



2020

AUDITED SUMMARY
FINAL RESULTS
ANNOUNCEMENT



RMI

OPTIMISE
DIVERSIFY
MODERNISE

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BASIS OF PREPARATION

This announcement covers the audited summary financial results of Rand Merchant Investment Holdings Limited (RMI or the group), based on International Financial Reporting Standards (IFRS) for the year ended 30 June 2020.

The primary results and accompanying commentary are presented on a normalised basis as we believe this most accurately reflects the group's underlying economic performance. The normalised earnings have been derived from the audited IFRS financial results. A reconciliation of the adjustments made to derive normalised earnings is presented in the accompanying schedules. Refer to page 25.

Schalk Human MCom (Acc) CA(SA) prepared these financial results under the supervision of Herman Bosman LL.M. CFA.

The board of directors of RMI (RMI Board) take full responsibility and confirm that this information has been correctly extracted from the audited consolidated annual financial statements from which the summary consolidated financial statements were derived.

NAVIGATION WITHIN THIS ANNOUNCEMENT



Indicates further information available on our website, www.rmih.co.za



Directs readers to the page in the integrated report with supplementary information.



ABOUT THE ART IN THIS ANNOUNCEMENT

Each year, RMI features an artist or artwork that embodies its enduring values and strategic positioning.

Sculptor **Jake Singer** and his team have produced a group of works called the Murmuration series. Each work is crafted using traditional thatching techniques, bringing many pieces – in this case marine-grade stainless steel security fencing material - into a coherent whole.

The process demonstrates the truth that collective effort towards a goal is always more effective.

During the COVID-19 pandemic many people have struggled with being in isolation, and so the works also represent a larger sense of connectedness.

Jake Michael Singer is a South African multidisciplinary artist, who completed his bachelor's degree at Michaelis School of Fine Art at the University of Cape Town and went on to study at Central Saint Martins in London. He has exhibited widely, both locally and internationally.



Further information about Jake Michael Singer can be found on RMI's website www.rmih.co.za.

ABOUT RMI

RMI is a JSE-listed investment holding company with a proud track record of investing in dynamic and entrepreneurial financial services businesses. The group's long-term performance has been achieved by **partnering with exceptional management teams**.

RMI positions itself as a **value-adding, stable and aspirational shareholder**.

RMI is a strategic, value-adding manager of a R44.7 billion financial services portfolio:

25.0%  Discovery Discovery Limited (Discovery)	29.7%  Hastings Hastings Group Holdings plc (Hastings)	27.3%  Momentum Metropolitan Momentum Metropolitan Holdings Limited (Momentum Metropolitan)
89.1%  OUT SURANCE OUTsurance Holdings Limited (OUTsurance)	100%  RMI INVESTMENT MANAGERS IDENTIFY. PARTNER. GROW RMI Investment Managers Group Proprietary Limited (RMI Investment Managers)	100%  ALPHA CODE AlphaCode Proprietary Limited (AlphaCode), with its next-generation investments: » Entersekt (28.2%) » Guidepost (25.1%) » Luno (7.7%) (sold in September 2020) » Merchant Capital (24.8%) » Prodigy Finance (13.1%)

ENDURING VALUE CREATED

for the year ended 30 June 2020

Compound
shareholders'
return

since listing in 2011

16.3%
per
annum

Growth in total
shareholders'
equity

since listing in 2011

9.6%
per
annum

▼ (24%)
Normalised
earnings

R3 086
million

(2019: R4 081 million)

▼ (49%)
Headline
earnings

R1 956
million

(2019: R3 801 million)



INVESTMENTS

RMI's significant investments as at 30 June 2020

	 Discovery	 Hastings	 Momentum Metropolitan	
Listed or unlisted	JSE-listed	LSE-listed	JSE-listed	Unlisted
MARKET CAPITALISATION/ IMPLIED VALUE (100%)	R68.8 billion	R27.3 billion	R28.4 billion	R24.6 billion
RMI's INTEREST	25.0%	29.7%	27.3%	89.1%
RMI's RANKING AS SHAREHOLDER	1st	1st	1st	1st
MARKET VALUE/ IMPLIED VALUE OF RMI'S INTEREST	R17.2 billion	R8.1 billion	R7.1 billion	R21.1 billion
CONTRIBUTION TO RMI PORTFOLIO	32%	15%	13%	40%
NORMALISED EARNINGS (100%)	R3 747 million	R1 720 million	R1 521 million	R2 218 million

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

LISTED INVESTMENTS



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

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

Its innovative Shared-Value business model incentivises people to be healthier and enhances and protects their lives. This model has demonstrable superior actuarial outcomes for the insurer and has driven behavioural changes that result in a healthier client base.



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

Hastings provides refreshingly straightforward products and services. It has 2.96 million live client policies and is a multi-award-winning business.

In August 2020, RMI and OUTsurance announced their intention, subject to Hastings shareholders' and various regulatory approvals, to take Hastings private in a consortium led by Sampo plc.



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

It operates primarily in South Africa, with insurance interests in select African countries, the UK (asset management) and India (health).

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

UNLISTED INVESTMENTS



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

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



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

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

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

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



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

- » **Entersekt**, a leader in authentication app security and payments-enablement technology, offering a highly scalable solution set, with a track record of success across multiple continents;
- » **Guidepost**, a high-touch health and insurtech innovator that is poised for international growth;
- » **Luno**, makes it safe and easy to buy, store and learn about digital currencies like Bitcoin and Ethereum. Luno has more than 2 million clients across 40 countries. This investment was sold in September 2020;
- » **Merchant Capital**, a provider of alternative sources of working capital for small and medium sized enterprises in South Africa; and
- » **Prodigy**, an international fintech platform that offers loans to postgraduate students attending top universities.

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



RMI

AUDITED SUMMARY FINAL RESULTS ANNOUNCEMENT 2020

PERFORMANCE AND OUTLOOK

The second half of the financial year, which was dominated by the devastating personal and economic effects of the COVID-19 pandemic in all the markets to which RMI is exposed through its portfolio companies, should be seen in the context of the following key points. It:

- » demonstrated the **operational resilience** of the portfolio companies in transitioning their large workforces to remote working to protect their employees while maintaining high service levels to clients;
- » reinforced the **values-based role** of RMI and its companies as the group provided a broad and impactful spectrum of support and relief measures to government, the Department of Health and stakeholders across our country. As protection and health businesses, the portfolio companies were able to provide support to those affected and infected by COVID-19 individually as well as to small businesses in sectors hardest hit by the lockdown;
- » highlighted the **benefits of diversification** as reflected in the countering elements of the financial performance of the various components of the RMI portfolio;
- » highlighted the **conservatism and prudence** of the portfolio companies in providing for an uncertain outcome for future claims and experience from COVID-19 and protecting balance sheets through proactive cash management and other measures; and
- » framed the **importance of a shareholder with a long-term mindset** that is able to provide financial and strategic support as well as guidance to our management partners through all seasons and stages of business development and economic cycles.

EXTERNAL ENVIRONMENT

Our investment decisions are influenced by exogenous factors in our external environment which are characterised by the following trends:

COVID-19

The pandemic is having a profound effect on all our markets and businesses

Our operating environment in 2020 was dominated by the **COVID-19** pandemic. The unfolding, global pandemic is a crisis of historic scale and complexity. It is straining healthcare systems, government fiscal capacity, global markets and economies and the ability of many organisations to cope with the changes caused by the virus and the response thereto, which includes worldwide lockdowns. The pandemic will have enduring effects especially as second waves emerge impacting on the ability to predict the trajectory of short to medium-term financial performance of RMI and its underlying portfolio companies.

Rand exchange rate

The Rand exchange rate to the US and Australian Dollars and Pound primarily, influences our revenue

SA's weakening economy, compounded by **ratings downgrades** by all the major agencies has had a significant negative effect on the Rand. As foreign investors sold off emerging market currencies in response to **COVID-19**, the Rand depreciated to unprecedented levels. The weakness has been most pronounced against currencies acting as safe havens, most notably the US Dollar, British Pound and the Swiss Franc. Despite significant recovery, the Rand is likely to remain volatile for the foreseeable future.

Resilience

The fragile SA economy and its impact on societal stability affects our operations

The SA economy has been hit by short-term shocks, persistently weak business sentiment and periods of load shedding.

SA has recorded a 51% (annualised) decline in GDP for the second quarter of 2020 on the back of the COVID-19 pandemic.

Headline **inflation** reached a nine-year low of 3.6% year-on-year in November 2019, reflecting weak demand and persistent slack in the economy, but picked up slightly thereafter.

Record **unemployment**, particularly among the youth, poses serious risks to economic recovery and social cohesion.

The financial health of **SOEs**, especially Eskom, is likely to put additional pressure on public finances and ongoing electricity outages are curbing economic growth and placing the sustainability of smaller businesses at risk.

Uncertainty
Regulatory uncertainty and complexity adversely affects investors' confidence and capital allocation decisions

Deteriorating **sovereign credit ratings** has resulted in reduced foreign direct investment, which is critically required to stimulate economic growth. In addition, uncertainty in the pace of required structural reforms undermines business confidence.

Changes in the already **complex financial services regulatory landscape** affect multiple parts of RMI and its portfolio company businesses and implementing effective controls adds cost and is human resource intensive.

Lawlessness/corruption/security
Civil disruption and a lack of law enforcement adversely impacts operational stability

Communities are protesting for economic opportunities and improved local **service delivery**, while government pushes for transformation and employment creation. Labour unions mobilise for higher wages.

Protests and strikes by those dissatisfied with the lack of opportunities and poor service delivery have escalated, often leading to violent clashes with authorities and disrupted production due to employees being unable to get to work.

Foreign markets
The uncertainty and disruption affected all the markets in which our portfolio companies operate

The continuing trade war between the USA and China still impacts world economies.

The **United Kingdom** experienced significant interest rate, equity and bond market volatility, together with the widening of credit spreads which created investment variances in the life companies. Lingered Brexit uncertainty and the impact of the second wave of COVID-19 infections could have a significant impact on the UK economy.

Australia suffered devastating bushfires and floods in the early part of 2020, directly affecting the group's operations.

Climate change
Climate change has directly impacted RMI portfolio companies

Climate change has implications for insurance companies on both sides of the balance sheet.

Unpredictable **weather patterns**, dry conditions and drought impact agriculture production, resulting in food scarcity, diminished spending on non-food items and inflation.

All fields of human activity, from agriculture to energy supply, are changing as awareness of the need to transform the way business is conducted to **protect** the environment grows.

Ongoing degradation of **natural capital** impacts not only the availability of resources but livelihoods and human development. A reduction in the quality of soil, biodiversity and water impacts food security, the value of land and resettlement of people and a degraded environment has further impact on health, nutrition and susceptibility to disease.

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

OVERVIEW OF RESULTS

RMI's operating environment in 2020 was dominated by the COVID-19 pandemic. Against this backdrop, RMI's group consolidated normalised earnings decreased by 24% to R3.1 billion for the year ended 30 June 2020. This result is mainly attributable to the significant provisions raised in Discovery and MMH for the expected future effects of COVID-19.



Discovery's normalised earnings decreased by 26% for the year ended 30 June 2020.

A provision of R3.4 billion (R2.3 billion net of discretionary margins) was put in place for future claims and lapses as a result of the COVID-19 pandemic. This provision reflects management's best estimate of the impact as at 30 June 2020. It ensures that, on the group's expected scenario, all claims and economic effects of the pandemic are carried entirely in the financial year under review. Excluding this provision, normalised operating profit was up 9%, and core new business volumes increased by 5% to R19.2 billion.

In terms of the growth model, the businesses delivered a resilient operating performance. Established businesses increased operating profit by 15% before the COVID-19 provisioning, with pleasing new business growth. The emerging businesses delivered a combined profit of R736 million, which represents a 74% increase on the prior year. Investment in new businesses was at 26% of normalised earnings (before the COVID-19 reserve), compared with 17% in the previous financial year, with these initiatives demonstrating compelling progress. Discovery Bank completed all migrations onto its platform and was able to fully fund its credit book with deposits, Vitality Invest doubled total funds under management over the recent six-month period, Umbrella Funds has a strong pipeline of committed funds and the Vitality One platform continued to expand into new markets.



RMI included normalised earnings of R486 million from **Hastings** for the year ended 30 June 2020, representing a decrease of 12%. Hastings announced its interim results for the six months ended 30 June 2020 on 5 August 2020. Gross written premiums increased by 3% to £514.9 million compared to the comparative period of £499.2 million. The adjusted operating profit after tax increased by 31% to £78.3 million (2019: £59.7 million) for the six-month period, predominantly driven by policy growth and the improvement in the loss ratio, offset to an extent by client actions in light of COVID-19, including the waiving of fees, reduced policy adjustments and increased operating expenditure for IT enhancements to support employees working from home. The loss ratio decreased to 75.6% (30 June 2019: 81.1%) due to a reduction of claims frequencies resulting from the national lockdown. The lower claims frequencies have been partially offset by continued inflation in repair and third party credit hire costs, which have elevated further due to the impact of the national lockdown on the repair network. Hastings recorded a sustained increase in clients, with live client policies increasing by 5% to 2.96 million (2019: 2.81 million) and market share growing to 8.1% of the UK private car insurance market. As in the prior year, Hastings declared an interim dividend of 4.5 pence per share.



Momentum Metropolitan recorded a 51% decrease in diluted normalised earnings to R1.5 billion for the year under review. This was largely attributable to additional provisions raised, with a net negative impact of R983 million for potential adverse COVID-19-related claims experience and policyholder lapses and withdrawals. Furthermore, the partial recovery of investment markets during the last quarter of the financial year did not fully offset the impact of severe market-related losses reported in the third quarter of the financial year. The net market losses included in normalised earnings for the year were R975 million. New business volumes and the value of new business declined by 10% and 48% to R50.5 billion and R280 million respectively. Excluding the impact of a R5 billion with-profit annuity transaction included in the prior year, new business volumes remained flat year-on-year, which is a commendable achievement, considering the impact of the national lockdown and the slowdown during the fourth quarter of the financial year. The value of new business was negatively impacted by additional costs incurred in the distribution channels to support staff and business partners during the lockdown phase. Momentum Metropolitan remains well capitalised with a strong balance sheet and a regulatory solvency position of 1.85 times the solvency capital requirement as at 30 June 2020.



Normalised earnings, including **OUTsurance's** stake in Hastings, decreased by 8% to R2.4 billion. Excluding its share in Hastings, OUTsurance's normalised earnings decreased by 7% to R2.2 billion, mainly attributable to the unrealised investment losses on the group's equity portfolio, the impact of the bushfires and natural catastrophes in Australia and business interruption claims of R198 million paid and provided for in OUTsurance Business. OUTsurance's operating profit increased by 2% for the year under review, driven by improved operational profitability in the South African short-term insurance operation on account of premium growth over the last year. The weaker Rand/AUD exchange rate reduced the impact of the lower operating profit from Youi caused by the devastating bushfires and various large hail and flood catastrophes in Australia. Gross written premiums increased by 8% to R17.5 billion, the claims ratio remained unchanged at 51.1% and the cost-to-income ratio increased from 28.3% to 29.4%. The claims ratio benefitted from reduced motor accident claims frequencies during the national lockdown period, while the increase in the cost-to-income ratio is mainly due to the rapid expansion in the OUTsurance Business tied agency force.



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RMI Investment Managers is now in its fifth year of partnering a select group of independent South African boutique asset management firms. Despite the extremely difficult operating environment, the affiliates managed to remain resilient during these turbulent times. Pleasingly, the diversified nature of the affiliate portfolio and asset classes represented demonstrated its value and resulted in better than expected financial performance.

COVID-19 has had a devastating impact on economies and propelled financial markets into disarray. Affiliates managed to attract R4.2 billion of retail net inflows over the 12-month period, resulting in 14% organic growth in retail-assets. Retail assets under management now total R30.4 billion (21%) of the total combined R145.4 billion assets under management across the affiliate portfolio.

Royal Investment Managers is a joint venture between RMI Investment Managers and RBH. The portfolio performed marginally below expectations, largely due to the difficult year where the impact of COVID-19 affected some affiliates more than others.

RMI's **net funding and holding company costs** increased by 9% to R738 million. This increase is mainly attributable to a fair value loss on an interest rate swap fixing the interest rate on the GBP-denominated funding. RMI also increased the enterprise development and broad-based black economic empowerment (B-BBEE) spending for the various AlphaCode programmes compared to the prior year.

INVESTOR CALL

Herman Bosman (chief executive officer) invites you to join him in a conversation about RMI's performance for the year ended 30 June 2020.

This investor call will take place on Monday, 28 September 2020 at 10:00 (SAST).



To join, click here.

Please ensure you have Microsoft Teams installed on the device from which you will be joining the call.



RMI

AUDITED SUMMARY FINAL RESULTS ANNOUNCEMENT 2020

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 portfolio companies for the year under review are listed in the table below:

R MILLION	For the year ended 30 June		
	2020	2019	% change
Discovery	3 747	5 035	(26)
Hastings	1 720	1 941	(11)
Momentum Metropolitan	1 521	3 074	(51)
OUTsurance (excluding Hastings)	2 218	2 390	(7)
– OUTsurance (including Hastings)	2 411	2 634	(8)
– Hastings included in OUTsurance	(193)	(244)	21
Other ¹	(10)	(22)	55

¹ Other includes RMI Investment Managers and AlphaCode investments.

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

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

R MILLION	For the year ended 30 June		
	2020	2019	% change
Discovery	933	1 261	(26)
Hastings	486	552	(12)
Momentum Metropolitan	407	825	(51)
OUTsurance (excluding Hastings)	2 008	2 145	(6)
– OUTsurance (including Hastings)	2 180	2 364	(8)
– Hastings included in OUTsurance	(172)	(219)	21
Other ¹	(10)	(22)	55
Funding and holding company costs	(738)	(680)	(9)
Normalised earnings	3 086	4 081	(24)
Normalised earnings per share (cents)	201.5	266.9	(25)

¹ Other includes RMI Investment Managers and AlphaCode investments.

A reconciliation of the adjustments made to headline earnings to derive normalised earnings is presented on page 25.

FINAL DIVIDEND FOR THE 2020 FINANCIAL YEAR

RMI's consolidated financial results during the second half of the current financial year have been significantly impacted by COVID-19. Both Discovery and Momentum Metropolitan raised substantial provisions for the expected future effects of COVID-19. In addition to this, the volatility in long-term interest rates and investment markets and various impairments strained the earnings of the group during the latter part of the current financial year.

Discovery and Momentum Metropolitan have decided not to declare a final dividend. The results of RMI's two predominantly short-term insurance investments, OUTsurance and Hastings, have shown remarkable resilience under these difficult trading conditions and RMI will be receiving dividends from these two entities.

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

The heightened medium-term economic and insurance-related uncertainty across the jurisdictions and businesses within the RMI portfolio has necessitated a revision of RMI's dividend policy. The RMI board has decided that RMI will not be declaring a final dividend for the year ended 30 June 2020. This position will be dynamically assessed over the coming months.

MARKET VALUE OF INVESTMENTS

RMI's share price decreased by 14% (2019: decreased by 9%), compared to a 26% decrease in the life insurance index (2019: increased by 12%) and a 7% decrease in the non-life insurance index (2019: increased by 9%). RMI has delivered a total annual compound return to shareholders of 16.3% since its listing in March 2011.

The individual investment performances during the 2020 financial year are outlined below:

- » **Discovery's** share price decreased by 30% (2019: increased by 1%);
- » **Hastings'** share price decreased by 1% in Pound Sterling terms (2019: decreased by 23%) and increased by 17% in Rand terms (2019: decreased by 24%); and
- » **Momentum Metropolitan's** share price decreased by 7% (2019: increased by 7%).

On a 'look-through' basis, based on share prices as at 30 June 2020, the value attributed to RMI's unlisted investments decreased by 2% (2019: decreased by 16%) to R22.6 billion (2019: R22.9 billion).

R MILLION	2020 Audited	2019 Audited	% change
Market value of listed investments	31 977	38 726	(17)
Discovery	17 231	24 575	(30)
Hastings (RMI's effective holding)	7 684	6 543	17
– 29.7% holding	8 117	6 912	17
– Attributable to non-controlling interests of OUTsurance	(433)	(369)	(17)
Momentum Metropolitan	7 062	7 608	(7)
Market value of unlisted investments	22 560	22 948	(2)
Implied market value of RMI's stake in OUTsurance (excluding Hastings)	21 061	21 913	(4)
RMI Investment Managers and AlphaCode	1 499	1 035	45
Gross market value of portfolio	54 537	61 674	(12)
Net liabilities of holding company	(9 808)	(9 638)	(2)
RMI market capitalisation	44 729	52 036	(14)
RMI closing price per share (cents)	2 920	3 397	(14)

EVENTS AFTER THE REPORTING PERIOD

RMI sold its investment in Luno to Digital Currency Group in September 2020.

On 5 August 2020, RMI and OUTsurance (through Main Street) announced its intention to transfer Main Street's 29.7% holding in Hastings to a newly formed BidCo incorporated in the United Kingdom in exchange for a 29.7% equity stake in BidCo. Main Street will then increase its equity stake in BidCo to 30%. Sampo, a leading Nordic insurance group listed on the Nasdaq Helsinki, intends to acquire a 70% equity stake in BidCo, which will then make an offer to the remaining shareholders in Hastings. The intention is then to delist Hastings, with Main Street holding an option to acquire another 10% of BidCo from Sampo at the transaction price for a period of 18 months from the conclusion of the transaction. The transaction was approved by Hastings shareholders on 22 September 2020 and remains subject to regulatory approval in the United Kingdom and Gibraltar and European Commission antitrust approval. It is expected that the transaction will become effective in late 2020.

CHANGES TO THE BOARD OF DIRECTORS

Mr Udo Lucht was appointed as an alternate, non-executive director to Ms Albertinah Kekana on 3 September 2019. He is replacing Mr David Wilson who resigned as an alternate, non-executive director of the RMI board, effective 1 July 2019.

STRATEGY UPDATE

The short-term focus of RMI is to continue to support its portfolio companies in navigating the COVID-19 pandemic and its after-effects.

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

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



Optimise

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

MAJOR MILESTONES OVER PAST SIX YEARS

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



Diversity

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

MAJOR MILESTONES OVER PAST SIX YEARS

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



Modernise

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

MAJOR MILESTONES OVER PAST SIX YEARS

- » AlphaCode has established itself as a centre of fintech excellence in South Africa and a source of innovation and next-generation thinking for the broader RMI portfolio;
- » Invested in five next-generation businesses;
- » Sold investment in Luno in September 2020;
- » Pipeline of potential future investment opportunities created; and
- » Ongoing substantial investment by Discovery, Hastings, Momentum Metropolitan and OUTsurance in latest technology.

OUTLOOK AND FUTURE VALUE CREATION

Discovery's shared-value business model positions it well to deliver continued operational resilience despite the challenging macro environment. Discovery has also provided for the expected future financial impacts of COVID-19 on claims and lapses during the 2020 financial year. This was done on a variety of scenarios by setting a stressed, central (prudent best estimate) and light scenario. The central scenario has been used to set the provision, while the stressed scenario was used to test capital and liquidity. The light scenario would result in a release of provisions in future years. The effect of continued interest rate volatility is expected to remain a feature of the reported results in the case of Discovery Life, however, the hedge in the UK is expected to remove the volatility for VitalityLife. Solvency, cash and capital are not expected to be negatively impacted by these interest rate movements in SA and normalised earnings will not be impacted. The capital metrics remained above target for all businesses, with internal liquidity bolstered for key businesses. At year-end, Discovery's financial leverage ratio was at 25.1% and the South African liquidity of R1.9 billion remains above target. These metrics remain resilient into future periods under the stressed COVID-19 scenario.

Discovery's Ambition 2023 remains the strategic focus for the medium-term. The group is well positioned for growth over its planning horizon to 2023, with the capital plan able to fund its new initiatives. The businesses within the South African composite have created significant insurgency and the composite is well positioned to continue its growth trajectory. The UK composite is embryonic – the actions taken over the period were key to ensuring sustainability in the current environment and have positioned the business to capitalise in a normalised environment. Vitality Group, through capabilities and partnerships, is well placed to leverage the growing acceptance of the shared-value business model. Ping An

Health remains committed to investing for longer-term growth, rather than looking to extract profit or cash in the short to medium term.

Hastings continues to invest in its future as an agile, technology-driven, low cost operator. These initiatives will ensure it remains well placed to capitalise on its strategy and long-term profitable growth opportunities. Continued progress on strategic initiatives and delivery of operational benefits are evidenced by more than 950 000 downloads of the mobile app, 58% of clients making policy adjustments online and the positive client engagement and feedback on these electronic channels.

Hastings focuses on improving client service by developing and progressing claims transformation initiatives in respect of accidental damage, third party property damage and bodily injury. It is taking an analytical approach to bodily injury strategies such as intervention and pre-medical settlement.

Further investment in pricing processes and anti-fraud capabilities has enabled Hastings to select the best clients and offer them a better price. During the current year, Hastings introduced new counter-fraud software which enables it to monitor a greater range of sophisticated claims fraud and continues to refine and optimise its next-generation anti-fraud system.

Strong client retention rates and some improvement in new business competitiveness has contributed to a 5% increase in live client policies over the past year and an increase in market share from 7.7% to 8.1% over the past six months.

Despite the trying environment, many of **Momentum Metropolitan's** growth initiatives within the reset and grow strategy remain relevant. Work on delivering on these initiatives continues. This includes sales and service, product improvements, advancement of digital capabilities and greater cost efficiencies. The changing

environment brought about by COVID-19 has been incorporated into planning beyond the next financial year and management will continue to build on the strengths and successes of the group to date. Momentum Metropolitan remains optimistic about its ability to effectively manage the demands of a post-COVID-19 environment. The uncertainty about the path of the pandemic and the expected long-term negative impact on the economy will probably lead to weaker investment returns and lower new business and persistency levels in the medium term.

The impact of COVID-19 on South Africa's fragile public finances has been devastating, with debt levels expected to rise materially. Momentum Metropolitan will continue to focus on matters under its control and is determined to emerge from the current difficult situation in an improved relative position, in terms of market share, operational excellence and use of evolving technology.

OUTsurance's values driven culture and single-minded focus on delivering exceptional client experience as cornerstones of its business contributed to its operational and financial resilience during this unprecedented time.

The cost-to-income ratios of OUTsurance reflect the investments made towards its expansionary channel and product strategies which are delivering stronger top line growth. These investments each have their respective J-curves which are expected to unwind over the next three years. Significant progress has been made in growing product and distribution footprint with the continued expansion of the tied-agent capacity supporting the growth of OUTsurance Business. The insurance distribution partnership with Shoprite launched in May 2020 with a funeral insurance product offered across Shoprite's retail footprint. Youi entered into an underwriting relationship with Blue Zebra Insurance, a broker distribution platform in



Australia for personal insurance and in future commercial insurance.

Youi concluded the sale of the Youi New Zealand insurance book during the year. This disposal allows for further investment and increased resource allocation to pursue growth opportunities in Australia.

The digitalisation of client processes accelerated during 2020 with the roll-out of various exciting digital service features designed to remove client pain points and provide clients with choice of engagement. These initiatives will realise future cost benefits with reduced service engagements in the contact centres. Delivering on these initiatives does, however, require upfront investment in information technology and data analytics.

The focus for 2021 will be a continuation of investment towards multi-channel distribution and the delivery of a wider product set to clients. In South Africa, the insurance market is expected to be negatively impacted by low or negative real growth and client affordability is under pressure. The impact on the Australian economy is expected to be less severe although recessionary macro conditions are forecast over the next financial year.

The diversity of revenue streams towards property, commercial and life insurance is an important long-term objective to offset the impact of increased vehicle safety and autonomy features on premium growth.

Operationally, OUTsurance's businesses are well-positioned to deal with the disruption which could be expected from a protracted pandemic scenario. OUTsurance is in a strong capital position, with balance sheets being prudently managed to ensure the necessary resilience to absorb further economic shocks.

RMI Investment Managers is largely in the consolidation phase of its business model evolution and has, therefore, focused its efforts on optimising the existing portfolio by truly partnering its boutique investment managers in a supportive but non-interfering manner. The team continues to actively engage in strategic dialogue with its affiliates with a focus on implementing its shareholder value map, which offers affiliates access to comprehensive strategic support including operational, governance and financial support, succession planning, talent

management and board representation. In addition, the team continues to play a strategic advisory role in helping its affiliates raise retail assets and foster meaningful and trusted client relationships. Many of the affiliates have also benefitted from marketing support provided by the RMI Investment Managers team. This has enabled the affiliates to expand their branding, marketing and public relations efforts in order to enhance their brand presence and credibility in the market.

RMI Investment Managers has in the last financial year focused on expanding its asset class reach by supporting the expansion of new products by its affiliates, which enables the overall breadth of the affiliate stable to mature in a healthy organic manner.

Management's view is that the portfolio is largely complete, however, RMI Investment Managers will remain opportunistic and continue to explore the addition of affiliates to either solve for additional exposure or under-exposure in certain asset classes or to further add value to the portfolio.

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

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

AlphaCode identifies, partners and grows the next generation of financial services entrepreneurs through incubation, acceleration, collaboration and investment. Incubation of start-ups in the flagship AlphaCode Incubate initiative has seen 40 black-owned innovative financial services businesses being mentored and supported in the past four years and more than R50 million in grant capital has been provided to these businesses. The skills initiative, AlphaCode Explore, has seen 38 candidates acquire foundational data science capabilities. The candidates also participated in an entrepreneurial pre-incubator, where concepts for financial services businesses were developed. One

such concept was successful in being selected as part of the seven businesses in the 2019/2020 AlphaCode Incubate cohort of businesses.

AlphaCode's support for entrepreneurs and their businesses was further extended in the current year as a response to the business challenges brought on by the COVID-19 pandemic. A relief fund, set up by RMI, has been evaluating applicant business requests and providing grant funding to the AlphaCode community of entrepreneurs and suppliers.

As part of the mandate of investing in disruptive, innovative financial services businesses, AlphaCode grew its investment portfolio by deploying additional equity funding into one of its existing portfolio companies, Entersekt. Entersekt is a provider of multi-factor authentication services to financial services companies globally. Entersekt has partnered with global payments giant, Mastercard, to rapidly deploy its technology. The follow-on capital was provided to fund further research and development in the business and expand its regional presence in Europe and North America. AlphaCode also provided follow-on capital for Guidepost, alongside the Endeavor Harvest Fund. Guidepost is a tele-medicine business providing support to diabetic patients. Guidepost has partnered with leading health and life insurers such as Discovery, Medscheme and OUTsurance to help these companies better manage their diabetic clients.

AlphaCode realised its first exit with the sale of Luno to a leading US cryptocurrency firm, Digital Currency Group. The exit was above the targeted internal rate of return of 25 to 35% for AlphaCode's fintech investments.



Jannie Durand
Chairman



Herman Bosman
Chief executive officer

Sandton
25 September 2020

PORTFOLIO OVERVIEW

MARKET CAPITALISATION

R68.8
billion
2019: R98.2 billion
(30%)

NORMALISED EARNINGS

R3 747
million
2019: R5 035 million
(26%)

DIVIDENDS PAID

101
cents
per share
2019: 215 cents per share
(53%)



WHY RMI INVESTS IN DISCOVERY

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

HOW DISCOVERY WAS AFFECTED BY THE COVID-19 PANDEMIC

- » COVID-19 provision of R3.4 billion (R2.3 billion net of discretionary margins).
- » Interest rate movements had a R4.8 billion pre-tax effect on headline earnings.
- » Discovery was able to rapidly respond to client needs and provide concessions. Over R750 million was offered to individuals and employers enabling them to continue receiving cover and a total of R12 billion was generated in the form of shared value for clients in the 2020 financial year, spanning premium discounts, cash backs, boosts and value added by managing care.
- » Cross-company data helped to identify more than 35 000 high-risk members who were proactively assisted to help manage their risk.
- » The operating result and solvency of the Discovery Health Medical Scheme were higher than expected as a result of the reduction in health system utilisation during lockdown, which included a 28% reduction in hospital admissions at the end of August 2020.
- » No final dividend was declared.

RMI included R933 million of Discovery's earnings in its normalised earnings (2019: R1 261 million).

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

2020 PERFORMANCE

- » Gross inflows under management increased by 11% to R154.8 billion;
- » Insurance premium revenue of R50.5 billion represents an increase of 16%;
- » Core new business annualised premium income (excluding new closed schemes and gross revenue from the Vitality Group) increased by 5% to R19.2 billion;
- » Normalised operating profit increased by 9% to R8.4 billion before providing for the COVID-19-related impacts and decreased by 22% including the COVID-19 provision;
- » Normalised headline earnings are down 26% to R3.7 billion;
- » Embedded value decreased by 1% to R70.8 billion; and
- » The total dividend for the year decreased by 53% to 101 cents per share.

Discovery's headline earnings and earnings attributable to ordinary shareholders decreased by 94% and 99% respectively. The significant movements in positive real rates of return in SA and negative real rates of return in the UK had a significant effect on policy values and headline earnings and earnings, but none on cash flows, solvency or capital in SA and, since the implementation of the hedge strategy, little impact in the UK. The impact in the period was R4.8 billion pre-tax, with no bearing on operating performance and has therefore been excluded from normalised earnings.

Over the period, South Africa and the United Kingdom experienced severe lockdowns, however lapse experience was contained within Discovery's actuarial assumptions for all businesses, except Discovery Invest. Claims experience was also better than assumed for all operations, except VitalityLife, where the effects of the pandemic emerged sooner. New business was curtailed during the various lockdown periods, but the impact was mitigated by increased digital enablement. This was particularly evident in Ping An Health, which delivered significant growth through its digital channel during China's lockdown period.

MARKET CAPITALISATION

£1 275
million
2019: £1 286 million
(1%)

NORMALISED EARNINGS

£55.7
million
Six months ended
30 June 2019: £39.3 million
+42%

DIVIDENDS PAID

45
pence
per share
Six months ended
30 June 2019: 4.5 pence
per share
unchanged



WHY RMI INVESTS IN HASTINGS

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

HOW HASTINGS WAS AFFECTED BY THE COVID-19 PANDEMIC

- » Hastings has taken significant actions to support clients, employees and the community throughout the pandemic, including premium reductions, the waiving of fees and charitable donations.
- » The rapid response to COVID-19 enabled an early transition to home working for employees.
- » A dedicated community fund for local charities and an employee hardship fund were established.
- » Motor claims frequencies reduced following the COVID-19 lockdown restrictions. Claims frequencies have since increased but remain lower than the equivalent period last year.
- » Claim severities have increased, predominantly as a result of the underlying inflation in repair costs, combined with interruptions in the repair networks and supply of parts caused by COVID-19 and increased car rental costs, with repairs typically taking longer than anticipated.
- » Retail income from mid-term policy adjustment requests from clients has reduced due to, for example, clients not changing their vehicles as frequently.
- » Hastings will continue to monitor claims developments carefully in the second half of the calendar year and reflect these in pricing strategies consistent with its target loss ratio range.

RMI included R486 million of Hastings' earnings in its normalised earnings (2019: R552 million).

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

2020 PERFORMANCE

- » As Hastings has a 31 December year-end, these results relate to the six months ended 30 June 2020, with comparatives for the six months ended 30 June 2019.
- » Continued growth, with gross written premiums up 3% to £514.9 million (2019: £499.2 million);
- » Sustained increase in clients, with live client policies up by 5% to 2.96 million (2019: 2.81 million), driven by a continued strong retention rate and increased new business competitiveness;
- » Growth in market share to 8.1% of the UK private car insurance (December 2019: 7.7%);
- » The loss ratio decreased to 75.6% (2019: 81.1%) due to a reduction in claims frequencies, partially offset by continued inflation in repair and third party credit hire costs, which have been elevated further due to the impact of the lockdown and the repair network;
- » Adjusted operating profit increased by 31% to £78.3 million (2019: £59.7 million), predominantly driven by policy growth and the improvement in loss ratio, offset to some extent by client actions in light of COVID-19, including the waiving of fees, reduced policy adjustments and increased operating expenditure for IT enhancements to support employees working from home;
- » The reserve provisioning as at 30 June 2020 reflects the increased uncertainties caused by the pandemic.
- » Stable net debt of £239.4 million as at 30 June 2020 (31 December 2019: £232.4 million) reflecting the continued strength of free cash flow generation;
- » Strong solvency position, with a Solvency II coverage ratio of 151% and a pre-dividend Solvency II coverage ratio of 169%;
- » Interim dividend for of 4.5 pence per share (2019: 4.5 pence per share);
- » Continued pricing discipline;
- » Hastings continues to deliver on its strategic initiatives. It has continued to invest in enhancing data, pricing and anti-fraud systems to enable it to select the best clients and offer them a better price; and
- » Ongoing progress is made with environmental, social and governance matters, which are integrated into the investment strategy and decision-making.

MARKET CAPITALISATION

R26.4
billion
2019: R28.4 billion
(7%)

NORMALISED EARNINGS

R1 521
million
2019: R3 074 million
(51%)

DIVIDENDS PAID

40
cents
per share
2019: 70 cents per share
(43%)

Momentum Metropolitan

WHY RMI INVESTS IN MOMENTUM METROPOLITAN

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

HOW MOMENTUM METROPOLITAN WAS AFFECTED BY THE COVID-19 PANDEMIC

- » Momentum Metropolitan continues to be impacted by the expected worsening in claims experience, lower new business volumes, increased risk of policy lapses or withdrawals, lower investment returns and additional expenses related to operational and risk management initiatives to effectively deal with the pandemic.
- » Additional provisions were raised, with a net negative impact of R983 million for potential COVID-19-related adverse claims experience and policyholder lapses and withdrawals.
- » The partial recovery of investment markets during the last quarter of the financial year did not fully offset the impact of severe market-related losses reported in the third quarter. The net market losses included in normalised headline earnings for the year were R975 million.
- » Substantial financial relief was offered to clients, including temporary premium pauses, provision of premium grace periods, creation of a COVID-19 Hello Doctor tele-service to all South Africans without charge and paying for 340 000 COVID-19 tests up to the end of August. At Momentum Short-term Insurance, premium refunds, premium and cover pause options, excess waivers, downscaled cover options, easing of renewal terms and accelerated access to no-claims bonuses provided R43 million in financial relief in May and June 2020.
- » No final dividend was declared.

2020 PERFORMANCE

- » New business volumes declined by 10% to R50.4 billion on a present value of new business premiums basis. Excluding the impact of a R5 billion with-profit annuity transaction included in the prior year, new business volumes remained flat, which is a commendable achievement considering the impact of the national lockdown and slowdown in economic activity during the fourth quarter of the financial year;
- » The value of new business decreased by 48% to R280 million, which was negatively impacted by the additional costs incurred in the distribution channels to support staff and business partners during the lockdown phase;
- » Diluted normalised headline earnings of R1 521 million is down 51% on the R3 074 million in the prior year, mainly attributable to the provision made for the impact of COVID-19 and the negative impact of investment market losses;
- » The embedded value decreased 6% to R38.5 billion, while the return on embedded value was a negative 3.7%, driven by the adverse investment market movements affecting the covered business as well as the creation of additional provisions against the impact of the pandemic;
- » Momentum Metropolitan's capital position remains strong, with a solvency capital requirement (SCR) cover of 1.85 times SCR; and
- » Momentum Metropolitan maintained its Level 1 B-BBEE contributor status under the revised Financial Sector Code. It has formulated a proposal to establish a broad-based employee share ownership scheme through which permanent South African staff will acquire 44.9 million ordinary shares, constituting 3% of the group's ordinary share capital. The proposed transaction is subject to certain suspensive conditions, including approval from existing shareholders. The rules of the scheme will ensure that black participation in the scheme exceeds 85% at all times, ensuring that it will achieve broad-based black socio-economic transformation.

RMI included R407 million of Momentum Metropolitan's earnings in its normalised earnings (2019: R825 million).

For an in-depth review of Momentum Metropolitan's performance, RMI's shareholders are referred to www.momentummetropolitan.co.za.

NET ASSET VALUE

R10.9
billion
2019: R10.5 billion
+3%

NORMALISED EARNINGS

R2 411
million
2019: R2 634 million
(8%)

DIVIDENDS PAID

53.7
cents
per share
2019: 55.5 cents per share
(3%)



WHY RMI INVESTS IN OUTSURANCE

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

HOW OUTSURANCE WAS AFFECTED BY THE COVID-19 PANDEMIC

- » Provision for business interruption claims of R198 million in OUTsurance Business.
- » In addition to the business interruption claims, a further R237 million was utilised as relief to clients, suppliers and the community.
- » Increase in policyholder liability in OUTsurance Life of R37 million to allow for a prudent estimate relating to increased mortality and retrenchment claims and an adverse lapse experience.
- » The negative impact of market movements on OUTsurance's equity portfolio, partly as a result of COVID-19, resulted in swing from a 2% increase in operating profit to an 8% decline in normalised earnings.

2020 PERFORMANCE

OUTsurance delivered normalised earnings of R2 411 million for the year, 8% lower than the prior year, mainly attributable to the unrealised investment losses on the group's equity portfolio, the impact of the bushfires and natural catastrophes in Australia and business interruption claims of R198 million paid and provided for in OUTsurance Business:

- » Gross written premiums increased by 8% to R17.5 billion and net earned premiums by 7% to R16.2 billion;
- » The claims ratio remained unchanged at 51.1%;
- » The cost-to-income ratio increased from 28.3% to 29.4%; and
- » The total dividend for the year decreased by 3% to 53.7 cents per share.

OUTsurance's South African short-term operations delivered an acceptable operational and financial performance considering the difficult economic environment brought about by the pandemic and the recessionary economic circumstances in South Africa. Operating profit increased by 7% to R2.3 billion and headline earnings decreased by 8% to R1.7 billion. The lower headline earnings result is largely attributed to unrealised losses on the equity portfolio over the 2020 financial year, which was exacerbated by the impact of the pandemic. As part of the COVID-19 relief efforts, OUTsurance granted R86 million in premium discounts to recognise the reduced driving of policyholders during the lockdown period. The claims ratio decreased from 49.8% to 49.2% due to the impact of reduced motor accident claims frequencies during the lockdown period. OUTsurance incurred a total of R198 million in business interruption claims on policies with the tourist attraction extension. The increase in the cost-to-income ratio to 24.5% is largely attributed to the rapid expansion in the OUTsurance Business tied-agent force while OUTsurance Personal delivered a decrease in its cost-to-income ratio.

Notwithstanding the impact of the devastating bushfires and various large hail and flood catastrophes, **Youi** delivered a satisfactory operational and financial performance for the financial year ended 30 June 2020, with operating profit decreasing by 4% to R949 million. The key highlight of Youi's performance is the continued recovery in premium growth (13% growth in gross written premiums) driven by solid organic growth in the core personal lines operation, coupled with the contribution of the Blue Zebra Insurance partnership launched in March 2020. As part of the COVID-19 relief efforts, Youi granted R76 million in premium discounts to recognise the lower driving patterns of policyholders during the lockdown period. Youi incurred a total of A\$180 million in gross catastrophe claims in 2020, with the bushfire events contributing A\$43 million. After allowing for reinsurance, the net loss retained for these catastrophe events in 2020 was A\$61 million.

The volatile interest rate environment, coupled with COVID-19 specific policyholder liability adjustments, contributed to a challenging financial result for **OUTsurace Life**. The policyholder liability was increased by R37 million to allow for a prudent estimate relating to increased mortality, retrenchment claims and adverse lapse experience associated with pandemic scenarios. An unrealised loss movement of R33 million related to the shareholders' equity portfolio, further weighed on the headline earnings result of OUTsurace Life, which declined by 83% to R14 million. Gross written premiums increased by 10%, benefitting from the contribution of the funeral product sales.

OUTsurace Namibia's headline earnings decreased by 3% to R29 million. Gross written premiums declined by 8% owing to a difficult economic environment. Profitability was further impacted by a higher cost-to-income ratio attributed to increased sales costs following the establishment of a dedicated call centre in Namibia.

OUTsurace's capital position has remained resilient throughout the COVID-19 pandemic. At 30 June 2020, the group and its operating entities were trading from strong capital positions.

RMI included R2 180 million of OUTsurace's earnings in its normalised earnings (2019: R2 364 million).

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

FINANCIAL REVIEW

BASIS OF PRESENTATION OF RESULTS

The summary consolidated financial statements contained in this booklet are prepared in accordance with the JSE Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

This report is prepared in accordance with:

- » The framework concepts and the recognition and measurement requirements of International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee;
- » Financial Reporting Pronouncements as issued by Financial Reporting Standards Council;
- » SAICA Financial Reporting Guide as issued by the Accounting Practices Committee; and
- » As a minimum, the information required by IAS 34: *Interim Financial Reporting*.

The directors take full responsibility and confirm that this information has been correctly extracted from the audited consolidated annual financial statements from which the summary consolidated financial statements were derived.

ACCOUNTING POLICIES

These summary results incorporate accounting policies that are consistent with those used in preparing the financial results for the year ended 30 June 2019, with the exception of *IFRS 16*, which became effective in the financial year ended 30 June 2020. *IFRS 16* introduces a single lessee accounting model, where a right-of-use asset together with a lease liability for the future payments are recognised for all leases with a term of more than 12 months, unless the underlying asset is of a low value. The *IFRS 16* classification, measurement, presentation and disclosure requirements are applied using the modified retrospective approach. Therefore, the cumulative effect

of adopting *IFRS 16* was recognised as an adjustment to the opening retained earnings and deferred tax balances of the statement of financial position, with no restatement of comparatives.

The audited consolidated annual financial statements, from which these summary consolidated financial statements are extracted, are prepared in accordance with the going concern principle under the historical cost basis, as modified by the fair value accounting of certain assets and liabilities, where required or permitted by IFRS.

No other new or amended IFRS became effective for the year ended 30 June 2020 that impacted the group's reported earnings, financial position, reserves or accounting policies.

AUDITOR'S REPORT

The summary consolidated financial statements for the year ended 30 June 2020 contained in this booklet were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon in terms of *ISA 810 (revised)*, refer to page 21.

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

A copy of the auditor's report on the consolidated annual financial statements is available for inspection at RMI's registered office, 2 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, together with the financial statements identified in the respective auditor's reports.

The auditor's report does not necessarily report on all of the information contained in these summary consolidated financial statements. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's

engagement, they should review the auditor's report together with the accompanying financial information from the issuer's registered office.

The forward-looking information has not been commented or reported on by the group's external auditor. RMI's board of directors takes full responsibility for the preparation of this booklet.

NORMALISED RESULTS

RMI believes that normalised earnings more accurately reflect operational performance.

Headline earnings in terms of *Circular 4/2018: Headline Earnings* are adjusted to exclude non-operational items and accounting anomalies.

A reconciliation between headline earnings and normalised earnings is provided on page 25.

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

Independent auditor's report on the summary consolidated financial statements

TO THE SHAREHOLDERS OF RAND MERCHANT INVESTMENT HOLDINGS LIMITED

Opinion

The summary consolidated financial statements of Rand Merchant Investment Holdings Limited, contained in the accompanying abridged report, which comprise the summary consolidated statement of financial position as at 30 June 2020, the summary consolidated income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated annual financial statements of Rand Merchant Investment Holdings Limited for the year ended 30 June 2020.

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

Summary consolidated financial statements

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

The audited consolidated financial statements and our report thereon

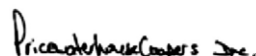
We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 25 September 2020. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Directors' responsibility for the summary consolidated financial statements

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

Auditor's responsibility

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



PricewaterhouseCoopers Inc.

Director: Corlia Volschenk

Registered Auditor

4 Lisbon Lane, Waterfall City, Jukskei View, 2090

25 September 2020

EFFECTIVE INTEREST

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

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

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

AUDITED	As at 30 June 2020		As at 30 June 2019	
	Effective	Actual	Effective	Actual
Discovery	25.1%	25.0%	25.1%	25.0%
Hastings	29.7%	29.7%	29.9%	29.9%
Momentum Metropolitan	27.7%	27.3%	27.5%	27.3%
OUTsurance	91.1%	89.1%	90.4%	89.1%
RMI Investment Managers	100.0%	100.0%	100.0%	100.0%
Merchant Capital	24.8%	24.8%	25.8%	25.8%
Entersekt	28.2%	28.2%	25.1%	25.1%
Guidepost	25.1%	25.1%	–	–

Summary consolidated income statement

for the year ended 30 June

AUDITED R MILLION	2020	Restated ¹ 2019	% change
Gross insurance premiums	17 349	15 906	9
Less: Reinsurance premiums	(774)	(678)	
Net insurance premiums	16 575	15 228	9
Gross change in provision for unearned premiums	(452)	(214)	
Reinsurance relating to provision for unearned premiums	30	(2)	
Net insurance premiums earned	16 153	15 012	8
Fee and other income	64	35	
Investment income	252	211	
Interest income on financial assets using the effective interest rate method	458	587	
Net fair value (losses)/gains on financial assets	(421)	23	
Expected credit (losses)/gains on financial assets	(20)	10	
Net income	16 486	15 878	4
Gross claims paid	(9 310)	(7 898)	
Reinsurance recoveries received	1 664	755	
Provision for non-claims bonuses	(500)	(451)	
Transfer to policyholder liabilities under insurance contracts	(34)	(122)	
Acquisition expenses	(41)	(45)	
Fair value adjustment to financial liabilities	(139)	(169)	
Marketing and administration expenses	(4 859)	(4 370)	
Profit before finance costs, results of associates and taxation	3 267	3 578	(9)
Finance costs	(689)	(729)	
Share of after-taxation results of associates	259	2 612	
Profit before taxation	2 837	5 461	(48)
Taxation	(1 031)	(1 096)	
Profit for the year from continuing operations	1 806	4 365	(59)
Profit for the year from discontinued operations	104	9	
Profit for the year	1 910	4 374	(56)
Attributable to:			
Equity holders of the company	1 592	4 047	
Non-controlling interests	318	327	
Profit for the year	1 910	4 374	(56)
Earnings per share	104.1	265.1	(61)
Diluted earnings per share	102.7	264.0	(61)

¹ Restated for discontinued operation.

Summary consolidated statement of comprehensive income

for the year ended 30 June

AUDITED R MILLION	2020	Restated ¹ 2019	% Change
Profit for the year	1 910	4 374	(56)
Other comprehensive income for the year			
Items that may subsequently be reclassified to profit or loss			
– Exchange differences on translation of foreign operations	731	(78)	
– Fair value (losses)/gains on other comprehensive income financial instruments	(134)	53	
– Deferred tax on fair value losses/(gains) on other comprehensive income financial instruments	3	(12)	
Share of comprehensive income/(loss) of associates	1 159	(82)	
– Items that may subsequently be reclassified to profit or loss, after taxation	1 548	(81)	
– Movement in liabilities accounted for as net investment hedge	(460)	22	
– Items that will not be reclassified to profit or loss, after taxation	71	(23)	
Other comprehensive income/(loss) for the year	1 759	(119)	
Total comprehensive income for the year	3 669	4 255	(14)
Attributable to:			
Equity holders of the company	3 175	3 949	
Non-controlling interests	494	306	
Total comprehensive income for the year	3 669	4 255	(14)

¹ Restated comparatives relating to movement in net investment hedge for separate disclosure of this item during the current year.

Computation of headline earnings

for the year ended 30 June

AUDITED R MILLION	2020	2019	% change
Earnings attributable to equity holders	1 592	4 047	(61)
Adjustment for:			
Impairment of intangible assets	192	23	
Impairment of owner-occupied building to below cost	152	14	
Profit on sale of subsidiary	(111)	(2)	
Loss/(profit) on dilution and disposal of equity accounted investments	62	(129)	
Derecognition of assets	38	–	
Impairment relating to held for sale entities	14	24	
FCTR reversal on sale of foreign subsidiary	12	–	
Impairment of goodwill	2	4	
Loss on step-up of joint venture	2	–	
Loss on disposal of property and equipment	1	5	
Gain on previously held interests in DiscoveryCard business	–	(191)	
Impairment of fixed assets	–	6	
Headline earnings attributable to equity holders	1 956	3 801	(49)

Computation of normalised earnings

for the year ended 30 June

R MILLION	2020	2019	% change
Headline earnings attributable to equity holders	1 956	3 801	(49)
RMI's share of normalised adjustments made by associates	1 153	286	
Economic assumption adjustments net of discretionary margin and interest rate derivative	897	–	
Amortisation of intangible assets relating to business combinations	305	329	
Deferred tax raised on assessed losses	(69)	(82)	
Unrealised (gains)/losses on foreign exchange contracts not designated as a hedge	(47)	24	
Time value of money movement of swap contract in VitalityLife	24	–	
Restructuring cost of VitalityLife	20	–	
Initial expenses related to Prudential Book transfer	14	6	
Transaction costs related to VitalityLife interest rate derivatives	9	–	
Policyholder funds assessed loss	–	(9)	
Debt restructuring costs resulting from DiscoveryCard joint venture transaction	–	8	
B-BBEE cost	–	6	
Costs relating to disposal of equity accounted investments	–	4	
Group treasury shares	(23)	(6)	
Normalised earnings attributable to equity holders	3 086	4 081	(24)

Computation of earnings and dividend per share

for the year ended 30 June

AUDITED R MILLION	2020	2019	% change
Earnings attributable to equity holders	1 592	4 047	(61)
Headline earnings attributable to equity holders	1 956	3 801	(49)
Number of shares in issue (millions)	1 532	1 532	–
Weighted average number of shares in issue (millions)	1 529	1 526	–
Continuing and discontinued operations			
Earnings per share (cents)	104.1	265.1	(61)
Diluted earnings per share (cents)	102.7	264.0	(61)
Headline earnings per share (cents)	127.9	249.0	(49)
Diluted headline earnings per share (cents)	126.2	247.8	(49)
Continuing operations			
Earnings per share (cents)	98.9	264.6	(63)
Diluted earnings per share (cents)	97.5	263.5	(63)
Headline earnings per share (cents)	127.8	248.5	(49)
Diluted headline earnings per share (cents)	126.1	247.4	(49)
Dividend per share			
Interim dividend (cents)	45.0	45.0	–
Final dividend (cents)	–	65.0	(100)
Total dividend	45.0	110.0	(59)

Computation of normalised earnings per share

for the year ended 30 June

R MILLION	2020	2019	% change
Normalised earnings attributable to equity holders	3 086	4 081	(24)
Number of shares in issue (millions)	1 532	1 532	–
Weighted average number of shares in issue (millions)	1 532	1 529	–
Continuing and discontinued operations			
Normalised earnings per share (cents)	201.5	266.9	(25)
Diluted normalised earnings per share (cents)	199.9	265.5	(25)
Continuing operations			
Normalised earnings per share (cents)	201.4	266.4	(24)
Diluted normalised earnings per share (cents)	199.8	265.0	(25)

Summary consolidated statement of financial position

as at 30 June

AUDITED R MILLION	2020	2019
ASSETS		
Property and equipment	1 160	1 041
Intangible assets	117	101
Right-of-use assets	83	-
Investments in associates	29 288	28 337
Financial assets		
– Equity securities		
– fair value through profit or loss	1 563	1 597
– fair value through other comprehensive income	464	186
– Debt securities		
– fair value through profit or loss	1 323	1 117
– fair value through other comprehensive income	3 205	3 027
– amortised cost	6 089	5 496
– Derivative asset	-	36
Insurance and other receivables	3 546	2 771
Deferred acquisition cost	463	360
Reinsurance contracts	1 338	691
Deferred taxation	304	220
Taxation	24	120
Cash and cash equivalents	2 414	1 602
Total assets	51 381	46 702
EQUITY		
Share capital and premium	15 342	15 359
Reserves	10 506	9 180
Total shareholders' equity	25 848	24 539
Non-controlling interests	1 697	1 602
Total equity	27 545	26 141
LIABILITIES		
Financial liabilities		
– Preference shares	9 514	8 580
– Interest-bearing loans	2 242	2 697
– Financial liabilities at fair value through profit or loss	104	104
– Derivative liability	283	99
– Investment contracts at fair value through profit or loss	24	-
Insurance contracts	9 601	7 457
Lease liabilities	89	-
Share-based payment liability	121	103
Provisions	191	119
Insurance and other payables	1 518	1 309
Deferred taxation	76	69
Taxation	73	24
Total liabilities	23 836	20 561
Total equity and liabilities	51 381	46 702

Summary consolidated statement of changes in equity

for the year ended 30 June

AUDITED R MILLION	Share capital	Equity accounted reserves	Transactions with non- controlling interests	Other reserves	Retained earnings	Non- controlling interests	Total equity
Balance as at 1 July 2018	14 986	5 852	(3 345)	296	4 532	1 329	23 650
Income statement	–	–	–	–	4 047	327	4 374
Other comprehensive income	–	(82)	–	(16)	–	(21)	(119)
Dividends paid	–	–	–	–	(1 679)	(362)	(2 041)
Issue of shares	345	–	–	–	–	–	345
Income of associate companies retained	–	1 602	–	–	(1 602)	–	–
Movement in treasury shares	28	–	–	–	–	–	28
Transactions with non-controlling interest	–	(282)	(292)	–	(27)	33	(568)
Issue of share capital to non-controlling interests by subsidiaries	–	–	–	–	–	278	278
Share-based payment reserve	–	–	–	(5)	164	18	177
Reserve adjustment of associates	–	17	–	–	–	–	17
Balance as at 30 June 2019	15 359	7 107	(3 637)	275	5 435	1 602	26 141
Change in accounting policy – IFRS 16	–	(18)	–	–	–	–	(18)
Income statement	–	–	–	–	1 592	318	1 910
Other comprehensive income	–	1 146	–	437	–	176	1 759
Dividends paid	–	–	–	–	(1 685)	(315)	(2 000)
Income of associate companies retained	–	(828)	–	–	828	–	–
Movement in treasury shares	(17)	(1)	–	–	–	–	(18)
Transactions with non-controlling interest	–	(5)	(219)	–	(1)	(98)	(323)
Issue of share capital to non-controlling interests by subsidiaries	–	–	–	–	–	11	11
Share-based payment reserve	–	31	–	4	3	1	39
Share of equity financial instrument	–	–	–	11	–	1	12
Reserve adjustment of associates	–	31	–	–	–	1	32
Balance as at 30 June 2020	15 342	7 463	(3 856)	727	6 172	1 697	27 545

Summary consolidated statement of cash flows

for the year ended 30 June

AUDITED R MILLION	2020	2019
Cash flows from operating activities		
Cash generated from operations	3 188	3 174
Interest income	537	603
Dividends received	1 236	1 149
Cash flows on assets backing policyholder liabilities	(201)	(233)
Purchase of financial assets	(7 935)	(7 867)
Proceeds on disposal of financial assets	8 020	8 078
Income tax paid	(936)	(1 380)
Net cash generated from operating activities	3 909	3 524
Cash flows from investing activities		
Purchase of property and equipment	(98)	(100)
Disposal of property and equipment	3	1
Purchase of financial assets	519	(290)
Proceeds on disposal of financial assets	124	187
Proceeds from sale of New Zealand insurance business	78	–
Investments in associates	(127)	(693)
Net cash outflow from investing activities	(539)	(895)
Cash flows from financing activities		
Proceeds from issue of shares	–	304
Proceeds from the issue of/(redemption of) preference share debt	934	(1 130)
Borrowings repaid	(935)	(11)
Borrowings raised	100	–
Repayment of lease liability	(37)	–
Cost of funding	(80)	(89)
Dividends paid on preference shares in issue	(612)	(650)
Dividends paid by subsidiaries to non-controlling interests	(315)	(362)
Additional shares acquired in subsidiary	–	(201)
Cash dividends paid to shareholders	(1 685)	(1 638)
Proceeds on issue of shares to non-controlling interest	11	278
Net cash outflow from financing activities	(2 619)	(3 499)
Net increase/(decrease) in cash and cash equivalents for the year	751	(870)
Unrealised foreign currency translation adjustment on cash and cash equivalents	61	55
Cash and cash equivalents at the beginning of the year	1 602	2 417
Cash and cash equivalents at the end of the year	2 414	1 602

Segmental report

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

AUDITED R MILLION	Discovery	MMH	OUTsurance	Hastings	Other ¹	Total
Year ended 30 June 2020						
Net income	–	–	16 405	–	81	16 486
Policyholder benefits and transfer to policyholder liabilities	–	–	(8 180)	–	–	(8 180)
Depreciation	–	–	(124)	–	(1)	(125)
Amortisation	–	–	(10)	–	–	(10)
Other expenses	–	–	(4 641)	–	(124)	(4 765)
Finance costs	–	–	(8)	–	(681)	(689)
Fair value adjustment to financial liabilities	–	–	(139)	–	–	(139)
Share of after-tax results of associates	49	24	120	231	(165)	259
Profit/(loss) before taxation	49	24	3 423	231	(890)	2 837
Taxation	–	–	(988)	–	(43)	(1 031)
Profit/(loss) for the year from continuing operations	49	24	2 435	231	(933)	1 806
Profit for the year from discontinued operations	–	–	104	–	–	104
Profit/(loss) for the year	49	24	2 539	231	(933)	1 910
Hastings included in OUTsurance	–	–	(116)	116	–	–
Profit/(loss) for the year	49	24	2 423	347	(933)	1 910
Normalised earnings	933	407	2 411	293	(958)	3 086
Hastings included in OUTsurance	–	–	(193)	193	–	–
Normalised earnings	933	407	2 218	486	(958)	3 086
As at 30 June 2020						
Assets	–	–	19 462	–	2 514	21 976
Investments in associates	12 017	6 305	3 732	6 388	846	29 288
Intangible assets	–	–	117	–	–	117
Total assets	12 017	6 305	23 311	6 388	3 360	51 381
Hastings included in OUTsurance	–	–	(3 640)	3 640	–	–
Total assets	12 017	6 305	19 671	10 028	3 360	51 381
Total liabilities	–	–	11 825	–	12 011	23 836

AUDITED
R MILLION

	Discovery	MMH	OUTsurance	Hastings	Other ¹	Total
Year ended 30 June 2019						
Net income	–	–	15 673	–	205	15 878
Policyholder benefits and transfer to policyholder liabilities	–	–	(7 716)	–	–	(7 716)
Depreciation	–	–	(139)	–	(2)	(141)
Amortisation	–	–	(84)	–	–	(84)
Other expenses	–	–	(4 036)	–	(154)	(4 190)
Finance costs	–	–	–	–	(729)	(729)
Fair value adjustment to financial liabilities	–	–	(169)	–	–	(169)
Share of after-tax results of associates	1 638	581	158	262	(27)	2 612
Profit/(loss) before taxation	1 638	581	3 687	262	(707)	5 461
Taxation	–	–	(1 064)	–	(32)	(1 096)
Profit/(loss) for the year from continuing operations	1 638	581	2 623	262	(739)	4 365
Profit for the year from discontinued operations	–	–	9	–	–	9
Profit/(loss) for the year	1 638	581	2 632	262	(739)	4 374
Hastings included in OUTsurance	–	–	(165)	165	–	–
Profit/(loss) for the year	1 638	581	2 467	427	(739)	4 374
Normalised earnings	1 261	825	2 634	308	(947)	4 081
Hastings included in OUTsurance	–	–	(244)	244	–	–
Normalised earnings	1 261	825	2 390	552	(947)	4 081
As at 30 June 2019						
Assets	–	–	16 225	–	2 039	18 264
Investments in associates	11 649	6 409	3 623	5 774	882	28 337
Intangible assets	–	–	101	–	–	101
Total assets	11 649	6 409	19 949	5 774	2 921	46 702
Hastings included in OUTsurance	–	–	(3 524)	3 524	–	–
Total assets	11 649	6 409	16 425	9 298	2 921	46 702
Total liabilities	–	–	8 971	–	11 590	20 561

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

Geographical segments

AUDITED R MILLION	South Africa	Australasia	United Kingdom	Total
Year ended 30 June 2020				
Net income	9 475	7 011	–	16 486
Policyholder benefits and transfer to policyholder liabilities	(4 454)	(3 726)	–	(8 180)
Other expenses	(3 413)	(2 315)	–	(5 728)
Share of after-tax results of associates	538	–	(279)	259
Profit/(loss) before taxation	2 146	970	(279)	2 837
Taxation	(742)	(289)	–	(1 031)
Profit/(loss) for the year from continuing operations	1 404	681	(279)	1 806
Profit for the year from discontinued operations	–	104	–	104
Profit/(loss) for the year	1 404	785	(279)	1 910
As at 30 June 2020				
Assets				
Property and equipment	336	824	–	1 160
Investments in associates	19 260	–	10 028	29 288
Financial assets	6 650	5 994	–	12 644
Other assets	2 263	6 026	–	8 289
Total assets	28 509	12 844	10 028	51 381
Liabilities				
Insurance contract liabilities	2 617	6 984	–	9 601
Other liabilities	10 471	1 621	2 143	14 235
Total liabilities	13 088	8 605	2 143	23 836
Year ended 30 June 2019				
Net income	9 462	6 416	–	15 878
Policyholder benefits and transfer to policyholder liabilities	(4 309)	(3 407)	–	(7 716)
Other expenses	(3 299)	(2 014)	–	(5 313)
Share of after-tax results of associates	1 899	–	713	2 612
Profit before taxation	3 753	995	713	5 461
Taxation	(790)	(306)	–	(1 096)
Profit for the year from continuing operations	2 963	689	713	4 365
Profit for the year from discontinued operations	–	9	–	9
Profit for the year	2 963	698	713	4 374
As at 30 June 2019				
Assets				
Property and equipment	343	698	–	1 041
Investments in associates	19 039	–	9 298	28 337
Financial assets	6 674	7 556	–	14 230
Other assets	1 798	1 296	–	3 094
Total assets	27 854	9 550	9 298	46 702
Liabilities				
Insurance contract liabilities	2 375	5 082	–	7 457
Other liabilities	9 242	1 165	2 697	13 104
Total liabilities	11 617	6 247	2 697	20 561

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 are used in the calculation of the fair value of the financial instruments. These levels are defined as follows:

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

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

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

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

R MILLION	Level 1	Level 2	Level 3	Total carrying amount
As at 30 June 2020				
Financial assets				
Equity securities				
– Exchange traded funds	1 023	–	–	1 023
– Listed preference shares	303	–	–	303
– Collective investment schemes	–	114	–	114
– Listed equity securities	112	–	–	112
– Unlisted equity securities	–	–	475	475
Debt securities				
– Unsecured loans	–	18	42	60
– Zero-coupon deposits	–	858	–	858
– Convertible loan	–	–	11	11
– Government, municipal and public utility securities	–	128	–	128
– Money market securities	–	3 077	–	3 077
– Collective investment schemes	–	10	–	10
– Other debt securities at fair value through profit or loss	–	–	384	384
Total financial assets recognised at fair value	1 438	4 205	912	6 555
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	104	104
Investment contract liability	–	24	–	24
Derivative liability	–	283	–	283
Total financial liabilities recognised at fair value	–	307	104	411

R MILLION	2020	2019
Reconciliation of movement in Level 3 assets		
Balance at the beginning of the year	696	798
Reclassification to amortised cost	–	(270)
Additions in the current year	396	154
Disposals (sales and redemptions)	(46)	(15)
Fair value movement	(134)	60
Investment income accrued	–	31
Dividends received	–	(62)
Balance at the end of the year	912	696
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	104	132
Preference dividends charged to profit or loss	139	169
Preference dividends paid	(139)	(197)
Balance at the end of the year	104	104
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
As at 30 June 2019				
Financial assets				
Equity securities				
– Exchange traded funds	905	–	–	905
– Listed preference shares	389	–	–	389
– Collective investment schemes	–	115	–	115
– Listed equity securities	184	–	–	184
– Unlisted equity securities	–	–	190	190
Debt securities				
– Unsecured loans	–	–	37	37
– Unlisted preference shares	–	–	–	–
– Zero-coupon deposits	–	590	–	590
– Government, municipal and public utility securities	–	400	–	400
– Money market securities	–	2 643	–	2 643
– Collective investment schemes	–	21	–	21
– Other debt securities at fair value through profit or loss	–	–	469	469
Derivative asset	–	36	–	36
Total financial assets recognised at fair value	1 478	3 805	696	5 979
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	104	104
Derivative liability	–	99	–	99
Total financial liabilities recognised at fair value	–	99	104	203

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 reporting date. These instruments are included in Level 1 and comprise mainly equity and debt instruments classified as trading securities. The investment in the exchange traded funds track the performance of the top 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 derivatives, debt and short-term money market instruments where the value is determined by using a market observable input, e.g. JIBAR, prime rate, foreign currency rates, listed bond rates of similar instruments, without significant adjustments.

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 and are typically listed on the JSE Interest Rate Market. These listed instruments 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.

The collective investment scheme is fair valued monthly by multiplying the number of units held by the closing market price which is based on the most recently available observable inputs.

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

The group uses zero-coupon deposits to offset the interest rate risk inherent in some of the life insurance products underwritten by OUTsurance Life. The counterparties to these deposits are the large South African banks. The zero-coupon deposits have been structured to allow for the payment of the notional initial deposit to be spread over the specified term to enable cash flow matching. The maturity dates of the accreting zero-coupon deposits are long-term, with maturity dates at the various trading dates not exceeding 15 years. The fair values of the accreting zero-coupon deposits are determined monthly based on observable market inputs. To determine the fair values of the accreting zero-coupon deposits, a risk-free Swap Yield Curve produced every business day by the 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. The zero-coupon deposits have specifically remained classified as fair value through profit or loss under the 'accounting mismatch' rule as these financial assets have specifically been acquired to match the non-claims bonus portion of the policyholder liability.

The group makes use of an interest rate swap as well as a collateralised swap arrangement to manage the interest rate risk contained in the non-bonus portion of the policyholder liability. The interest rate swap is a fixed for floating instrument. The fixed leg is priced at a fixed percentage plus a contractually agreed basis point adjustment and the floating leg is priced at 3 month JIBAR. The fair value of the collateralised swap arrangement, whereby the R2048 government bond serves as collateral and is the underlying, is determined in the same

manner as other money market instruments held by the group.

The group makes use of forward exchange contracts to reduce the impact of the currency risk contained in its open foreign currency exposure. The fair value of forward exchange contracts are determined using the spot closing exchange rate at the statement of financial position date.

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

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 the following:

- » Profits arising out of the profit-sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends biannually to FirstRand Bank Limited. 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.
- » B-BBEE Supplier Development Scheme loan.
- » The loan with AutoGuru Australia Pty Limited (AutoGuru). The only significant unobservable input in the calculation is the market value of the AutoGuru shares, as this is an unlisted private company.
- » Unlisted equity.

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

- » The fair value is determined based on valuation techniques where the input is determined by management, and is not readily available in the market or where

market observable input is significantly adjusted, i.e. profits arising out of profit-sharing arrangements.

- » Inputs are determined by the profits arising and calculations are made in accordance with the profit-share percentages, stipulated within the profit-sharing arrangement. No assumptions or adjustments or any other inputs are made to the profits before or after distribution. Distribution of the profits arising are made in the form of preference dividends.

The profit or loss of these profit-sharing arrangements is sensitive to:

- » claims ratio of the pool of business;
- » expense ratio of the pool of business; and investment income on this pool of business.

A specific valuation technique is used to value the AutoGuru convertible loan:

- » The fair value is determined based on valuation techniques where the input is determined by management, and is not readily available in the market or where market observable input is significantly adjusted, i.e. market value of the AutoGuru ordinary shares as well as a risk adjusted market interest rate.

Included as a Level 3 financial asset is the loan made to the ASISA Enterprise Development Fund to the value of R49 million. This loan relates to funding provided for a B-BBEE supplier development scheme that the group is partaking in. The loan has a five-year term with no contractual interest rate. In calculating the fair value of the loan at 30 June 2020, the interest rate attached to a risk-free government bond with a term based on the remaining contract period at the date of fair value measurement was utilised as the discount rate. This resulted in the value of R49 million being discounted at 5.04% (2019: 7.75%), arriving at a fair value of R42.3 million (2019: R36.9 million). This discount will unwind over the remaining maturity period.

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

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

As at 30 June 2020, R95 million of the senior loan facility and R5 million of the junior loan facility has been issued to Merchant Capital.

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

Commitments

In 2020, the new lease standard, *IFRS16*, was applied. The group had the following lease commitments as at 30 June 2020:

R MILLION	Within 1 year	1 – 5 years	More than 5 years	Total
Lease liability	37	46	6	89
Short-term leases	8	–	–	8

Discontinued operations

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

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

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

R MILLION	2020	2019
Income statement		
Gross insurance premium	106	229
Outward reinsurance premiums	(89)	(183)
Net premiums	17	46
Change in provision for unearned premiums	8	5
Earned premiums, net of reinsurance	25	51
Commission income	33	72
Interest income on financial assets using the effective interest rate method	1	1
Income	59	124
Policyholder benefits on insurance contract net of reinsurance	(14)	(29)
– Gross policyholder benefits under insurance contract	(54)	(116)
– Reinsurers' share of insurance contract claims	40	87
Marketing and administration expenses	(44)	(86)
Result of operating activities	1	9
Profit on sale of business unit	103	–
Net profit for the year from discontinued operations	104	9

There were no items that affected other comprehensive income and therefore the reconciliation of other comprehensive income has not been disclosed.

R MILLION	2019
Statement of financial position	
Carrying value amounts of assets and liabilities as at date of sale were:	
Assets	
Reinsurance share of insurance contract provisions	23
Financial assets – Amortised cost	42
Insurance and other receivables	92
Total assets	157
Liabilities	
Insurance contract liabilities	145
Insurance and other payables	12
Total liabilities	157

Changes in accounting policies

The *IFRS 16* classification, measurement, presentation and disclosure requirements are applied using the modified retrospective approach. Therefore, the cumulative effect of adopting *IFRS 16* was recognised as an adjustment to the opening retained earnings and deferred tax balances of the statement of financial position, with no restatement of comparatives.

The weighted average incremental borrowing rates applied to the lease liabilities range from 2.55% to 10.25%.

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

R MILLION	2019
Operating lease commitments disclosed as at 30 June 2019	86
(Less): contracts reassessed as service agreements	(4)
Add: Contracts reassessed under <i>IFRS 16</i>	17
Restated operating lease commitments as at 30 June 2019	99
Discounted using the lessee's incremental borrowing rate on 1 July 2019	93
(Less): short-term leases recognised on a straight-line basis as expense	(2)
Lease liability recognised as at 1 July 2019	91
Of which are:	
Current lease liabilities	25
Non-current lease liabilities	66
	91

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

R MILLION	2020	2019
Properties	58	67
Equipment	25	–
Motor vehicles	–	23
Total right-of-use assets	83	90

The change in accounting policy affected the following items in the statement of financial position on 1 July 2019:

R MILLION	30 June 2019	Change	1 July 2019
Lease liabilities	–	91	91
Right-of-use assets	–	90	90
Equity accounted reserves	7 107	(18)	7 089

Segment assets and segment liabilities both increased as a result of the change in accounting policy. The right-of-use asset of R83 million and the lease liability of R89 million relate to OUTsurance in the group's segmental analysis.

There has been no change in earnings per share with the adoption of *IFRS 16*.

In applying *IFRS 16* for the first time, the group has used the following permitted practical expedients:

- » reliance on previous assessments on whether leases are onerous;
- » the accounting for leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- » the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- » the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying *IAS 17* and *IFRIC 4: Determining whether an Arrangement contains a Lease*.

Administration

RAND MERCHANT INVESTMENT HOLDINGS LIMITED (RMI)

Registration number: 2010/005770/06
JSE ordinary share code: RMI
ISIN code: ZAE000210688

DIRECTORS

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

ALTERNATES

DA Frankel, F Knoetze and UH Lucht

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

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 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
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RMI OPTIMISE
DIVERSIFY
MODERNISE

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