
RMI Investment Managers – effective	**100.0%**	100.0%
RMI Investment Managers – actual	**100.0%**	100.0%
Merchant Capital – effective	**25.1%**	25.1%
Merchant Capital – actual	**25.1%**	25.1%
Entersekt – effective	**25.1%**	–
Entersekt – actual	**25.1%**	–
Discontinued operation		
RMBSI – effective	**0.0%**	78.1%
RMBSI – actual	**0.0%**	75.5%

38. ASSOCIATES

LISTED ASSOCIATES

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

DISCOVERY LIMITED

R million	2017	2016
Financial year-end	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%	25.1%
Carrying value of investment in associate	8 938	8 517
Total share of post-acquisition reserves of associate	4 288	3 874
Income attributable to RMI for the year	1 098	949
Less: Dividends received	(288)	(282)
Share of retained income for the year	810	667
Market value of the 25% investment (actual holding)	20 716	19 838
Total net asset value of Discovery Limited	32 290	30 607
Perpetual preference share capital	(779)	(779)
Net asset value attributable to ordinary shareholders	31 511	29 828
RMI's portion	7 914	7 498
At-acquisition reserves	(3 626)	(3 624)
Total share of post-acquisition reserves of associate	4 288	3 874
Cost	4 650	4 650
Treasury shares	–	(7)
Group carrying amount	8 938	8 517
Statement of financial position		
Assets		
Assets arising from insurance contracts	37 691	33 815
Property and equipment	1 210	1 052
Intangible assets and deferred acquisition costs	5 096	4 584
Goodwill	2 107	2 447
Investment in associates	979	491
Financial assets	73 108	66 223
Deferred taxation	1 337	824
Current income tax asset	34	97
Reinsurance contracts	263	410
Cash and cash equivalents	9 098	8 634
Total assets	130 923	118 577
Shareholders' equity and liabilities		
Total equity	32 290	30 607
Liabilities arising from insurance contracts	52 477	44 673
Liabilities arising from reinsurance contracts	6 746	4 894
Financial liabilities	24 373	23 211
Deferred taxation	6 963	6 035
Deferred revenue	291	291
Employee benefits	191	169
Trade and other payables	7 369	8 563
Current income tax liability	223	134
Total shareholders' equity and liabilities	130 923	118 577
Net insurance premium revenue	29 696	28 758
Statement of comprehensive income		
Profit for the year	4 494	3 730
Other comprehensive income for the year	(1 583)	(90)
Total comprehensive income for the year	2 911	3 640
Contingencies and commitments	11 006	10 425
Reconciliation of headline earnings to normalised earnings[1]		
Headline earnings	4 404	3 641
Amortisation of intangible assets relating to business combinations	154	224
Rebranding and business acquisition expenses	99	365
Additional 54.99% share of DiscoveryCard profits	–	86
Accrual of dividends payable to preference shareholders	(1)	(4)
Normalised earnings	4 656	4 312

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

38. ASSOCIATES continued

LISTED ASSOCIATES continued

MMI HOLDINGS LIMITED

R million	2017	2016
Financial year-end	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	401 048
Interest held (%) (after consolidation of share trust)	25.7%	25.7%
Carrying value of investment in associate	5 956	6 210
Total share of post-acquisition reserves of associate	(233)	52
Income attributable to RMI for the year	377	555
Less: Dividends received	(630)	(622)
Share of retained loss for the year	(253)	(67)
Market value of the 25.5% investment (actual holding)	8 117	9 080
Total net asset value of MMI Holdings Limited	23 248	24 399
Non-controlling interest	(292)	(290)
Net asset value attributable to ordinary shareholders	22 956	24 109
RMI's portion	5 909	6 194
At-acquisition reserves	(6 142)	(6 142)
Total share of post-acquisition reserves of associate	(233)	52
Cost	6 295	6 295
Treasury shares	(103)	(132)
Intergroup unamortised intangible asset	(3)	(6)
Group carrying amount	5 956	6 209
Statement of financial position		
Assets		
Intangible assets	11 260	12 433
Owner-occupied properties	4 105	3 112
Property and equipment	389	432
Investment properties	7 340	7 422
Investment in associates	595	680
Employee benefits assets	410	445
Financial instrument assets	394 391	393 968
Insurance and other receivables	4 621	4 497
Deferred taxation	249	279
Properties under development	111	187
Reinsurance contracts	4 495	5 092
Current tax asset	581	537
Cash and cash equivalents	27 353	29 148
Non-current assets held for sale	–	470
Total assets	455 900	458 702
Shareholders' equity and liabilities		
Total equity	23 248	24 399
Insurance contract liabilities	114 242	114 093
Reinsurance contract liabilities	1 368	973
Financial instrument liabilities	298 159	299 514
Deferred taxation	3 198	3 812
Employee benefits obligations	1 334	1 452
Other payables	14 128	14 384
Provisions	57	43
Current tax liability	166	32
Total shareholders' equity and liabilities	455 900	458 702
Net insurance premiums	28 191	28 971
Statement of comprehensive income		
Profit for the year	1 581	2 178
Other comprehensive income for the year	(103)	83
Total comprehensive income for the year	1 478	2 261
Contingencies and commitments	344	87
Reconciliation of headline earnings to normalised earnings		
Headline earnings	1 847	2 083
Amortisation of intangible assets relating to business combinations	577	618
Basis and other changes and investment variances	458	517
Net realised and fair value losses/(gains) on shareholders' assets	52	(210)
Non-recurring and restructuring expenses	249	155
Normalised earnings	3 183	3 163
Finance costs – convertible preference shares	39	41
Dilutory effect of subsidiaries	(14)	(23)
Adjustment for MMI shares held by policyholder funds	–	25
Diluted normalised earnings[1]	3 208	3 206

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

38. ASSOCIATES continued

LISTED ASSOCIATES continued

HASTINGS GROUP HOLDINGS PLC

R million	2017
Financial year-end	31 December
Period used for equity accounting	4 months to 30 June 2017
Country of incorporation	UK
Number of shares held ('000)	196 508
Interest held (%)	29.9%
Carrying value of investment in associate	8 901
Total share of post-acquisition reserves of associate	346
Income attributable to RMI for the year	199
Market value of the 29.9% stake	10 491
Net asset value attributable to ordinary shareholders of Hastings	9 679
Intangible asset recognised as part of purchase price allocation	1 553
Net asset value attributable to ordinary shareholders of Hastings including intangible asset	11 232
RMI's portion	3 574
At-acquisition reserves	(3 228)
Total share of post-acquisition reserves of associate	346
Cost	8 555
Group carrying amount	8 901
Statement of financial position as at 30 June 2017	
Assets	
Goodwill	7 993
Intangible assets	1 522
Property and equipment	228
Deferred income tax assets	92
Reinsurance assets	16 192
Deferred acquisition costs	498
Prepayments	94
Insurance and other receivables	7 058
Financial assets at fair value	7 949
Cash and cash equivalents	2 827
Total assets	44 453
Shareholders' equity and liabilities	
Total equity	9 679
Loans and borrowings	4 789
Insurance contract liabilities	25 257
Insurance and other payables	4 264
Deferred income tax liabilities	296
Current tax liabilities	168
Total shareholders' equity and liabilities	44 453
Net earned premiums	3 247
Statement of comprehensive income for the six months ended 30 June 2017	
Profit for the six months	964
Other comprehensive income for the six months	(23)
Total comprehensive income for the six months	941
Contingencies and commitments	337
Reconciliation of headline earnings to normalised earnings[1]	
Headline earnings for the six months	964
Amortisation of intangible assets relating to business combinations	150
Normalised earnings for the six months	1 114

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

38. ASSOCIATES continued

TOTAL COMPREHENSIVE INCOME, ASSETS AND LIABILITIES OF OTHER INVESTMENTS IN ASSOCIATES

The associates listed below do not have discontinued operations.

R million	Profit/ (loss)	Assets	Liabilities
30 June 2017			
Coreshares Holdings Proprietary Limited (loss after tax since acquisition)	(13)	113	118
Entersekt International Limited (acquired on 30 June 2017, therefore no profit after tax)	(35)	170	78
Entersekt Proprietary Limited	15	98	53
Merchant Capital Advisory Services Proprietary Limited	–	64	45
Northstar Asset Management Proprietary Limited	10	25	3
Polar Star Management Proprietary Limited (profit after tax since acquisition)	9	17	2
Polar Star Management SEZC (profit after tax since acquisition)	25	30	1
Royal Investment Managers Proprietary Limited	6	103	3
Sentio Capital Management Proprietary Limited	7	25	3
Tantalum Capital Proprietary Limited	3	10	2
Truffle Capital Proprietary Limited	18	54	21

R million	2017	2016
39. SUBSIDIARIES		
UNLISTED SUBSIDIARIES		
OUTSURANCE HOLDINGS LIMITED[1]		
Financial year-end	30 June	30 June
Year used for consolidation	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held ('000)	3 330 339	2 940 480
Interest held (%) (after consolidation of share trust)	88.5%	84.5%
Equity shares at cost	7 720	4 453
Net profit for the year	3 253	2 009
Valuation of RMI's investment	30 972	24 935
Results for the year ended 30 June		
Income statement		
Gross insurance premiums	14 908	14 754
Less: Reinsurance premiums	(882)	(854)
Net insurance premiums	14 026	13 900
Change in provision for unearned premiums net of reinsurance	38	(472)
Net insurance premiums earned	14 064	13 428
Fee income	111	100
Investment income	527	488
Net fair value gains on financial assets	2	10
Net income	14 704	14 026
Gross claims paid	(7 596)	(7 049)
Reinsurance recoveries received	812	161
Provision for cash bonuses	(399)	(362)
Transfer to policyholder liabilities under insurance contracts	(28)	(52)
Acquisition expenses	(25)	(29)
Fair value adjustment to financial liabilities	(199)	(205)
Marketing and administration expenses	(3 716)	(3 592)
Result of operating activities	3 553	2 898
Finance costs	(1)	–
Share of after-tax results of associates	29	15
Gain on derivative related to acquisition of investment in associate[2]	750	–
Profit before taxation	4 331	2 913
Taxation	(1 079)	(904)
Profit for the year	3 252	2 009

1. Held via Firness International Proprietary Limited and RMI Asset Holdings Proprietary Limited.
2. During the year, OUTsurance acquired a 49% interest in Main Street 1353, which owns a 29.9% interest in Hastings Group Holdings plc (Hastings). This gain represents the movement in the fair value of Main Street 1353 from 1 March 2017, the contractual date, up to 1 June 2017 when the contract became effective. The gain is linked to the significant appreciation in the share price of Hastings between these dates. IFRS deems the period between 1 March 2017 and 1 June 2017 to be a derivative contract and therefore the gain that arises is considered a derivative gain. This gain is eliminated at RMI group level as the transaction took place between two RMI subsidiaries.

39. SUBSIDIARIES continued

UNLISTED SUBSIDIARIES continued

OUTSURANCE HOLDINGS LIMITED continued

R million	2017	2016
Non-controlling interest relating to Youi Holdings Proprietary Limited		
Balance at the beginning of the year	130	136
Profit attributable to non-controlling interests (7% (2016: 7%))	40	26
FCTR attributable to non-controlling interests	(14)	21
Transactions with non-controlling interests	(13)	(53)
Total non-controlling interest in respect of Youi Holdings Proprietary Limited	143	130
Non-controlling interest relating to OUTsurance Holdings Limited		
Balance at the beginning of the year	891	721
Profit attributable to non-controlling interests (11.5% (2016: 15.5%))	360	311
Dividends paid	(200)	(180)
Non-controlling interest in other reserves	(61)	61
Movement in treasury shares and shares acquired from non-controlling interests	41	(22)
Total non-controlling interest in respect of OUTsurance Holdings Limited	1 031	891
Current assets	10 430	11 723
Non-current assets	7 735	2 993
Current liabilities	7 714	7 647
Non-current liabilities	627	1 173
Cash inflow from operating activities	765	1 723
Cash outflow from investing activities	(614)	(2 449)
Cash inflow/(outflow) from financing activities	49	(52)
RMB-SI INVESTMENTS PROPRIETARY LIMITED		
Non-controlling interest relating to RMB-SI Investments Proprietary Limited		
Balance at the beginning of the year	146	121
(Loss)/profit attributable to non-controlling interests (21.9% (2016: 21.9%))	(10)	3
Dividends paid	(53)	(9)
Separate class of shares issued	22	31
Movement in treasury shares	16	–
Sale of investment in RMBSI	(121)	–
Total non-controlling interest in respect of RMB-SI Investments Proprietary Limited	–	146

39. SUBSIDIARIES continued

UNLISTED SUBSIDIARIES continued

RMI INVESTMENT MANAGERS GROUP PROPRIETARY LIMITED

R million	2017	2016
Financial year-end	30 June	30 June
Year used for consolidation	30 June	30 June
Country of incorporation	RSA	RSA
Number of shares held (number)	47 042	8 101
Interest held (%)	100.0%	100.0%
Equity shares at cost	426	81
Net loss for the year	(19)	(25)
Valuation of RMI's investment	426	81
Results for the year ended 30 June		
Fee and other income	4	–
Investment income	9	3
Marketing and administration expenses	(41)	(28)
Result of operating activities	(28)	(25)
Finance costs	(6)	(2)
Share of after-tax results of associates	12	2
Loss before taxation	(22)	(25)
Taxation	3	–
Loss for the year	(19)	(25)
Non-controlling interest relating to RMI Investment Managers Group Proprietary Limited relating to its 51%-held subsidiary, RMI Investment Managers Affiliates 2 Proprietary Limited		
Balance at the beginning of the year	3	–
Loss attributable to non-controlling interests (49% in underlying subsidiary (2016: 49%))	(11)	(10)
Capital contributed by non-controlling interests	–	10
Transactions with non-controlling interests	49	3
Total non-controlling interest in respect of RMI Investment Managers Group Proprietary Limited	41	3
Current assets	22	15
Non-current assets	208	137
Current liabilities	8	6
Non-current liabilities	140	140
Cash outflow from operating activities	(27)	(15)
Cash outflow from investing activities	(64)	(137)
Cash inflow from financing activities	99	160
Total non-controlling interests		
Youi Holdings Proprietary Limited	143	130
OUTsurance Holdings Limited	1 031	891
RMB-SI Investments Proprietary Limited	–	146
RMI Investment Managers Group Proprietary Limited	41	3
Total non-controlling interests	1 215	1 170

40. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The table below analyses financial instruments carried at fair value by level in the fair value hierarchy. The different levels are based on the extent that observable prices and/or data is 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.

40. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

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

R million	Level 1	Level 2	Level 3	Total carrying amount
30 June 2017				
Financial assets				
Equity securities				
– Exchange traded funds	619	–	–	619
– Listed preference shares	377	–	–	377
– Collective investment schemes	–	99	–	99
– Listed equity securities	129	–	–	129
– Unlisted equity securities	–	–	1	1
Debt securities				
– Unlisted preference shares	–	105	–	105
– Zero-coupon deposits	–	208	–	208
– Term deposits	–	4 429	–	4 429
– Government, municipal and public utility securities	–	457	–	457
– Money market securities	–	2 551	–	2 551
– Collective investment schemes	–	45	–	45
– Other debt securities at fair value through profit or loss	–	7	813	820
Derivative asset	–	6	–	6
Total financial assets recognised at fair value	1 125	7 907	814	9 846
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	150	150
Derivative liability	–	8	–	8
Total financial liabilities recognised at fair value	–	8	150	158

R million	2017	2016
Reconciliation of movement in Level 3 assets		
Balance at the beginning of the year	643	386
Additions in the current year	281	294
Disposals (sales and redemptions)	(106)	(4)
Investment income accrued	64	33
Dividends received	(68)	(66)
Balance at the end of the year	814	643
The Level 3 financial assets at fair value through profit or loss represent loans and preference share investments, the value of which is not significantly sensitive to an increase or decrease in the counterparty credit rating due to the collateralised nature of the transaction.		
Reconciliation of movement in Level 3 liabilities		
Balance at the beginning of the year	144	107
Preference dividends charged to the income statement in respect of profit sharing arrangements on ring-fenced insurance business	199	205
Preference dividends paid	(193)	(207)
Shareholder loan advanced	–	39
Balance at the end of the year	150	144

40. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

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
30 June 2016				
Financial assets				
Equity securities				
– Exchange traded funds	412	–	–	412
– Listed preference shares	393	–	–	393
– Listed equity securities	124	–	–	124
Debt securities				
– Unlisted preference shares	–	647	–	647
– Zero-coupon deposits	–	83	–	83
– Term deposits	–	5 219	–	5 219
– Government, municipal and public utility securities	–	431	–	431
– Money market securities	–	2 657	–	2 657
– Collective investment schemes	–	41	–	41
– Other debt securities at fair value through profit or loss	–	–	643	643
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

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

LEVEL 1

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

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

LEVEL 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are market observable, the instrument is included in Level 2.

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

The unlisted preference shares are redeemable with a notice period of one year. Dividend yields are 65% of the prime overdraft rate. The fair value of the preference shares with a maturity date of longer than one year is calculated on a discounted cash flow basis with the discount rate adjusted for changes in credit risk of the ultimate counterparty. Due to the redeemable nature, the preference shares are deemed to be debt securities.

40. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE continued

LEVEL 2 continued

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

Zero-coupon deposits are not traded actively during a financial reporting period and are classified as Level 2 financial instruments. Fair value is determined based on a discounted cash flow valuation.

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

LEVEL 3

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

A specific valuation technique is used to value this Level 3 financial instrument which represents an accrued profit related to the FirstRand Limited Homeowners profit sharing arrangement. The fair value is determined based on valuation techniques where the input is determined by management, being profits arising out of profit sharing arrangements, and is not readily available in the market or where market observable input is significantly adjusted.

Inputs are determined by the profits arising and calculations are made in accordance with the profit share percentages, stipulated in the profit sharing arrangement. No assumptions or adjustments or any other inputs are made to the profits before or after distribution. Distribution of the profits arising are made in the form of preference dividends.

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

41. SEGMENTAL REPORT

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

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

41. SEGMENTAL REPORT continued

R million	Discovery	MMI	OUTsurance	Discontinued operation	Other[1]	RMI group
Year ended 30 June 2016						
Net income	–	–	14 026	–	52	14 078
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 302)	–	–	(7 302)
Depreciation	–	–	(118)	–	(4)	(122)
Amortisation	–	–	(73)	–	–	(73)
Other expenses	–	–	(3 431)	–	(142)	(3 573)
Finance costs	–	–	–	–	(136)	(136)
Fair value adjustment to financial liabilities	–	–	(204)	–	–	(204)
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

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

RECONCILIATION OF NORMALISED EARNINGS TO HEADLINE EARNINGS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS PER NOTE 33

R million	2017	2016
Normalised earnings per segmental report	3 897	3 348
RMI's share of normalised adjustments made by associates	(456)	(438)
Amortisation of intangible assets relating to business combinations	(238)	(209)
Basis and other changes and investment variances	(117)	(131)
Rebranding and business acquisition expenses	(25)	(91)
Net realised and fair value (gains)/losses on shareholders' assets	(13)	53
Non-recurring and restructuring expenses	(63)	(39)
Additional 54.99% share of DiscoveryCard profits	–	(22)
Accrual of dividends payable to preference shareholders	–	1
Group treasury shares	–	24
Headline earnings attributable to ordinary shareholders per note 33	3 441	2 934

41. SEGMENTAL REPORT continued

GEOGRAPHICAL SEGMENTS

R million	South Africa	Australia	New Zealand	United Kingdom	Total
Year ended 30 June 2017					
Profit/(loss)	2 207	991	(62)	–	3 136
Share of after-tax results of associates	1 367	–	–	335	1 702
Profit/(loss) before taxation	3 574	991	(62)	335	4 838
Taxation	(779)	(305)	–	–	(1 084)
Result from continuing operations	2 795	686	(62)	335	3 754
Discontinued operation	(49)	–	–	–	(49)
Profit/(loss) for the year	2 746	686	(62)	335	3 705
Assets					
Property and equipment	941	41	18	–	1 000
Investments in associates	15 554	–	–	8 901	24 455
Financial assets	5 346	6 722	314	–	12 382
Cash and cash equivalents	2 036	236	30	–	2 302
Other assets	145	921	210	–	1 276
Total assets	24 022	7 920	572	8 901	41 415
Liabilities					
Insurance contract liabilities	1 961	4 697	183	–	6 841
Other liabilities	10 588	828	117	2 551	14 084
Total liabilities	12 549	5 525	300	2 551	20 925
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 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
Assets					
Property and equipment	601	47	31	–	679
Investments in associates	14 888	–	–	–	14 888
Financial assets	5 594	7 274	579	–	13 447
Cash and cash equivalents	374	199	38	–	611
Other assets	5 937	995	113	–	7 045
Total assets	27 394	8 515	761	–	36 670
Liabilities					
Insurance contract liabilities	1 763	5 053	252	–	7 068
Other liabilities	8 400	1 334	142	–	9 876
Total liabilities	10 163	6 387	394	–	16 944

41. SEGMENTAL REPORT continued

GEOGRAPHICAL SEGMENTS 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, Japan, Europe and the United States. It is a pre-eminent developer of integrated financial services products and operates under the Discovery Health, Discovery Life, Discovery Insure, Discovery Invest, Discovery Vitality, VitalityHealth, VitalityLife and Ping An Health brand names.

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 "awesome" client service.

HASTINGS

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

DISCONTINUED OPERATION

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

42. SPLIT BETWEEN CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

	30 June 2017		
R million	Total	Current	Non-current
Assets			
Property and equipment	1 000	–	1 000
Intangible assets	89	65	24
Investment in associates	24 455	–	24 455
Financial assets			
Equity securities			
– available-for-sale	996	–	996
– fair value through profit or loss	229	–	229
Debt securities			
– available-for-sale	105	105	–
– fair value through profit or loss	8 510	6 110	2 400
Derivative asset	6	–	6
Loans and receivables including insurance receivables	2 536	2 532	4
Deferred acquisition cost	338	338	–
Reinsurance contracts	672	569	103
Deferred taxation	177	61	116
Cash and cash equivalents	2 302	2 302	–
Total assets	41 415	12 082	29 333
Liabilities			
Financial liabilities			
Preference shares	9 710	–	9 710
Interest-bearing loans	2 611	–	2 611
Financial liabilities at fair value through profit or loss	150	111	39
Derivative liability	8	–	8
Insurance contracts	6 841	6 294	547
Share-based payment liability	165	107	58
Provisions	64	64	–
Insurance and other payables	1 199	1 176	23
Deferred taxation	53	43	10
Taxation	124	124	–
Total liabilities	20 925	7 919	13 006

42. SPLIT BETWEEN CURRENT AND NON-CURRENT ASSETS AND LIABILITIES continued

	30 June 2016		
R million	Total	Current	Non-current
Assets			
Property and equipment	679	–	679
Intangible assets	113	41	72
Investment in associates	14 888	–	14 888
Financial assets			
Equity securities			
– available-for-sale	805	–	805
– fair value through profit or loss	124	–	124
Debt securities			
– available-for-sale	647	568	79
– fair value through profit or loss	9 074	7 377	1 697
Derivative asset	29	–	29
Loans and receivables including insurance receivables	2 768	2 768	–
Deferred acquisition cost	365	365	–
Reinsurance contracts	257	157	100
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	18 677
Liabilities			
Financial liabilities			
Preference shares	2 298	–	2 298
Interest-bearing loans	60	–	60
Financial liabilities at fair value through profit or loss	144	105	39
Derivative liability	12	–	12
Insurance contracts	7 068	5 987	1 081
Share-based payment liability	253	210	43
Provisions	41	41	–
Insurance and other payables	1 197	1 187	10
Taxation	245	245	–
Liabilities of discontinued operation	5 626	5 626	–
Total liabilities	16 944	13 401	3 543

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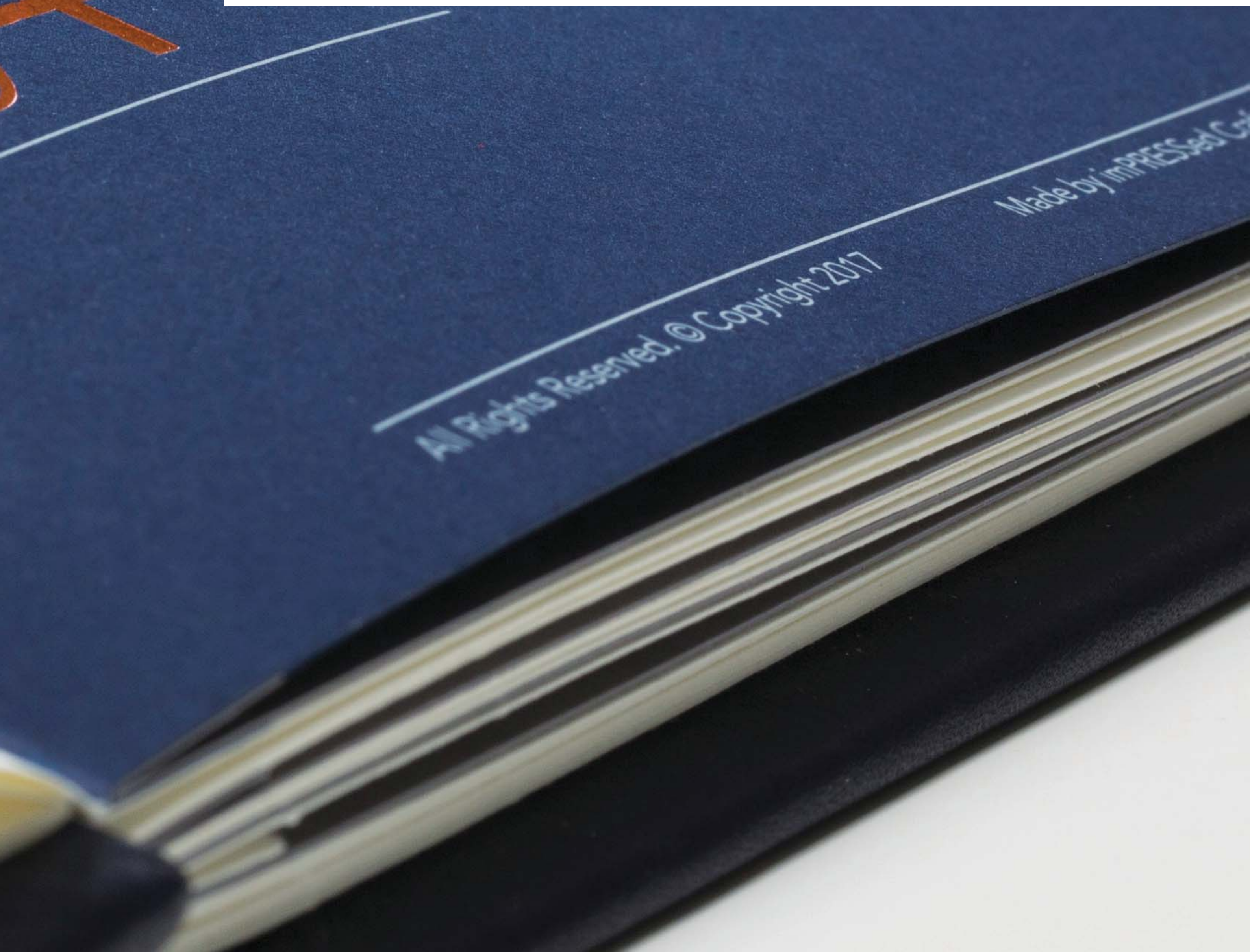
Separate annual financial statements

for the year ended 30 June 2017



STATEMENT OF FINANCIAL POSITION
as at 30 June

		Company	
R million	Note	2017	2016
Assets			
Property and equipment	1	7	9
Investment in subsidiaries	2	7 379	4 556
Investment in associates	3	10 945	10 945
Financial assets			
Equity securities			
– fair value through profit or loss	4	130	124
Debt securities			
– fair value through profit or loss	4	470	643
Derivative asset	5	6	29
Loans and receivables		5	5
Deferred taxation	6	20	10
Taxation		–	6
Discontinued operation	7	–	220
Cash and cash equivalents	8	222	105
Total assets		19 184	16 652
Equity			
Share capital and premium	9	14 417	13 657
Reserves	10	4 669	577
Total equity		19 086	14 234
Liabilities			
Share-based payment liability	11	47	51
Employee benefit liability		8	3
Financial liabilities			
Preference shares	12	–	2 298
Derivative liability	13	8	12
Provisions	14	5	3
Taxation		2	–
Trade and other payables	15	28	51
Total liabilities		98	2 418
Total equity and liabilities		19 184	16 652

INCOME STATEMENT
for the year ended 30 June

		Company	
R million	Note	2017	2016
Continuing operations			
Revenue – Investment income	16	5 974	1 949
Fair value loss		(45)	(50)
Fee and other income	17	22	22
Loss on sale of subsidiary	7	(55)	–
Net income		5 896	1 921
Marketing and administration expenses	18	(97)	(132)
Result of operating activities of the company		5 799	1 789
Finance costs	19	(142)	(136)
Profit before taxation		5 657	1 653
Taxation	20	(2)	11
Profit for the year from continuing operations		5 655	1 664
Discontinued operation			
Profit for the year from discontinued operation		190	32
Profit for the year		5 845	1 696
Attributable to:			
Equity holders of the company		5 845	1 696

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June

	Company	
R million	2017	2016
Profit for the year	5 845	1 696
Other comprehensive income for the year	–	–
Total comprehensive income for the year	5 845	1 696
Attributable to:		
Equity holders of the company	5 845	1 696

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June

R million	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance as at 1 July 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
Shares issued	–	760	–	–	760
Total comprehensive income for the year	–	–	–	5 845	5 845
Dividends paid	–	–	–	(1 753)	(1 753)
Balance as at 30 June 2017	–	14 417	–	4 669	19 086
Note	9	9	10	10	

STATEMENT OF CASH FLOWS
for the year ended 30 June

		Company	
R million	Note	2017	2016
Cash flows from operating activities			
Cash generated from continuing operations	21	5 867	1 865
Cash generated from discontinued operation	21	190	32
Taxation paid		(4)	(2)
Net cash generated from operating activities		6 053	1 895
Cash flows from investing activities			
Acquisition of preference shares		(19)	(294)
Acquisition of shares in associate		–	(194)
Acquisition of shares in subsidiaries		(1 233)	(143)
Acquisition of equity securities		(1)	–
Investment in debt securities		(261)	–
Proceeds on sale of debt securities		106	–
Acquisition of property and equipment		(3)	(3)
Proceeds on the sale of subsidiary		165	–
Net cash outflow to investing activities		(1 246)	(634)
Cash flows from financing activities			
Proceeds from shares issued		760	–
Dividends paid to shareholders		(1 753)	(1 738)
Proceeds from preference shares issued		–	400
Preference dividends paid		(121)	(140)
Interest paid		(21)	–
Additional shares acquired in subsidiaries		(1 257)	–
Redemption of preference shares		(2 298)	–
Net cash outflow to financing activities		(4 690)	(1 478)
Net increase/(decrease) in cash and cash equivalents for the year		117	(217)
Cash and cash equivalents at the beginning of the year		105	322
Cash and cash equivalents at the end of the year		222	105

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June

R million	Leasehold improvements	Furniture, fittings and equipment	Total
1. PROPERTY AND EQUIPMENT			
30 June 2017			
Net book value at the beginning of the year	7	2	9
Additions	2	1	3
Depreciation (refer note 18)	(4)	(1)	(5)
Net book value at the end of the year	5	2	7
Cost	14	3	17
Accumulated depreciation	(9)	(1)	(10)
Net book value at the end of the year	5	2	7
30 June 2016			
Net book value at the beginning of the year	9	1	10
Additions	2	1	3
Depreciation (refer 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

	Company	
R million	2017	2016
2. INVESTMENT IN SUBSIDIARIES		
Unlisted subsidiaries		
Ordinary shares at cost		
– OUTsurance Holdings Limited	5 365	4 453
– RMI Treasury Company Limited	1 233	–
– RMI Asset Holdings Proprietary Limited	781	–
– RMB-SI Investments Proprietary Limited	–	220
– RMI Investment Managers Group Proprietary Limited	–	81
– RMI Investment Holdings Proprietary Limited	–	22
Total investment in subsidiaries	7 379	4 776
Transfer to assets of discontinued operation	–	(220)
Investment in subsidiaries of continuing operations	7 379	4 556
Balance at the beginning of the year	4 556	4 633
Investment in:		
– OUTsurance Holdings Limited	912	40
– RMI Treasury Company Limited	1 233	–
– RMI Investment Managers Group Proprietary Limited	345	81
– RMI Investment Holdings Proprietary Limited	–	22
Section 42 transfer[1]		
– RMI Asset Holdings Proprietary Limited	781	–
– RMI Investment Managers Group Proprietary Limited	(426)	–
– RMI Investment Holdings Proprietary Limited	(22)	–
Transfer to assets of discontinued operation	–	(220)
Balance at the end of the year	7 379	4 556

R million	Company 2017	Company 2016
2. INVESTMENT IN SUBSIDIARIES continued		
1. The section 42 transfer relates to an assets for shares transaction between RMI and its 100%-owned subsidiary, RMI Asset Holdings, in terms of section 42 of the Income Tax Act, 58 of 1962.		
RMI Asset Holdings issued shares to RMI amounting to R781 million in exchange for RMI's investments in:		
– RMI Investment Managers Group Proprietary Limited	426	
– RMI Investment Holdings Proprietary Limited	22	
– Main Street 1353 Proprietary Limited	–	
– AlphaCode Proprietary Limited	–	
– Preference share investments (refer note 4)	333	
Total amount of shares issued by RMI Asset Holdings	781	
OUTsurance Holdings Limited		
Number of shares[1]	3 330 339 268	2 940 480 370
% of equity[2]	88.5	84.5
Principal place of business	Centurion	Centurion
RMI Treasury Company Limited		
Number of shares	15 000	–
% of equity	100.0	–
Principal place of business	Sandton	Sandton
RMI Asset Holdings Proprietary Limited		
Number of shares	1 100	–
% of equity	100.0	–
Principal place of business	Sandton	Sandton
RMB-SI Investments Proprietary Limited		
Number of shares	–	200 000 000
% of equity[2]	–	78.1
Principal place of business	Sandton	Sandton
RMI Investment Managers Group Proprietary Limited		
Number of shares	–	8 101
% of equity	–	100.0
Principal place of business	Sandton	Sandton
RMI Investment Holdings Proprietary Limited		
Number of shares	–	2
% of equity	–	100.0
Principal place of business	Sandton	Sandton
Main Street 1 353 Proprietary Limited		
Number of shares	–	1
% of equity	–	100.0
Principal place of business	Sandton	Sandton
AlphaCode Proprietary Limited		
Number of shares	–	1
% of equity	–	100.0
Principal place of business	Sandton	Sandton

1. Held indirectly via Firness International Proprietary Limited and RMI Asset Holdings Proprietary Limited (2016: via Firness International Proprietary Limited).
2. After consolidation of share trust.

R million	Company 2017	Company 2016
3. INVESTMENT IN ASSOCIATES		
Listed associates		
Ordinary shares at cost		
Discovery Limited	4 650	4 650
MMI Holdings Limited	6 295	6 295
Total investment in associates	10 945	10 945
Market value		
Discovery Limited	20 716	19 838
MMI Holdings Limited	8 117	9 080
Total market value of listed associates	28 833	28 918
Discovery Limited		
Number of shares	161 944 576	161 944 576
% of equity[1]	25.1	25.1
MMI Holdings Limited		
Number of shares	401 048 075	401 048 075
% of equity[1]	25.7	25.7

1. After consolidation of share trust

R million	Company 2017	Company 2016
4. EQUITY AND DEBT SECURITIES		
Equity securities		
Listed investments		
– fair value through profit or loss	130	124
Debt securities		
Unlisted investments		
– fair value through profit or loss	470	643
Total equity and debt securities	600	767
Listed equity securities carried at fair value through profit or loss		
Balance at the beginning for the year	124	146
Additions	1	–
Fair value movement	5	(22)
Balance at the end of the year	130	124
The unlisted debt securities carried at fair value through profit or loss include an investment in the OUTsurance Investment Trust and OUTsurance Equity Trust (2016: OUTsurance Investment Trust and investments in preference shares).		
Balance at the beginning for the year	643	386
Additions	280	294
Disposals	(106)	(4)
Section 42 transfer[1]	(333)	–
Investment income accrued	54	33
Dividends received from the OUTsurance Investment Trust	(62)	(66)
Dividends received from the OUTsurance Equity Trust	(6)	–
Balance at the end of the year	470	643

1. The section 42 transfer relates to an assets for shares transaction between RMI and its 100%-owned subsidiary, RMI Asset Holdings, in terms of section 42 of the Income Tax Act. Refer to note 2.

R million	Company 2017	Company 2016
5. DERIVATIVE ASSET		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	6	29
Notional value	164	159
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.		
6. DEFERRED TAXATION		
Deferred taxation asset – fair value adjustments	20	10
Reconciliation of movement		
Deferred taxation asset at the beginning of the year	10	–
Deferred taxation credit in the income statement	10	10
Deferred taxation asset at the end of the year	20	10
7. SALE OF INVESTMENT IN SUBSIDIARY		
Investment in RMB-SI Investments Proprietary Limited	–	220
Regulatory approval was obtained in March 2017 to dispose of RMI's investment in RMBSI (excluding RMBSI's stake in Truffle Capital Proprietary Limited) to Santam.		
Sale consideration	165	
Carrying value at date of sale	(220)	
Loss on sale of investment in subsidiary	(55)	
8. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	222	105
Cash and cash equivalents represent current accounts and call deposits.		

R million	Number of shares (millions)	Ordinary shares	Share premium	Total
9. SHARE CAPITAL AND SHARE PREMIUM				
Share capital and share premium as at 1 July 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**
Issue of shares	20	–	760	760
Share capital and share premium as at 30 June 2017	**1 506**	**–**	**14 417**	**14 417**

The total authorised number of ordinary shares is 2 000 000 000, with a par value of R0.0001 per share. The total number of issued ordinary shares as at 30 June 2016 was 1 485 688 346 shares, issued at a premium of R9.1926 per share. On 24 April 2017, RMI issued an additional 20 000 000 ordinary shares with par value of R0.0001 at a premium of R37.9999 per share. This increased the number of issued ordinary shares as at 30 June 2017 to 1 505 688 346 shares. 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 100 000 000 with a par value of R0.0001 per share. The issued number of par value preference shares is nil (2016: 648 001). As these preference shares are redeemable they are classified as financial liabilities at amortised cost (refer note 12).

The total authorised number of cumulative, redeemable, no par value preference shares is 100 000 000. The issued number of no par value preference shares is nil (2016: 1 650 000). As these preference shares are redeemable, they are classified as financial liabilities at amortised cost (refer note 12).

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

	Company	
R million	2017	2016
10. RESERVES		
Retained earnings	**4 669**	577
11. SHARE-BASED PAYMENT LIABILITY		
Balance at the beginning of the year	**51**	35
Share-based payment expense accrued during the year	**1**	19
Liability settled	**(7)**	(3)
Liability transferred	**2**	–
Balance at the end of the year	**47**	51

R million	Company 2017	Company 2016
12. PREFERENCE SHARES		
Unlisted		
Fixed rate, cumulative, redeemable par value preference shares	–	648
Fixed rate, cumulative, redeemable no par value preference shares	–	1 650
Total cumulative, redeemable preference shares	**–**	2 298
The fair value of the unlisted preference share liability at 30 June 2016 was R2 298 million.		
Fixed rate, cumulative, redeemable par value preference shares		
The company's issued number of fixed rate, cumulative, redeemable par value preference shares is nil (2016: 648 001), with a par value of R0.0001 each. The share premium of the issued shares was R999.9999 per share. These preference shares were redeemed on 22 February 2017.		
Balance at the beginning of the year	**648**	648
Preference shares redeemed during the year	**(648)**	–
Balance at the end of the year	**–**	648
Fixed rate, cumulative, redeemable no par value preference shares		
The company had 1 650 000 fixed rate, cumulative, redeemable no par value preference shares in issue as at 30 June 2016. These preference shares were all redeemed on 22 February 2017.		
Balance at the beginning of the year	**1 650**	1 250
Preference shares redeemed during the year	**(1 650)**	–
Preference shares issued during the year	**–**	400
Balance at the end of the year	**–**	1 650
13. DERIVATIVE LIABILITY		
Held for trading		
– Equity derivative		
– Over the counter		
– Swap	**8**	12
Notional value	**93**	91
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**	3
Provision	**5**	3
Utilised during the year	**(3)**	(3)
Total provisions	**5**	3

R million	Company 2017	Company 2016
15. TRADE AND OTHER PAYABLES		
Trade payables and accrued expenses	28	24
Accrued redeemable preference share dividends	–	27
Total trade and other payables	28	51
16. REVENUE – INVESTMENT INCOME		
Investment income from continued operations		
Dividend income from subsidiaries and associates	5 883	1 861
Dividend income from investment in OUTsurance Investment Trust	62	66
Dividend income from investment in OUTsurance Equity Trust	6	–
Dividend income from listed fair value through profit or loss equity securities	7	7
Interest income on cash and cash equivalents	16	15
Total investment income from continued operations	5 974	1 949
Dividend income from discontinued operation	190	32
Total investment income	6 164	1 981
17. OTHER INCOME		
Fee income	22	22
18. MARKETING AND ADMINISTRATION EXPENSES		
Expenses by nature		
– Directors' remuneration	(13)	(23)
– Personnel costs	(42)	(45)
– Management fees	–	(8)
– Professional fees and regulatory compliance cost	(12)	(13)
– Printing costs	(4)	(3)
– Operating lease rentals	(3)	(2)
– Depreciation	(5)	(4)
– Audit fees	(1)	(22)
– Other expenses	(17)	(12)
Total marketing and administration expenses	(97)	(132)
Audit fees		
Statutory audit – current year	(1)	(1)
Fees for other services	–	(21)
Total audit fees	(1)	(22)
As at 30 June 2016, the company had an operating lease commitment for the office space it occupies. Currently the company is leasing the office space on a monthly basis. The company's operating lease commitment under non-cancellable operating lease agreements is as follows:		
– Up to 1 year	–	(1)
– Between 1 and 5 years	–	–
Total lease commitment under non-cancellable operating lease agreements	–	(1)
19. FINANCE COSTS		
Cumulative, redeemable preference share dividends	(142)	(136)

R million	Company 2017	Company 2016
20. TAXATION		
SA normal taxation		
Current taxation		
– Current year	(12)	1
Deferred taxation		
– Current year	10	10
Total taxation	(2)	11
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	5 657	1 653
Effective tax rate	0.04	(0.67)
Dividend income not subject to taxation	29.45	28.67
Non-deductible expenses	(1.39)	–
Capital gains tax	(0.10)	–
Standard income taxation rate in South Africa	28.00	28.00
21. CASH GENERATED FROM OPERATIONS		
Reconciliation of profit before taxation to cash generated from operations		
Profit before taxation from continuing operations	5 657	1 653
Adjusted for:		
Finance costs	142	136
Fair value loss	45	50
Loss on sale of subsidiary	55	–
Non-cash (income)/expenses included in the income statement	(11)	22
Changes in working capital		
– Provisions	2	–
– Trade and other payables	(23)	4
Cash generated from continuing operations	5 867	1 865
Dividends received from discontinued operation	190	32
Total cash generated from operations	6 057	1 897
22. DIVIDEND PER SHARE		
Total dividends paid during the year	1 753	1 738
Total dividends declared relating to the earnings for the year	1 766	1 753
Number of ordinary shares in issue until 23 April 2017 (2016: As at 30 June 2016) – number	1 485 688 346	1 485 688 346
Number of ordinary shares in issue from 24 April 2017 (2016: As at 30 June 2016) – number	1 505 688 346	1 485 688 346
Dividend declared per share		
– Interim (cents)	53.0	53.0
– Final (cents)	65.0	65.0
Total dividend per share declared (cents)	118.0	118.0

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 appears in the remuneration committee report. Information on directors' shareholding in the company appears in the directors' report.

SUBSIDIARIES

Details of investments in subsidiaries are disclosed in note 2.

The following companies are subsidiaries of RMI:

- AlphaCode Proprietary Limited
- Firness International Proprietary Limited
- Granate Asset Managers Proprietary Limited
- Main Street 1353 Proprietary Limited
- OUTsurance Holdings Limited
- OUTsurance Insurance Company Limited
- OUTsurance International Holdings Proprietary Limited
- OUTsurance Life Insurance Company Limited
- OUTsurance Properties Proprietary Limited
- OUTsurance Shared Services Proprietary Limited
- OUTvest Nominees RF Proprietary Limited
- OUTvest Proprietary Limited
- RMI Asset Holdings Proprietary Limited
- RMI Invest One Proprietary Limited
- RMI Invest Three Proprietary Limited
- RMI Invest Two Proprietary Limited
- RMI Investment Holdings Proprietary Limited
- RMI Investment Managers Affiliates 1 Proprietary Limited
- RMI Investment Managers Affiliates 2 Proprietary Limited
- RMI Investment Managers Group Proprietary Limited
- RMI Treasury Company Limited
- Youi Holdings Proprietary Limited
- Youi New Zealand Proprietary Limited
- Youi Properties Proprietary Limited
- Youi Proprietary Limited (Australia)
- Youi Proprietary Limited (South Africa)

ASSOCIATES

Details of investments in associates are disclosed in note 3.

The following companies are associates of RMI:

- Coreshares Holdings Proprietary Limited
- Discovery Limited
- Entersekt International Limited
- Entersekt Proprietary Limited
- Hastings Group Holdings plc
- Merchant Capital Advisory Services Proprietary Limited
- MMI Holdings Limited
- Northstar Asset Management Proprietary Limited
- OUTsurance Insurance Company of Namibia Limited
- Polar Star Management Proprietary Limited
- Polar Star Management SEZC
- Royal Investment Managers Proprietary Limited
- Sentio Capital Management Proprietary Limited
- Tantalum Capital Proprietary Limited
- Truffle Capital Proprietary Limited

R million	Company 2017	Company 2016
23. RELATED PARTIES continued		
Related party transactions		
Transactions of RMI and its subsidiary companies with:		
Principal shareholders		
Dividends paid	794	787
Key management personnel		
Salaries and other benefits	13	23
Subsidiaries		
Income statement effect:		
– Dividends received	5 138	986
Associates		
Income statement effect:		
– Dividends received	918	905

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 25.1% of the equity in Merchant Capital in September 2015.
- A junior loan facility to Merchant Capital of not less than R9 228 000.
- A senior loan facility to Merchant Capital of not less than R200 000 000.

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

As at 30 June 2017, an amount of R5 million of the junior loan facility has been issued to Merchant Capital.

All the class A, class B, class C and class D preference shares (R9 710 million in total) issued by RMI's 100%-owned subsidiary, RMI Treasury Company Limited, are guaranteed by RMI, RMI Asset Holdings Proprietary Limited and Main Street 1353 Proprietary Limited in terms of the group's domestic medium-term note and preference share programme.

RMI and RMI Asset Holdings Proprietary Limited guaranteed the loan of R2 551 million incurred by Main Street 1353 Proprietary Limited as part of the funding raised to acquire 29.9% of Hastings Group Holdings plc.

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

CURRENCY RISK

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

The company had no exposure to currency risk at 30 June 2017 (2016: none).

INTEREST RATE RISK

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

The table below reflects the company's exposure to interest rate risk. An increase or decrease in the market interest rate would result in the following changes in the profit before taxation of the company:

	Company	
R million	2017	2016
Cash and cash equivalents – 200 bps increase	4	2
Cash and cash equivalents – 200 bps decrease	(4)	(2)

OTHER PRICE RISK

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

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 2017		30 June 2016	
R million	10% increase	10% decrease	10% increase	10% decrease
Equity securities at fair value through profit or loss	13	(13)	12	(12)
Derivative asset	17	(17)	17	(17)
Derivative liability	(10)	10	(10)	10
	20	(20)	19	(19)

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 and exposure limits, which are reviewed at each board and audit and risk committee meeting. The creditworthiness of existing and potential clients is monitored by the board.

25. FINANCIAL RISK MANAGEMENT continued

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

R million	BB	Not rated	Total
30 June 2017			
Debt securities			
– fair value through profit or loss – unlisted	–	470	470
Derivative asset	–	6	6
Loans and receivables	–	5	5
Cash and cash equivalents	222	–	222
Total	222	481	703

	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

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

Where available, the company uses the credit ratings per counterparty as provided by each of the major credit rating agencies to determine the credit quality of a specific instrument. Where the instrument credit rating is not available, the credit rating of the counterparty as provided by the major credit ratings agencies is used.

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

LONG-TERM INVESTMENT GRADE

BBB Good credit quality. 'BBB' rating indicates a low expectation of credit risk. It indicates 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' rating indicates that there is a possibility of credit risk developing, particularly as a result of adverse economic change over time, however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

Not rated – The credit exposure for the assets listed above is considered acceptable by the board even though certain assets do not have a formal rating. The debt securities at fair value through profit or loss represent loans provided to the OUTsurance Investment Trust and OUTsurance Equity Trust, 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.

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.

25. FINANCIAL RISK MANAGEMENT continued

R million	Call to 6 months	7 to 12 months	1 to 5 years/no contractual maturity	Total
30 June 2017				
Assets				
Property and equipment	–	–	7	7
Investment in subsidiaries	–	–	7 379	7 379
Investment in associates	–	–	10 945	10 945
Equity securities – fair value through profit or loss	–	–	130	130
Debt securities – fair value through profit or loss	–	–	470	470
Derivative asset	–	–	6	6
Loans and receivables	5	–	–	5
Deferred taxation	–	–	20	20
Cash and cash equivalents	222	–	–	222
Total assets	227	–	18 957	19 184
Liabilities				
Share-based payment liability	30	6	11	47
Employee benefit liability	4	1	3	8
Financial liabilities				
Derivative liability	–	–	8	8
Provisions	5	–	–	5
Taxation	2	–	–	2
Trade and other payables	28	–	–	28
Total liabilities	69	7	22	98
30 June 2016				
Assets				
Property and equipment	–	–	9	9
Investment in subsidiaries	–	–	4 556	4 556
Investment 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

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 2017				
Financial assets				
Equity securities				
– fair value through profit or loss	130	–	–	130
Debt securities				
– fair value through profit or loss	–	–	470	470
Derivative asset	–	6	–	6
Total financial assets valued at fair value	130	6	470	606
Financial liabilities				
Derivative liability	–	8	–	8

R million	Company 2017	Company 2016
Reconciliation of movement in Level 3 assets		
Balance at the beginning of the year	643	386
Additions in the current year	280	294
Disposals (sales and redemptions)	(106)	(4)
Section 42 transfer	(333)	–
Investment income accrued	54	33
Dividends received from the OUTsurance Investment Trust	(62)	(66)
Dividends received from the OUTsurance Equity Trust	(6)	–
Balance at the end of the year	470	643

The Level 3 financial assets at fair value through profit or loss represent loans to the OUTsurance Investment Trust and OUTsurance Equity Trust, 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.

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

26. 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 balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

LEVEL 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. If all significant inputs required to fair value an instrument are market observable, the instrument is included in Level 2. The derivative asset and derivative liability is calculated with reference to the quoted prices for shares listed on the JSE.

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 and OUTsurance Equity Trust. The investments in the preference shares accrue preference dividends at a fixed rate.

27. POST-REPORTING DATE EVENT

FINAL DIVIDEND DECLARATION

RMI declared a final dividend of 65.0 cents (2016: 65.0 cents) per ordinary share, amounting to R979 million (2016: R966 million) on 19 September 2017, payable on 9 October 2017. Shareholders have an option to receive scrip in lieu of cash or to reinvest the dividend (after any tax) in RMI shares.

contents

Shareholder information

"Not life, but good life, is to be chiefly valued."

Socrates

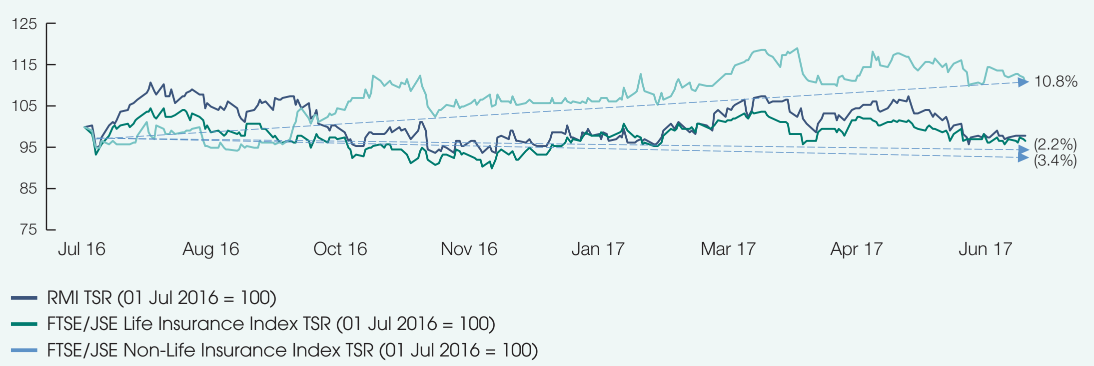
Shareholding

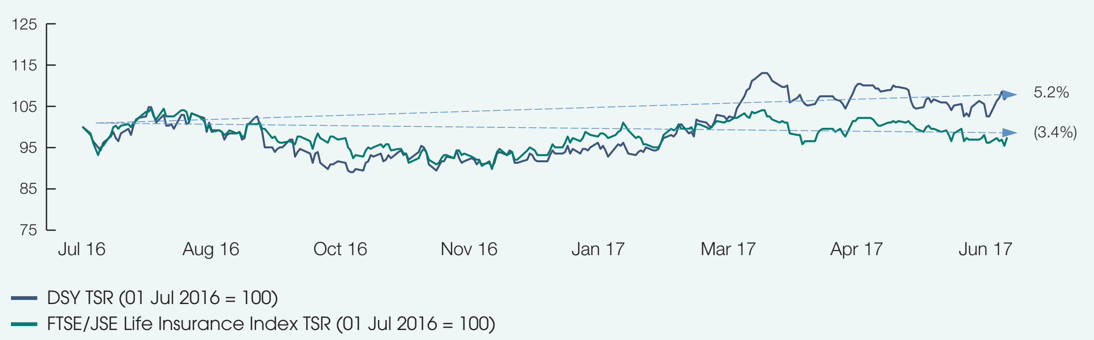
	As at 30 June 2017			As at 30 June 2016		
	Number of shareholders	Shares held (000's)	%	Number of shareholders	Shares held (000's)	%
Analysis of shareholding						
Financial Securities Limited (Remgro)	1	449 665	29.9	1	449 665	30.3
Royal Bafokeng Holdings Proprietary Limited	1	222 853	14.8	1	222 853	15.0
Allan Gray (on behalf of clients)	1	120 539	8.0	1	116 212	7.8
Public Investment Corporation	1	104 702	7.0	1	113 956	7.7
Total of shareholders holding more than 5%	4	897 759	59.7	4	902 686	60.8
Other	35 885	607 929	40.3	35 977	583 002	39.2
TOTAL	35 889	1 505 688	100.0	35 981	1 485 688	100.0
Shareholder type						
Corporates		672 518	44.7		672 518	45.3
Unit trusts		210 091	14.0		179 355	12.1
Pension funds		168 030	11.2		173 984	11.7
Private investors		55 733	3.7		52 675	3.5
Insurance companies and banks		24 680	1.6		22 758	1.5
Other		374 636	24.8		384 398	25.9
TOTAL		1 505 688	100.0		1 485 688	100.0
Public and non-public shareholders						
Public	35 878	690 356	45.8	35 970	670 356	45.1
Non-public	11	815 332	54.2	11	815 332	54.9
– Corporates	2	672 518	44.7	2	672 518	45.3
– Directors and associates	9	142 814	9.5	9	142 814	9.6
TOTAL	35 889	1 505 688	100.0	35 981	1 485 688	100.0
Geographic ownership						
South Africa		1 335 865	88.7		1 339 566	90.2
International		169 823	11.3		146 122	9.8
TOTAL		1 505 688	100.0		1 485 688	100.0

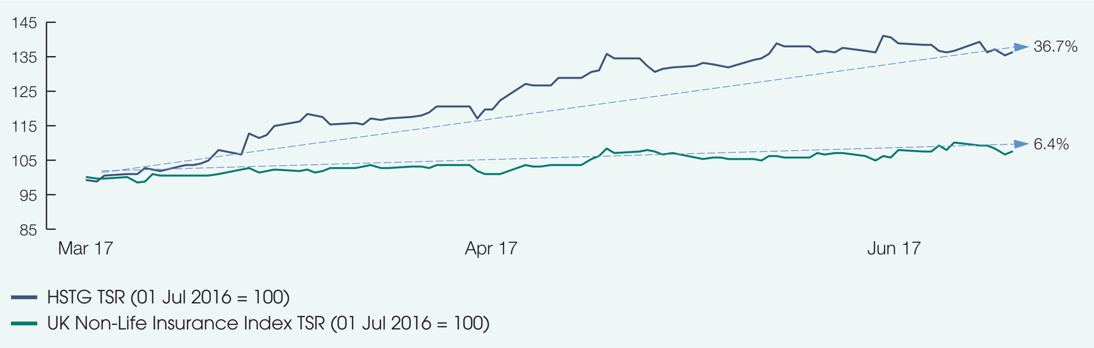
The information above is extracted from the shareholder analysis provided by Orient Capital Limited.

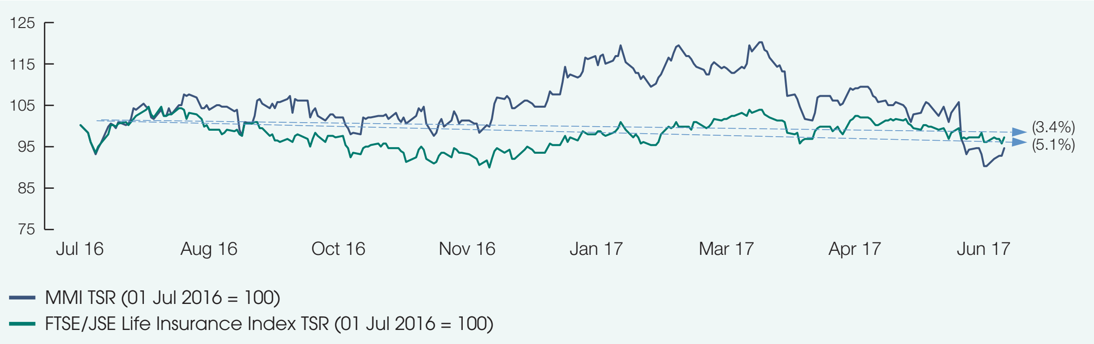
Performance on the JSE Limited

	2017	2016
Number of shares in issue at the beginning of the year (000's)	1 485 688	1 485 688
Shares issued during the year (000's)	20 000	–
Number of shares in issue at the end of the year (000's)	1 505 688	1 485 688
Market prices (cents per share)		
– Closing	3 899	4 120
– High	4 599	4 554
– Low	3 760	3 149
– Weighted average	4 117	4 048
Closing price/net asset value per share	3.0	3.3
Closing price/headline earnings per share	16.8	20.8
Volume of shares traded during the year (million)	494	525
Value of shares traded during the year (R million)	20 353	21 259
Market capitalisation at year-end (R million)	58 707	61 210
Rank by market capitalisation at year-end	36	30









Shareholders' diary

REPORTING

INTERIM RESULTS FOR THE 2018 FINANCIAL YEAR

Announcement for the six months ending 31 December 2017	Early March 2018

FINAL RESULTS FOR THE 2018 FINANCIAL YEAR

Announcement for the year ending 30 June 2018	Mid-September 2018
Posting of integrated report	End-October 2018
Annual general meeting	End-November 2018

DIVIDENDS

INTERIM DIVIDEND FOR THE 2018 FINANCIAL YEAR

Declare	Early March 2018
Payable	End-March 2018

FINAL DIVIDEND FOR THE 2018 FINANCIAL YEAR

Declare	Mid-September 2018
Payable	Mid-October 2018

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 ordinary shares in RMI (shareholders), in terms of section 62(1) of the Companies Act, 71 of 2008 (Companies Act), that the seventh annual general meeting of the ordinary shareholders of RMI will be held in the boardroom, 4th Floor, 2 Merchant Place, Corner Rivonia Road and Fredman Drive, Sandton, 2196 on Wednesday, 22 November 2017 at 12:00 to consider and, if approved, pass the following resolutions with or without modification.

The record date in terms of section 59 of the Companies Act for shareholders to be recorded in the securities register of the company in order to be able to attend, participate and vote at the annual general meeting is Friday, 17 November 2017. Accordingly, the last day to trade in order to be able to attend, participate and vote at the annual general meeting is Tuesday, 14 November 2017. This notice will be sent to all shareholders who are recorded as such in the company's securities register on Friday, 13 October 2017.

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 2017, all of which are included in the 2017 integrated report, of which this notice forms a part (integrated report) in accordance with section 30(3)(d) of the Companies Act are presented to the meeting.

Shareholders are referred to **page 78** *of the integrated report for the report from the social, ethics and transformation committee of RMI and to* **page 100** *for the annual financial statements.*

2. ORDINARY RESOLUTIONS NUMBER 1.1 – 1.5

RE-ELECTION OF DIRECTORS

To re-elect, by way of separate ordinary 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 in accordance with the Companies Act and the MOI.

Ordinary resolution number 1.1 – Gerrit Thomas Ferreira (69)
Non-executive chairman
Date of appointment: 8 December 2010
Educational qualifications: BCom Hons B (B&A) MBA
Other listed directorships: Remgro Limited (lead independent) and RMB Holdings Limited (chairman)

Ordinary resolution number 1.2 – Sonja Emilia Ncumisa De Bruyn Sebotsa (45)
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: Discovery Limited, Remgro Limited and RMB Holdings Limited

Ordinary resolution number 1.3 – Jan Jonathan Durand (50)
Non-executive deputy chairman
Date of appointment: 8 December 2010
Educational qualifications: BAcc (Hons) MPhil (Oxford) CA(SA)
Other listed directorships: Capevin Limited, Distell Group Limited, FirstRand Limited, Mediclinic International Limited, RCL Foods Limited, Remgro Limited and RMB Holdings Limited

Ordinary resolution number 1.4 – Patrick Maguire Goss (69)
Independent non-executive director
Date of appointment: 8 December 2010
Educational qualifications: BEcon (Hons) BAccSc (Hons) CA(SA)
Other listed directorships: FirstRand Limited and RMB Holdings Limited (lead independent)

Ordinary resolution number 1.5 – Obakeng Phetwe (39)
Non-executive director
Date of appointment: 6 February 2013
Educational qualifications: BCom (Hons) CA(SA)
Other listed directorships: RMB Holdings Limited
Additional information in respect of ordinary resolutions number 1.1 – 1.5

A brief CV of each of the persons mentioned above appears on **pages 63 to 68** *of the integrated report.*

3. ADVISORY ENDORSEMENT OF THE REMUNERATION POLICY AND IMPLEMENTATION REPORT

3.1 ADVISORY ENDORSEMENT OF REMUNERATION POLICY

To endorse, through a non-binding advisory vote, the company's remuneration policy (excluding the remuneration of the non-executive directors and the members of board committees for their services as directors and members of committees), as set out on pages 73 to 75 in the remuneration report.

3.2 ADVISORY ENDORSEMENT OF REMUNERATION IMPLEMENTATION REPORT

To endorse, through a non-binding advisory vote, the company's remuneration implementation report, as set out on pages 75 to 77 in the remuneration report.

Additional information in respect of advisory endorsement of remuneration policy and implementation report
The endorsement of the remuneration policy and implementation report is tabled as a non-binding advisory vote, however, the outcome of each vote will be acknowledged when considering the remuneration policy and the implementation thereof. In the event that either the remuneration policy or the implementation report, or both, are voted against by 25% or more of the voting rights exercised, the board will initiate engagement with the relevant shareholders and the outcome thereof will be disclosed in the 2018 integrated report.

4. ORDINARY RESOLUTION NUMBER 2

PLACE 5% (FIVE PERCENT) OF THE AUTHORISED ORDINARY SHARES UNDER THE CONTROL OF THE DIRECTORS

Resolved as an ordinary resolution that 5% (five percent) of the authorised ordinary shares in the company, which equates to 100 000 000 ordinary shares, 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, if and to the extent applicable.

Additional information in respect of ordinary resolution number 2
Shareholders should note that 5% (five percent) or 100 000 000 of the company's authorised ordinary shares represents approximately 6.6% (six point six percent) of the issued ordinary shares, calculated as at the date of this notice of annual general meeting. As at 30 June 2017 this was valued at approximately R3.9 billion.

5. ORDINARY RESOLUTION NUMBER 3

GENERAL AUTHORITY TO ISSUE ORDINARY SHARES FOR CASH

Resolved, subject to ordinary resolution number 2 being passed, 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 (including securities convertible into ordinary shares and/or options over 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, if and to the extent 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 such term is defined by the JSE Listings Requirements and not to related parties;
- securities which are the subject of the general issue of shares for cash may not exceed 100 000 000 ordinary shares, being 6.6% (six point six percent) of the number of listed equity securities of the company as at the date of this notice of annual general meeting, provided that:
  - any equity securities issued under this authority during the period must be deducted from the number above;
  - in the event of a sub-division or consolidation of issued equity securities during the period contemplated above, the existing authority must be adjusted accordingly to represent the same allocation ratio; and
  - the calculation of the listed equity securities is a factual assessment of the listed equity securities as at the date of the notice of annual general meeting, excluding treasury shares;
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount at which the ordinary shares may be issued is 10% (ten percent) of the weighted average traded price of the company's ordinary shares measured over 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors of the company and the party subscribing for the securities;
- a paid press announcement giving full details, will be published at the time of any issue representing, on a cumulative basis within the period of this authority, 5% (five percent) or more of the number of ordinary shares in issue prior to that issue, in terms of the JSE Listings Requirements; and
- any such general issue is subject to exchange control regulations and approval at that time (if and to the extent applicable).

Additional information in respect of ordinary resolution number 3

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.

6. ORDINARY RESOLUTION NUMBER 4

APPROVAL OF RE-APPOINTMENT OF AUDITOR

Resolved as an ordinary resolution that, as nominated by the audit and risk committee, PricewaterhouseCoopers Inc. be re-appointed as auditor of the company for the financial year ending 30 June 2018 and until the conclusion of the next annual general meeting and that their remuneration for the financial year ending 30 June 2018 be determined by the audit and risk committee.

7. ORDINARY RESOLUTIONS NUMBER 5.1 – 5.3

ELECTION OF THE COMPANY'S AUDIT AND RISK COMMITTEE MEMBERS

Resolved, by way of separate ordinary resolutions, that in terms of section 94(2) of the Companies Act, 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:

Ordinary resolution number 5.1 – Jan Willem Dreyer (66)
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

Ordinary resolution number 5.2 – Sonja Emilia Ncumisa De Bruyn Sebotsa (45) (subject to the passing of ordinary resolution number 1.2)
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: Discovery Limited, Remgro Limited and RMB Holdings Limited

Ordinary resolution number 5.3 – Per-Erik Lagerström (53)
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

Additional information in respect of ordinary resolutions number 5.1 – 5.3

A brief CV of each of the persons mentioned above appears on **pages 63 to 68** *of the integrated report.*

8. SPECIAL RESOLUTION NUMBER 1

APPROVAL OF NON-EXECUTIVE DIRECTORS' REMUNERATION WITH EFFECT FROM 1 DECEMBER 2017

Resolved as a special resolution that in terms of section 66(9) of the Companies Act, the following remuneration (excluding value-added tax) of the non-executive directors for their services as directors of the company from 1 December 2017, as set out below, be and is hereby approved:

	Per annum
Board (4 meetings per annum)	
– Chairman	R515 900
– Director	R257 900
Audit and risk committee (2 meetings per annum)	
– Chairman	R129 000
– Member	R64 500
Social, ethics and transformation committee (2 meetings per annum)	
– Chairman	R24 600
– Member	R19 600
Investment committee (8 meetings per annum)	
– Chairman	R131 000
– Member	R104 700
Remuneration committee (1 meeting per annum)	
– Chairman	R7 700
– Member	R6 600
Ad hoc meetings (per hour)	R4 100

The reason for special resolution number 1 is to approve the remuneration of the non-executive directors, effective from 1 December 2017.

9. 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, if and to the extent applicable, and provided that:

- this authority shall be valid until the company's next annual general meeting, provided that it shall not extend beyond fifteen (15) months from the date of passing this special resolution;
- any such repurchase be effected through the order book operated by the JSE 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 five (5) days prior to the date of repurchase; and
- any such general repurchase are subject to exchange control regulations and approvals at the point in time, if and to the extent applicable.

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 its subsidiaries 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 2017;
- the company's and the 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 the 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 integrated report in the places indicated:

1. Major shareholders – refer **page 216**;
2. There have been no material changes in the financial and trading position of the company 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 integrated report, of which this notice forms part;
3. Share capital of the company – refer **page 204**;

The directors, whose names are given on **pages 63 to 68** of this 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.

10. SPECIAL RESOLUTION NUMBER 3

ISSUE OF SHARES, CONVERTIBLE SECURITIES AND/OR OPTIONS TO PERSONS LISTED IN SECTION 41(1) OF THE COMPANIES ACT FOR THE PURPOSES OF THEIR PARTICIPATION IN A REINVESTMENT OPTION

Resolved that, if and to the extent required in terms of section 41(1) of the Companies Act, but subject to the provisions of the Companies Act, the MOI and the JSE Listings Requirements, the directors of the company be and are hereby authorised, as and when they deem appropriate, to allot and issue shares (including securities convertible into shares and/or options over shares) to directors, future directors, prescribed officers, future prescribed officers, persons related or inter-related to the company, or a director or a prescribed officer of the company and/or a nominee of any of the aforementioned persons, for the purpose of affording such persons (as shareholders of the company) an opportunity to participate alongside the company's other shareholders in a reinvestment option or similar corporate action from time to time pursuant to which each of them may elect to reinvest all or part of their dividends in new shares of the company (including securities convertible into shares and/or options over shares).

Additional information in respect of special resolution number 3

The reason for special resolution number 3 is to enable the company to extend an offer, pursuant to a reinvestment option or similar corporate action, to the class of persons contemplated in section 41(1) of the Companies Act (which includes directors, prescribed officers, persons related or inter-related to the company and/or a nominee of any of such persons). In the absence of the authorisation contemplated in terms of the resolution, such persons would not be eligible to participate, as a shareholder of the company, in a reinvestment option or similar opportunity made available to the company's shareholders.

11. SPECIAL RESOLUTION NUMBER 4

FINANCIAL ASSISTANCE TO DIRECTORS, PRESCRIBED OFFICERS, EMPLOYEE SHARE SCHEME BENEFICIARIES AND RELATED OR INTER-RELATED COMPANIES

Resolved, as a special resolution of the company in terms of section 44 and 45 of the Companies Act, that the directors of the company may, subject to compliance with the requirements of the MOI, the Companies Act and the JSE, when applicable, each as presently constituted and as amended from time to time during the 2 (two) years commencing on the date of this special resolution, authorise the company to provide direct or indirect financial assistance (as contemplated in sections 44 and 45 of the Companies Act) to, *inter alia*, any present or future director or prescribed officer of the company or corporation which is related or inter-related to the company (as defined in section 2 of the Companies Act) on such terms and conditions as the directors of the company determine, provided that nothing in this approval will limit the provision by the company of financial assistance that does not require approval by way of special resolution of the ordinary shareholders in terms of sections 44 and 45 of the Companies Act or falls within the exemptions contained in these sections.

Additional information in respect of special resolution number 4

The reason for special resolution number 4 is to grant the directors of the company the authority required by the Companies Act to provide direct or indirect financial assistance through *inter alia* the lending of money, guaranteeing of a loan or other obligation and securing any debt or obligation, to its subsidiaries, associates and inter-related parties of the company.

12. SPECIAL RESOLUTION NUMBER 5

ADOPTION OF A NEW MOI

Resolved, as a special resolution in accordance with section 16(1)(c) of the Companies Act, 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, with effect from the date on which the amended MOI is filed with the Companies and Intellectual Property Commission in accordance with requirements of section 16(9) of the Companies Act.

The purpose of this proposed special resolution number 5 is the following:

- to align the requirements for the issue of shares and securities with the relevant provisions of the Companies Act and the JSE Listings Requirements;
- to provide a more comprehensive list of instances in which new equity securities are not required to be issued pro rata to the existing holding of equity securities in the company;
- to make the provisions regulating pre-emptive offers also applicable to the issue of a class of authorised equity securities which have not been issued previously;
- to provide that the directors of the company may authorise and issue capitalisation shares on a pro rata basis to the company's shareholders;
- to bring the MOI in line with recent judicial pronouncements in respect of the delivery and validity of proxy forms; and
- to allow, provide for and regulate odd-lots and odd-lots offers.

The effect of special resolution number 5 will be to replace the company's existing MOI with the proposed new MOI referred to in special resolution number 5.

Additional information in respect of special resolution number 5

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 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.

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 contained on page 228. 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), during normal business hours from the date of issue of this notice of annual general meeting up to and including Wednesday, 22 November 2017 or on the company's website, being **www.rmih.co.za**.

Special resolution number 5 is proposed to enable the company to adopt a new MOI to more closely align with the requirements of the JSE Listings Requirements and any applicable legislation. The principal changes being proposed in the proposed MOI are summarised on page 228. The proposed MOI will substitute the company's current MOI in its entirety.

The percentage of voting rights required for this special resolution number 5 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

A copy of the new MOI is available on the company's website **www.rmih.co.za** *or can be obtained from the company secretary by email at* **company.secretary@rmih.co.za**.

13. TO TRANSACT ANY OTHER BUSINESS THAT MAY BE TRANSACTED AT AN ANNUAL GENERAL MEETING

APPROVALS REQUIRED FOR RESOLUTIONS

Ordinary resolutions number 1.1 – 1.5, 2, 4, and 5.1 – 5.3 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 3 (general authority to issue shares for cash) and special resolutions number 1, 2, 3, 4 and 5 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 ensure beforehand with the transfer secretaries of the company that their shares are in fact registered in their name.

CERTIFICATED SHAREHOLDERS

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. It is requested that proxy forms be forwarded to reach the company's transfer secretaries, Computershare Investor Services (Pty) Limited at Rosebank Towers, 15 Biermann Avenue, Rosebank (PO Box 61051, Marshalltown, 2107) or at fax number 011 688 5238 and be received by them no later than 11:00 on Monday, 20 November 2017. Any forms of proxy not submitted by this time may nevertheless be submitted to the transfer secretaries before the meeting or handed to the chairman of the annual general prior to the shareholder exercising any rights of a shareholder at the annual general meeting.

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 any resolution 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 company.secretary@rmih.co.za by no later than 17:00 on 20 November 2017 in order to obtain a PIN number and dial-in details for that conference call.

Voting by way of teleconference call will only be permitted if the applicable shareholder is represented by a proxy who is physically present at the meeting and in respect of whom a proxy form has been duly submitted in accordance with the provisions contained in this notice of annual general meeting.

Shareholders wishing to participate in this manner are reminded that they will be 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 licences and passports.

SUMMARY OF SHAREHOLDER RIGHTS

In compliance with the provisions of section 58(8)(b)(i) of the Companies Act, a summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Companies Act, is set out below:

- A shareholder entitled to attend and vote at the annual general meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the annual general meeting in the place of the shareholder. A proxy need not be a shareholder of the company.
- A proxy appointment must be in writing, dated and signed by the shareholder appointing the proxy, and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid only until the end of the annual general meeting.
- A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointing the proxy.
- The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.
- The appointment of a proxy is revocable by the shareholder in question by cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the company as required in the first sentence of this paragraph.
- If the instrument appointing the proxy or proxies has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the MOI to be delivered by the company to the shareholder, must be delivered by the company to (a) the shareholder, or (b) the proxy or proxies, if the shareholder has (i) directed the company to do so in writing; and (ii) paid any reasonable fee charged by the company for doing so.

Attention is also drawn to the instructions on signing and lodging the form of proxy.

By order of the board of directors.

JS Human
Company secretary
25 October 2017

Explanatory note regarding special resolution number 5

IDENTIFYING THE 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 Wednesday, 22 November 2017 (or any adjournment or postponement thereof), and which seeks to identify some of the salient amendments made to the existing MOI in order to align more closely with the provisions of the Companies Act and all relevant provisions of the Listings Requirements and to provide the board of directors with more flexibility in managing the capital structure of the group.

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 the proposed amendments to the company's MOI as embodied in the 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 Wednesday, 22 November 2017, at both (i) the registered office of the company during office hours, being the 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 new MOI
1.2.6 1.2.7 1.2.7.1 1.2.7.2 1.2.8 1.2.9	Companies Act and JSE Listings Requirements	New clauses 1.2.6 to 1.2.9 proposed.	1.2.6 each provision and each sentence and each part of a sentence in this Memorandum of Incorporation is separate and severable from each other, and to the extent any provision or sentence or part thereof is found to be illegal or unenforceable or inconsistent with or contravenes any provision of the Companies Act and/or the JSE Listings Requirements, or void, such may to that extent only be modified or severed from this Memorandum of Incorporation, so that the remaining part of that provision or sentence or part thereof, as the case may be, is legal, enforceable or consistent with or does not contravene the Companies Act and/or the JSE Listings Requirements or is not void.

Clause	Subject	Existing regime in the current MOI	Proposed regime in new MOI
			1.2.7 if any provision of this Memorandum of Incorporation imposes any obligation or requirement pursuant only to the JSE Listings Requirements, then: 1.2.7.1 unless the Company is a "listed company" as such term is defined in the JSE Listings Requirements, any such provision shall be deemed not to apply to the Company; and 1.2.7.2 insofar as the JSE exempts or no longer requires compliance with such obligation or requirements, the obligation shall be deemed to have been complied with. 1.2.8 if any provision of this Memorandum of Incorporation limits, restricts or prohibits any power or authority of the Company or the Board pursuant only to the JSE Listings Requirements, then insofar as such limitation, restriction or prohibition is waived, relaxed, repealed or amended by the JSE, the power or authority shall be deemed not to be subject to such limitation, restriction or prohibition to the extent of such waiver, relaxation, repeal or amendment without anything further being required. 1.2.9 if any provision of this Memorandum of Incorporation has been inserted to comply with a then applicable provision of the JSE Listings Requirements, which is subsequently removed or modified, the provision in question shall no longer apply as if the relevant provision has been removed or shall apply as modified in the JSE Listings Requirements.
		Old clauses 1.2.6 to 1.2.9 renumbered.	1.2.10 – 1.2.13

Clause	Subject	Existing regime in the current MOI	Proposed regime in new MOI
7.7	Issue of shares and variation of rights	Replaced old clauses 7.7 to 7.8 with new clauses 7.7 to 7.11. Renumbered clause 7.6 as 7.12. Deleted old clauses 7.10 to 7.12.	7.7 As regards the issue of Shares or Securities convertible into Shares, including options in respect thereof: 7.7.1 that require the approval of Shareholders by way of a special resolution as contemplated in sections 41(1) and/or (3) of the Companies Act or as contemplated in the JSE Listings Requirements, the Directors shall not have the power to allot or issue same without the prior approval of a special resolution of Shareholders; 7.7.2 that require the approval of Shareholders by way of an ordinary resolution in terms of the Companies Act or the JSE Listings Requirements, the Directors shall not have the power to allot or issue same, without the prior approval of an ordinary resolution of Shareholders; 7.7.3 other than as contemplated in clauses 7.7.1 and 7.7.2, the Directors shall have the power to allot and issue same, without any Shareholder approval, provided that the JSE has, to the extent required, granted the requisite consent to the listing of such Securities and such issue is made subject to, and in accordance with, the JSE Listings Requirements, where applicable (including all issues of Shares for cash and all issues of options and convertible Securities granted or issued for cash). 7.8 In the event that the Company proposes to issue any equity Securities (or options over equity Securities) other than in respect of the following instances (it being recorded that, notwithstanding any other provision to the contrary in this Memorandum of Incorporation, each of the instances set out in clauses 7.8.1 to 7.8.11 shall not require Shareholder approval, or further Shareholder approval, as applicable):

Clause	Subject	Existing regime in the current MOI	Proposed regime in new MOI
			7.8.1 Shares issued for cash pursuant to a general or specific approval given by the Shareholders in general meeting; 7.8.2 Shares issued in accordance with, or pursuant to, an authority approved by Shareholders; 7.8.3 Shares issued in terms of options or conversion rights, provided that such options or conversion rights have been previously approved, to the extent necessary; 7.8.4 Shares issued in terms of a rights offer to be undertaken by the Company; 7.8.5 Shares to be held under an employee share scheme in terms of section 97 of the Companies Act, a share incentive scheme which complies with the provisions of Schedule 14 of the JSE Listings Requirements or any other employee share option or incentive scheme, provided that such issue of shares was previously approved, to the extent required; 7.8.6 the issue of capitalisation Shares as contemplated in section 47 of the Companies Act; 7.8.7 Shares issued in terms of an election by Shareholders to reinvest the proceeds of a distribution (including a dividend) or pursuant to an analogous process; 7.8.8 Shares issued pursuant to a scrip dividend, as contemplated by the JSE Listings Requirements; 7.8.9 Shares issued for the acquisition of assets, as a vendor consideration placing directly or indirectly related to an acquisition of assets, or for the purposes of an amalgamation or merger; 7.8.10 Shares issued or to be issued as consideration for any assets, corporeal or incorporeal, or for services rendered; or

Clause	Subject	Existing regime in the current MOI	Proposed regime in new MOI
			7.8.11 the Shares issue otherwise falls within a category in respect of which it is not, in terms of the JSE Listings Requirements, a requirement for the relevant Shares to be so offered to existing Shareholders, each Shareholder already holding issued equity Securities in the class of equity Securities proposed to be issued has the right, before any other person who is not a holder of that class of equity Securities, to be offered, on such terms and in compliance with such procedures as the Board may determine, to subscribe for, that number of equity Securities proposed to be issued which in relation to the total number of equity Securities proposed to be issued bears (as close as possible) the same ratio (as determined by the Board) as the number of equity Securities in that class already registered in the holder's name at the time of such offer bears to the then total number of issued equity Securities in that class, calculated at the time the offer was made, provided that if any entitlement to a fraction of an equity Security pursuant to such an offer, all allocations of Securities will be calculated in accordance with the then prevailing JSE Listings Requirements. After the expiration of the time within which an offer may be accepted, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the equity Security so offered, the Directors may, subject to the aforegoing provisions, issue such equity Security in such manner as they consider most beneficial to the Company.
			The Directors may exclude any Shareholders or category of Shareholders who are resident outside of the Republic from an offer contemplated in this clause 7.8. if and to the extent that they consider it necessary or expedient to do so because of legal impediments or compliance with the laws or the requirements of any jurisdiction and/or regulatory body of any territory, outside of the Republic, that may be applicable to the offer arising from or in connection with the participation (or potential participation) of the relevant Shareholder or category of Shareholder. 7.9 The provisions of clause 7.8 will apply *mutatis mutandis* to a class of authorised equity Securities (if applicable) which have not been issued, based on the percentage voting rights which that Shareholder has in relation to the aggregate general voting rights, calculated at the time the offer was made. 7.10 The Company may apply to the Commission to exclude from any rights offer any category of holders of the Company's Securities who are not resident within the Republic, in terms of section 99(7). 7.11 Notwithstanding clause 7.10, any pro rata offer of any Securities to any person shall be subject to the possible exclusion of any persons who are prohibited by any law of any country to whose jurisdiction they are subject, from participation in that offer.

Clause	Subject	Existing regime in the current MOI	Proposed regime in new MOI
14	Capitalisation shares	Amended paragraph 14.1.1	the Board, by resolution, may approve the issue of any authorised Shares as capitalisation Shares on a pro rata basis to the Shareholders of one or more classes of Shares and, to this end, may resolve to capitalise all or any part of the amount for the time being standing to the credit of any of the Company's reserves or of any share premium account or capital redemption reserve fund or to the credit of the income statement or otherwise available for distribution and not required for the payment of dividends on any preference shares of the Company;
		Amended paragraph 14.3	Replaced the word "distribution" with "issue".
19	Shareholders meetings	New clause 19.5 proposed. Old clauses 19.5 to 19.24 renumbered.	Notwithstanding anything to the contrary contained in this Memorandum of Incorporation, including this clause 19 and clauses 20 to 22, the requirements for convening and holding meetings in respect of Securities other than Shares, including location, notices, notice periods, requisition rights, quorum provisions, adjournment, proxies, voting rights and voting percentages for adoption of resolutions, shall be in accordance with the specific terms and conditions, if any, set out in the document(s) in terms of which such Securities are issued, insofar as such terms and conditions amend the relevant provisions of the Companies Act and to the extent such amendments are permissible in terms of the Companies Act.
22	Proxies and representatives	Clause 22.3.4 amended to delete the 48 (forty eight) hours or lesser period as determined by Directors.	
		Clause 22.3.5 amended to delete the 48 (forty eight) hours or lesser period as determined by Directors.	
		Clause 22.3.6 amended to delete the 48 (forty eight) hours or lesser period as determined by Directors.	
		Clause 22.4 deleted.	
		Clause 22.5 renumbered to 22.4.	

Clause	Subject	Existing regime in the current MOI	Proposed regime in new MOI
38	Odd-lots	Inserted detail on how the company will deal with Odd-lots; previously the MOI was silent on Odd-lots.	38.1 For purposes hereof: 38.1.1 "**Odd-lot**" means any total holding by a Shareholder (which for the purposes of this clause 38 shall include a dematerialised Shareholder without "own-name registration") that holds the Shares through a nominee in accordance with the rules and procedures of Strate Proprietary Limited of less than 100 Shares (or such other number as may be permitted by the JSE), or any total holding of less than 100 Securities (or such other number as may be permitted by the JSE) or a minimum number of Securities with an aggregate nominal value of less than R100.00 (or such other rand amount as may be permitted by the JSE); and 38.1.2 "**Odd-lot Offer**" means an offer by the Company, or its nominee (which for the avoidance of doubt shall include any of the Company's subsidiaries from time to time) to the holders of Odd-lots in terms of which the holders of the Odd-lots may elect to retain their holdings or sell their Odd-lots, subject to the JSE Listings Requirements to the extent applicable.
			38.2 The Company, or its nominee, may make and implement Odd-lot Offers on such terms and conditions as the Board may determine, in accordance with the JSE Listings Requirements or as otherwise permitted by the JSE; and if it does so and any Shareholder or holder of Securities who qualifies to participate in that Odd-lot Offer does not elect any of the election alternatives (namely to retain their Odd-lots or to sell their Odd-lots) in accordance with the terms of the Odd-lot Offer, such holder (and any person with a beneficial interest in such Odd-lots) shall be deemed to have agreed to sell Odd-lots, and the Company or its nominee, as the case may be, shall be entitled (on implementation of the Odd-lot Offer) to cause the Odd-lots to be sold on behalf of such persons to any party (including the Company) on such terms and conditions as the Board may determine; provided that the Company shall account to the registered holders, after deducting the costs of the sales, if any, for the remaining proceeds attributable to them pursuant to the sale of such Odd-lots. 38.3 The Company shall be obliged to hold all moneys due to Shareholders in trust indefinitely, but subject to the laws of prescription.
38 – 43		Renumbered clauses 38 to 43 to 39 to 44 due to new clause 38.	

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
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 12:00 on Wednesday, 22 November 2017, in the boardroom, 4th Floor, 2 Merchant Place, Corner Rivonia Road and Fredman Drive, Sandton, 2196, 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) ____________________

and (contact number) ____________________

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 12:00 on Wednesday, 22 November 2017 and at any adjournment thereof as follows: (see note 2)

	In favour of	Against	Abstain
Ordinary resolutions number 1.1 – 1.5 Re-election of directors:			
1.1 Gerrit Thomas Ferreira			
1.2 Sonja Emilia Ncumisa De Bruyn Sebotsa			
1.3 Jan Jonathan Durand			
1.4 Patrick Maguire Goss			
1.5 Obakeng Phetwe			
Advisory endorsement of remuneration policy			
Advisory endorsement of remuneration implementation report			
Ordinary resolution number 2 Place 5% of the authorised ordinary shares under the control of the directors			
Ordinary resolution number 3 General authority to issue ordinary shares for cash			
Ordinary resolution number 4 Approval of re-appointment of auditor			
Ordinary resolutions number 5.1 – 5.3 Election of the company's audit and risk committee members:			
5.1 Jan Willem Dreyer			
5.2 Sonja Emilia Ncumisa De Bruyn Sebotsa			
5.3 Per-Erik Lagerström			
Special resolution number 1 Approval of non-executive directors' remuneration with effect from 1 December 2017			
Special resolution number 2 General authority to repurchase company shares			
Special resolution 3 Issue of shares, convertible securities and/or options to persons listed in section 41(1) of the Companies Act for the purposes of their participation in a reinvestment option			
Special resolution number 4 Financial assistance to directors, prescribed officers, employee share scheme beneficiaries and related or inter-related companies			
Special resolution number 5 Adoption of a new 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 2017

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 name" 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 FOR 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 him/her or 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. The company requests that completed proxy forms be forwarded to reach the company's transfer secretaries, Computershare Investor Services (Pty) Limited at Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) or at fax number 011 688 5238 to be received by no later than 11:00 on Monday, 20 November 2017. Proxy forms may only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.
5. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the transfer secretaries or waived by the chairperson of the annual general meeting.
6. The completion and lodging of this proxy form shall not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.
8. The 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 (RMI)

Registration number:	2010/005770/06
JSE ordinary share code:	RMI
ISIN code:	ZAE000210688

DIRECTORS

GT Ferreira (chairman), JJ Durand (deputy chairman), HL Bosman (CEO & FD), JP Burger, P Cooper, (Ms) SEN De Bruyn Sebotsa, LL Dippenaar, JW Dreyer, PM Goss, PK Harris, (Ms) A Kekana, P Lagerström, MM Morobe, O Phetwe and KC Shubane.

ALTERNATES

F Knoetze and DR Wilson

Mr Durand was elected as deputy chairman of the board of directors effective from 25 November 2016.

Ms Kekana was appointed as a non-executive director (she used to be an alternate for Mr Phetwe) and Mr Wilson as an alternate non-executive director on 1 September 2017.

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 8000
Telefax:	+27 11 282 4210
Web address:	**www.rmih.co.za**

SPONSOR

(in terms of JSE Limited Listings Requirements)

Rand Merchant Bank (a division of FirstRand Bank Limited)

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

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited

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

STUDIO 5

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