RAND MERCHANT INVESTMENT HOLDINGS LIMITED (RMI)
Registration number: 2010/005770/06
JSE ordinary share code: RMI
ISIN code: ZAE000210688

SUMMARISED UNAUDITED RESULTS ANNOUNCEMENT AND CASH DIVIDEND DECLARATION FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

Basis of preparation

These summarised, unaudited financial results for the six months ended 31 December 2018 have been prepared in accordance with:
- International Financial Reporting Standards (IFRS), including IAS 34: Interim financial reporting;
- The requirements of the Companies Act, 71 of 2008, as amended;
- The SAICA Financial Reporting Guide as issued by the Accounting Practices Committee;
- The Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council; and
- The Listings Requirements of the JSE Limited.

The accounting policies applied are consistent with those applied in the previous financial period, except for changes required by the mandatory adoption of new and revised IFRS. During the six months ended 31 December 2018, the group adopted the following new accounting standards. More detail is provided in the financial review section of this report.

- IFRS 9: Financial instruments

This new standard replaces IAS 39. With the adoption of IFRS 9, the group reclassified certain of its financial instruments. IFRS 9 also introduces expected credit loss provisioning. This requires provisions to be raised to estimate the expected credit losses related to an instrument over its remaining term to maturity. This expected credit loss provision is calculated with reference to the credit quality, term to maturity and expected loss given default of the issuer or ultimate counterparty of the financial instrument. Adopting this requirement has resulted in an immaterial provision for the group on the basis of the high credit quality and short maturity profile of the group's deposits and money market investments.

The adoption of IFRS 9 resulted in adjustments being recognised against opening retained earnings, where these adjustments represent the historic expected credit loss adjustments and reclassifications of financial instruments held at 30 June 2018.

- IFRS 15: Revenue from contracts with customers

Insurance contracts are excluded from the scope of IFRS 15 as these contracts are specifically governed by IFRS 4: Insurance contracts, which will be replaced by the new IFRS 17 insurance standard. The adoption of IFRS 15 on the non-insurance activities of the group is not material to these revenue contracts.

MMI changed its primary earnings metric to include the impact of investment variances, actuarial basis changes and other non-recurring items. These changes at MMI flow directly through to RMI's primary earnings metric, being normalised earnings. The comparative normalised earnings for the six months ended 31 December 2017 and for the year ended 30 June 2018 have been restated accordingly.

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

The summarised consolidated financial statements for the six months ended 31 December 2018 contained in this report have not been audited.

Normalised earnings presented in these summarised financial results constitute pro forma financial information. The pro forma financial information is the responsibility of RMI's board of directors and is presented for illustrative purposes.

Because of its nature, the pro forma financial information may not fairly present RMI's financial position, changes in equity, results of operations or cash flows. An assurance report will be issued by RMI's auditor, PricewaterhouseCoopers Inc. on the pro forma information for the year ending 30 June 2019 and has been issued on the restated pro forma financial information for the year ended 30 June 2018 included in this report. This assurance report is available at the registered office of RMI.

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

Enduring value created

Compound shareholders' return since listing in 2011: 20.3% per annum

Normalised earnings: R2 094 million (2017: R2 281 million) -8% (-9% to 137.2 cents per share)

Dividend: 45c per share (2017: 39c per share) +15%

About RMI

Rand Merchant Investment Holdings Limited (RMI) is a JSE-listed investment holding company with a proud track record of investing in disruptive and entrepreneurial financial services businesses. RMI positions itself as a value-adding, stable and aspirational shareholder.

RMI is a strategic, active manager of a R56 billion financial services portfolio:

| | |
|---|---|
| Discovery | 25.0% |
| Hastings | 29.9% |
| MMI | 27.3% |
| OUTsurance | 89.1% |
| RMI Investment Managers | 100% |
| AlphaCode | 100% |

RMI's effective interests in these group entities are different from the actual interests due to consolidation adjustments in respect of treasury shares. Refer below.

CREATING ENDURING VALUE

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

Refer below for a brief description of each of RMI's investments.

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

RMI invests, builds and divests depending on market opportunities to achieve its objectives of creating enduring value and maintaining a solid financial structure. RMI typically invests for the long term and is not geographically- or size-bound.

RMI considers the anticipated long-term trends in financial services (such as significant regulatory change and the speed of technological developments) and evaluates where it can either build or buy businesses. RMI does not want to be blindsided by the dynamic evolution of financial services and will invest in new trends or businesses, even when they may compete with its current businesses.

Investment policy

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

Dividend policy

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

Investment overview

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

Listed investments

Discovery

Discovery is a pioneering market-leader with uniquely-positioned businesses in the healthcare, long- and short-term insurance, wellness and financial services industries. It operates in South Africa, the United Kingdom (UK), China, Singapore, Australia, Japan, Europe and the USA through various business lines.

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

Hastings

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

Hastings provides refreshingly straightforward products and services. It has 2.7 million live client policies and is a multi-award-winning business.

MMI

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

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

Unlisted investments

OUTsurance

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

RMI Investment Managers

RMI Investment Managers' affiliate model enables the company to access a differentiated part of the investment management industry by investing in and partnering with independent investment managers, as well as specialist investment teams. RMI Investment Managers has taken minority equity stakes in boutique investment managers which span the asset class spectrum across active, passive, traditional and alternative. While the team is currently predominantly focused on the execution of the growth initiatives at each affiliate, they continue to look for opportunities that will complement the existing suite of managers as the company builds its share of the South African investment management market.

AlphaCode

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

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

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

## PERFORMANCE AND OUTLOOK

### Commitment to enduring value creation

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

### External environment

The macroeconomic environment within which RMI's investees operate, is experiencing significant turbulence. This year is shaping up to be another challenging one for the South African economy. Headwinds include a slowing global economy, Eskom (and other SOE) challenges, adverse domestic weather conditions in the western maize-growing areas of the country, prolonged strike activity in the gold mining sector and the uncertainty created by the upcoming national election.

### Continued low growth

Given disappointing fixed investment, a lack of policy visibility and strained government finances, the 2019 real GDP growth forecast has been reduced to 1.3% from 1.5%. Growth is still expected to accelerate towards 2% during 2020. The improved inflation prospects, weak domestic growth outlook and less pressure to follow the global interest rate cycle higher suggest that the South African Reserve Bank may keep the repo rate unchanged in the foreseeable future. Both global and domestic factors have the potential to weigh on the strength of the Rand.

### Ongoing SOE challenges

In his recent State of the Nation Address, President Ramaphosa announced that Eskom will be divided into three separate state-owned entities dealing with generation, distribution and transmission under a state holding company for easier access to finance. The state will provide financial support to the ailing parastatal in a manner which will not burden the fiscus with "unmanageable debt".
President Ramaphosa also announced the establishment of an independent investigating directorate, to be housed within the National Prosecuting Authority, which will focus on evidence that has emerged at the state capture commission.

### Brexit

In the UK, policymakers at the Bank of England voted to keep the benchmark policy interest rate unchanged at 0.75%. The monetary policy committee expressed its concern about the impact of Brexit and a slowdown in global growth on the outlook for the UK economy. As such, the committee lowered its growth forecast of the UK economy in 2019 from 1.7% to 1.2% - the weakest level since the recession of 2009 - and its inflation forecast to just below the target of 2%.

### USA-China trade war

Concerns about the negative impact of an escalation of the USA-China trade war on global growth have returned. In addition, investor sentiment was affected by the European Union and Bank of England making significant downward adjustments to their real GDP growth forecasts.

### Overview of results

RMI's group consolidated normalised earnings decreased by 8% to R2.1 billion for the six months ended 31 December 2018. This result is mainly attributable to the significant increase in spend on new strategic initiatives and a spike in large mortality claims at Discovery and an increase in the claims ratio of the short-term insurance operations and the substantial investment in new business growth activities at OUTsurance.

Discovery's normalised earnings decreased by 16% for the six months ended 31 December 2018. Spend on new initiatives, including Discovery Bank, increased to 21% of the group's earnings, in line with budget and fully provided for in the capital plan. All of Discovery's operating businesses had a strong operational performance during the period under review, with the exception of Discovery Life, which experienced a spike in large mortality claims equal to 8% of Discovery's earnings for the six-month period. Discovery Life has altered its reinsurance structures to ameliorate large-claim volatility going forward. Equity and bond market movements resulted in fair value losses of R116 million on shareholder investments which are now reported through the income statement in terms of IFRS 9. New business annualised premium income increased by 16% to R9 billion, the group financial leverage ratio improved to 25% and the central cash buffer increased to R3.4 billion.

RMI included normalised earnings of R348 million from Hastings for the six months to 31 December 2018, 9% lower than the R382 million in the comparative period. Hastings announced its 31 December 2018 year-end results on 28 February 2019, which indicated 3% growth in normalised earnings in Sterling terms. Gross written premiums increased by 3%, with a similar increase in live client policies to 2.71 million. Net claims increased by 10% due to increased policy volumes and claims inflation of 6%. The claims ratio of 75% was at the bottom of Hastings' targeted range of 75% to 79%. Management continues to invest in additional headcount to support the ongoing growth of the business. Hastings declared a final dividend of 9.0 pence per share, an increase of 6% on the final dividend in the prior year of 8.5 pence per share. Hastings announced an enhanced dividend payout ratio of between 65% and 75%.

MMI recorded a 2% increase in normalised earnings to R1.6 billion for the six-month period under review, in line with the target set in its "Reset and Grow" strategy announced in September 2018. These results were achieved through tight control of operating expenses, strong underwriting results and much improved earnings from fixed rate and annuity products. New business volumes increased by 19% to R28.8 billion and the value of new business increased by 12% to R335 million. The embedded value per share benefitted from the share buy-back programme, with the annualised return on embedded value per share amounting to 9.4%. MMI is reinstating dividend payments, with an interim ordinary dividend of 35 cents per share. During the period under review, MMI became the first major insurance company in South Africa to achieve a level 1 BBBEE rating in terms of the revised FSC codes.

Normalised earnings from OUTsurance, including its stake in Hastings, decreased by 9% to R1.3 billion. Excluding its share in Hastings, OUTsurance's normalised earnings decreased by 8%. As announced previously, the group had an exceptionally low claims experience in the South African and Australian operations of OUTsurance in the previous year. The claims ratio for the combined short-term insurance operations of OUTsurance increased from 51.8% to 52.4% due to higher natural peril claims in Australia and corrective pricing measures to recognise lower accident frequencies. The group cost-to-income ratio increased from 25.2% to 27.3% due to significant investments in new business growth activities in South Africa and Australia and the lack of premium inflation. New business premiums written for the group increased by 20%, driven primarily by volume growth as premium inflation remained absent. Youi continues to show an incremental recovery in its growth profile. OUTsurance's earnings growth was also strained by negative returns on its equity portfolio during the period under review.

RMI Investment Managers is now entering its fourth year of operations, with its financial performance tracking in line with management's expectations of investments in affiliates at such an early stage of development. 2018 was an extremely challenging year for the South African investment market and asset management broadly, with the JSE All Share Index ending the year down 8.5% while the local Property Index lost 25%. These tough market conditions directly impacted all the group's affiliates as they faced negative market growth whilst trying to grow overall assets under management (AUM). RMI Investment Managers' combined AUM at 31 December 2018 was R104 billion (R105 billion at 30 June 2018). RMI Investment Managers continues to actively engage in strategic dialogue with its affiliates and implement its "Shareholder Value Map," with a specific focus on developing their investment capabilities, growing distribution and scaling their operational platforms.

Royal Investment Managers (RIM) is a joint venture between RMI Investment Managers and Royal Bafokeng Holdings (RBH). RIM's portfolio performed to expectations during the six months under review. During December 2018, RIM announced, subject to certain conditions, its intention to acquire 30% of Visio Fund Managers.

The net funding and holding company costs reduced by 3% to R320 million, mainly due to the return on higher cash balances compared to the prior period following RMI's scrip dividend alternative offered to shareholders and the special dividend received from OUTsurance.

Sources of normalised earnings

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

| | For the six months ended 31 December | | | Year ended 30 June |
|---|---|---|---|---|
| R MILLION | 2018 | 2017 Restated | % change | 2018 Restated |
| Discovery | 2 376 | 2 829 | (16) | 5 401 |
| Hastings | 1 223 | 1 374 | (11) | 2 758 |
| MMI | 1 618 | 1 594 | 2 | 2 003 |
| OUTsurance (excluding Hastings) | 1 172 | 1 268 | (8) | 2 639 |
| - OUTsurance (including Hastings) | 1 329 | 1 461 | (9) | 3 012 |
| - Hastings included in OUTsurance | (157) | (193) | 19 | (373) |
| Other(1) | (12) | (10) | (20) | (25) |

(1) Other includes RMI Investment Managers and AlphaCode investments.

A reconciliation of the adjustments made to derive normalised earnings is presented below.

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

| | For the six months ended 31 December | | | Year ended 30 June |
|---|---|---|---|---|
| R MILLION | 2018 | 2017 Restated | % change | 2018 Restated |
| Discovery | 597 | 716 | (17) | 1 356 |
| Hastings | 348 | 382 | (9) | 778 |
| MMI | 429 | 406 | 6 | 508 |
| OUTsurance (excluding Hastings) | 1 052 | 1 117 | (6) | 2 333 |
| - OUTsurance (including Hastings) | 1 193 | 1 286 | (7) | 2 661 |
| - Hastings included in OUTsurance | (141) | (169) | 17 | (328) |
| Other(1) | (12) | (10) | (20) | (25) |
| Funding and holding company costs | (320) | (330) | 3 | (684) |
| Normalised earnings | 2 094 | 2 281 | (8) | 4 266 |
| Normalised earnings per share (cents) | 137.2 | 150.9 | (9) | 281.5 |

(1) Other includes RMI Investment Managers and AlphaCode investments.

Market value of investments

During the 2018 calendar year, RMI's share price decreased by 21% (2017: increased by 15%), compared to a 1% increase in the life insurance index and a 15% increase in the non-life insurance index. RMI has delivered a total annually compounded return to shareholders of 20.3% since its listing in March 2011. The individual investment performances during the 2018 calendar year are outlined below:

- Discovery's share price decreased by 14% (2017: increased by 62%).
- MMI's share price decreased by 18% (2017: decreased by 11%).
- On a "look-through" basis, based on share prices as at 31 December 2018, the value attributed to RMI's unlisted investments decreased by 15% (2017: decreased by 8%) to R26 billion (2017: R30.6 billion). These unlisted investments include OUTsurance (excluding OUTsurance's 49% stake in the group's holding in Hastings) (89.1% held), RMI Investment Managers and the AlphaCode investments.

| R MILLION | As at 31 December 2018 | 2017 | % change | As at 30 June 2018 |
|---|---|---|---|---|
| Market value of interest in: | | | | |
| - Discovery | 26 335 | 30 122 | (13) | 23 887 |
| - Hastings (RMI's effective holding) | 6 372 | 9 896 | (36) | 8 566 |
| - 29.9% holding | 6 731 | 10 531 | (36) | 9 072 |
| - Attributable to non-controlling interest of OUTsurance | (359) | (635) | 43 | (506) |
| - MMI | 6 870 | 8 422 | (18) | 7 087 |
| Market value of listed investments | 39 577 | 48 440 | (18) | 39 540 |
| RMI Investment Managers and AlphaCode at cost | 836 | 823 | 2 | 834 |
| Implied market value of OUTsurance (excluding Hastings) | 25 200 | 29 812 | (15) | 26 361 |
| Gross market value of portfolio | 65 613 | 79 075 | (17) | 66 735 |
| Net liabilities of holding company | (9 794) | (9 406) | (4) | (9 709) |
| RMI market capitalisation | 55 819 | 69 669 | (20) | 57 026 |
| RMI closing share price (cents) | 3 644 | 4 590 | (21) | 3 745 |

Interim dividend payment

MMI successfully completed its R2 billion share buy-back programme during the period under review, which contributed to the increase in MMI's embedded value per share to R26.60. Shares were bought back at an average price of R18.94 per share. MMI is resuming dividend payments at 35 cents per ordinary share in respect of the six months ended 31 December 2018. This is at the upper limit of the target dividend cover range of 2.0 to 3.0 times normalised earnings.

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

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

The board resolved to declare an interim dividend of 45.0 cents (2017: 39.0 cents) per ordinary share. The interim dividend per ordinary share is covered 3.0 times (2017: 3.9 times) by the normalised earnings of 137.2 cents (2017: 150.9 cents) per share.

To support investment activity, the board will continuously assess RMI's dividend policy through its investment phase and may, if appropriate, reinstate the scrip distribution alternative and the reinvestment option offered to shareholders during the previous three dividend cycles. Given RMI's current investment pipeline and share price, the board decided to declare a cash dividend to shareholders.

Shareholders are referred to the dividend declaration forming part of this announcement regarding the applicability of Dividend Withholding Tax to the ordinary dividend.

Events after the reporting period

The directors are not aware of any material adjusting or non-adjusting events relating to the six months ended 31 December 2018 that occurred between the date of the statement of financial position and the date of this report.

Update on RMI's strategy

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

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

Optimise

Optimisation of RMI's established investments

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

Major milestones

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

Diversify

Diversification of  income stream and distribution of assets

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

Major milestones

- Supported Discovery in diversifying into banking and participated in Discovery's vendor placement;
- Subject to certain conditions, RIM acquired a 30% equity stake in Visio Fund Managers; and
- Continuing to evaluate later-stage, capital-lite business models with organic growth potential.

Modernise

Modernisation

RMI will continue to identify new businesses, technologies and industry trends to complement its investment portfolio.

Major milestones

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

Outlook and enduring value creation

Existing portfolio

Discovery's core purpose has led to a Shared-Value business model that is applicable, scalable and globally relevant. Discovery now touches 21.6 million lives, has a presence in 19 countries and is using its influence to drive a global movement around behaviour change and wellness. This is evidenced by its pledge, with its insurance partners, to collectively make 100 million people 20% more active by 2025.

Discovery's strategy is underpinned by its operating model, comprising a strong and profitable base of established businesses, rapidly growing emerging businesses and a pipeline of substantial new businesses. Discovery's established businesses are well-positioned for growth, with Discovery Life expected to revert to target growth levels. Similarly, the emerging businesses are expected to grow strongly going forward. The new businesses will require investment through their start-up phase. However, the 21% spend on new businesses is expected to decrease over the next few years towards previous levels. Profit growth is expected to return to its stated goal of CPI plus 10% and the business is well-capitalised for its five-year planning horizon.

Hastings has set out new and ambitious plans for the future to ensure that it is ready to take advantage of the changing market environment. Its vision is built on specific initiatives and investments with the aim of developing and strengthening its existing capabilities, setting it up to be the market leader in pricing, anti-fraud and digital, at a significantly larger scale. Amongst a range of new digital capabilities, Hastings launched a mobile app and is one of the first insurance providers in the UK to go live with a full-scale proposition, providing clients with another easy way to manage their insurance, as well as keeping costs low. Making insurance easy for its clients is a key focus and there is more innovation to come in future. Consumer switching is set to continue and digital channels, including price comparison websites in particular, continue to grow at the expense of more traditional distribution models, all of which play into Hastings' core strategy. Regulatory changes, including plans to reform whiplash claims and pricing practices, will create new opportunities for nimble, client-oriented players with the right business models.

It is heartening that MMI experienced growth despite the poor equity market performance during the last quarter of 2018 and muted macroeconomic growth, which created a challenging operating environment over the six months under review. MMI is making steady progress with its "Reset and Grow" turnaround strategy introduced in September 2018. It will continue to focus on financial discipline and on improving distribution and service in pursuit of this strategy. MMI is also planning on exiting certain African countries in the foreseeable future and to invest in new initiatives with better growth prospects.

OUTsurance remains optimistic that the South African economy will deliver positive growth over the foreseeable future, which will benefit the premium inflation profile and new business opportunities of the core OUTsurance Personal operation. OUTsurance Business is benefitting from the expansion of the tied-agency force and is expected to maintain a strong new business growth profile over the medium term. The group will continue to focus on the recovery of the new business performance of Youi Australia, where it is also expected that a gradual recovery in premium inflation will contribute to the overall growth profile. OUTsurance will maintain its underwriting discipline and focus on world-class service across all its operations.

RMI Investment Managers is largely in a consolidation phase of its business model and has, therefore, focused its efforts on optimising the existing portfolio by truly partnering with its boutique investment managers in a supportive but non-interfering manner. In July 2018, RMI Investment Managers launched its new "Shareholder Value Map", which offers affiliates access to comprehensive strategic support including operational 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 assets and foster meaningful and trusted client relationships. Many of the affiliates have also benefitted from the marketing support they received, which assisted them in various branding, marketing and public relations projects to enhance their brand presence and credibility in the market.

The portfolio is substantially complete but management will remain opportunistic and add potential affiliates to either solve for additional exposure or underexposure in certain asset classes or to further add value to the portfolio. RMI Investment Managers and its joint venture partners in MMI and RBH remain excited and committed to working with its affiliates and support their growth paths over time to create a more diversified and transformed investment management industry.

New investments

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

Traditional financial services

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

Next-generation financial services

AlphaCode's vision is to pioneer the next frontier of financial services by identifying, partnering and growing extraordinary next-generation financial services entrepreneurs. In the final quarter of 2018, significant developments included the appointment of Andile Maseko as the new Head of Ecosystem Development for AlphaCode as well as the successful launch of AlphaCode's new flagship entrepreneurship and transformation programmes. The programmes are part of its commitment to building the financial services entrepreneurial ecosystem and contributing to transformation of the industry through identifying and supporting emerging black financial services innovators.

The three programmes upskill innovators for the data-driven future of financial services, provide grant and/or soft loan funding, mentorship, enabling support services and the insights and expert guidance that enable the carefully selected businesses to scale-up. The programmes are:

- AlphaCode Explore: 20 high-calibre candidates were placed on the 12-month learnership programme which focuses on providing them with data science skills whilst guiding them in building and proto-typing fintech businesses;
- AlphaCode Incubate: In partnership with RBH and Bank of America Merrill Lynch, AlphaCode selected eight early-stage and high-potential black-owned financial services businesses for a specifically-designed and targeted 12-month programme. The businesses have access to an entrepreneurial package worth R2 million each, which includes grant funds, office facilities, support services and mentorship; and
- AlphaCode Accelerate: Four growth-stage businesses have been placed on this 24-month programme to receive mentorship, expert guidance and support services on the path to scale and job creation.

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

Jannie Durand Herman Bosman
Chairman Chief executive

Sandton
11 March 2019

CASH DIVIDEND DECLARATION

Notice is hereby given that a gross interim cash dividend of 45.0 cents per ordinary share, payable out of income reserves, was declared on 11 March 2019 in respect of the six months ended 31 December 2018.

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

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

Shareholders' attention is drawn to the following important dates:

| | |
|---|---|
| Last day to trade in order to participate in this dividend | Tuesday, 2 April 2019 |
| Shares commence trading ex-dividend on | Wednesday, 3 April 2019 |
| The record date for the dividend payment will be | Friday, 5 April 2019 |
| Dividend payment date | Monday, 8 April 2019 |

No dematerialisation or rematerialisation of share certificates may be done between Wednesday, 3 April 2019 and Friday, 5 April 2019 (both days inclusive).

By order of the RMI board.

Schalk Human
Company secretary

Sandton
11 March 2019

INVESTOR CALL

Herman Bosman (chief executive) invites you to join him in a conversation about RMI's performance for the six months ended 31 December 2018.
He will be joined by Jan Hofmeyr, chief financial officer and Marthinus Visser, chief executive of OUTsurance.

This investor call will take place on Tuesday, 12 March 2019 at 08:00.

Participants can register for the conference by navigating to http://www.diamondpass.net/2689347.

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

FINANCIAL REVIEW

Effective interest

RMI's effective interest in the group entities is different from the actual holdings as a result of the following consolidation adjustments:
- Treasury shares held by group entities;
- Shares held by consolidated share incentive trusts;
- "Deemed" treasury shares arising from broad-based black economic empowerment (BBBEE) transactions entered into; and
- "Deemed" treasury shares held by policyholders and mutual funds managed by them.

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

| | As at 31 December 2018 | | As at 31 December 2017 | |
|---|---|---|---|---|
| | Effective | Actual | Effective | Actual |
| Discovery | 25.1% | 25.0% | 25.1% | 25.0% |
| Hastings | 29.9% | 29.9% | 29.9% | 29.9% |
| MMI | 27.6% | 27.3% | 25.7% | 25.5% |
| OUTsurance | 90.3% | 89.1% | 88.5% | 87.7% |
| RMI Investment Managers | 100.0% | 100.0% | 100.0% | 100.0% |
| Merchant Capital | 27.2% | 25.1% | 25.1% | 25.1% |
| Entersekt | 25.1% | 25.1% | 25.1% | 25.1% |

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

Implementation of new accounting standards

IFRS 9: Financial instruments
IFRS 9: Financial instruments, which replaced IAS 39: Financial instruments: Recognition and measurement, was applied with effect from 1 July 2018. The IFRS 9 classification, measurement and impairment requirements are applied retrospectively, by adjusting the opening statement of financial position, with no restatement of comparatives on initial application, as permitted by IFRS 9.

On the date of initial application, 1 July 2018, the financial instruments of the group were as follows, with any reclassifications noted:

| | Measurement category | | Carrying amount | | |
|---|---|---|---|---|---|
| R MILLION | New IFRS 9 | Original IAS 39 | New | Original | Difference(1) |
| Financial assets | | | | | |
| Listed perpetual preference shares | FVPL | AFS | 354 | 354 | - |
| Exchange traded funds | FVPL | AFS | 713 | 713 | - |
| Collective investment schemes - Equities | FVPL | FVPL | 110 | 110 | - |
| Listed equities | FVPL | FVPL | 166 | 166 | - |
| Unlisted equities | FVPL | FVPL | 130 | 130 | - |
| Unsecured loan | FVPL | FVPL | 34 | 34 | - |
| Unlisted redeemable preference shares | AC | AFS | 102 | 102 | - |
| Zero-coupon deposits | FVPL | FVPL | 346 | 346 | - |
| Term deposits | AC | FVPL | 5 261 | 5 261 | - |
| Money market portfolios | FVOCI | FVPL | 3 303 | 3 353 | (50) |
| Collective investment schemes - Debt | FVPL | FVPL | 31 | 31 | - |
| Other debt securities | AC | FVPL | 662 | 662 | - |
| Total financial assets | | | 11 212 | 11 262 | (50) |
| Financial liabilities | | | | | |
| Preference dividends payable | FVPL | FVPL | 132 | 132 | - |

(1) The difference noted in the column is a result of applying the new expected loss model.

AC Amortised cost
AFS Available-for-sale
FVOCI Fair value through other comprehensive income
FVPL Fair value through profit or loss

Debt instruments in segregated money market portfolios, previously measured at FVPL, have been reclassified to FVOCI under IFRS 9. The business model is 'hold to collect and sell financial assets', and cash flows represent payments of principal and interest.

Term deposits and other debt securities, previously measured at FVPL, have been reclassified to AC under IFRS 9. The business model is 'hold to collect' and cash flows represent payment of principal and interest.

All other debt instruments previously measured at FVPL, are also measured at FVPL under IFRS 9. Financial assets not classified at AC or FVOCI are measured at FVPL. Financial assets that are held to sell, those that are managed and those whose performance is evaluated on a fair value basis will be measured at FVPL because they are neither held to collect contractual cash flows nor held to collect cash flows and to sell. In addition, on initial recognition, the group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI, as at FVPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The zero-coupon deposits have been designated as FVPL as this classification eliminates an accounting mismatch.

Loans and receivables, previously measured at AC, continue to be measured at AC under IFRS 9 as the business model is 'hold to collect' and cash flows represent payment of principal and interest.

Equity instruments previously measured as available-for-sale, have been reclassified to FVPL under IFRS 9. Management has not taken the irrevocable election to present changes through FVOCI for equities not held for trading.

Debt securities under financial liabilities issued by the OUTsurance group are measured at FVPL under IFRS 9 as these instruments are managed at fair value in terms of the business model.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The group uses derivatives to offset the interest rate risk inherent in some of the life insurance products underwritten by the group. The group has elected not to apply hedge accounting to the asset-liability matching strategy.

Impairments

The group recognises loss allowances for expected credit losses (ECL) on:

- Financial assets measured at amortised cost;
- Lease receivables;
- Debt investments measured at FVOCI;
- Loan commitments; and
- Financial guarantee contracts.

The group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Financial assets that are determined to have low credit risk at the reporting date;
- Financial assets where credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition; and
- Financial assets which are callable on demand or within a period of 12 months from reporting date.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECL that results from default events that are possible within the 12 months after the reporting date. In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the group is exposed to credit risk.

At each reporting date, the group assesses whether financial assets measured at amortised cost and at FVOCI are credit impaired.

Loss allowances for ECL on financial assets measured at amortised cost are deducted from the gross carrying amount of the financial assets. Loss allowances for ECL on debt investments measured at FVOCI are recognised in OCI and do not reduce the carrying amount of the financial asset in the statement of financial position.

The group has determined that the application of the impairment requirements of IFRS 9 at 1 July 2018 results in a R49 million ECL (R44 million net of non-controlling interest). The impact on the group's opening balance of equity accounted reserves from investments in associates in respect of IFRS 9 is (R32 million).

IFRS 15: Revenue from contracts with customers

IFRS 15: Revenue from contracts with customers, which replaced IAS 18: Revenue and IAS 11: Construction contracts, was applied effective from 1 July 2018. It applies to all contracts with clients except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model requires the group to (i) identify the contract with the client; (ii) identify each of the performance obligations included in the contract; (iii) determine the amount of consideration in the contract; (iv) allocate the consideration to each of the identified performance obligations; and (v) recognise revenue as each performance obligation is satisfied.

The significant majority of the group's revenue is accounted for in terms of IFRS 4: Insurance contracts, IFRS 9: Financial instruments and IAS 17: Leases, which are scoped out of IFRS 15. There are no material changes to revenue recognition for fee income recognised under IFRS 15. The impact on the group's opening balance of equity accounted reserves from investments in associates in respect of IFRS 15 is R2 million.

Summarised consolidated income statement

| R MILLION | Six months ended 31 December 2018 Unaudited | Six months ended 31 December 2017 Unaudited | % change | Year ended 30 June 2018 Audited |
|---|---|---|---|---|
| Earned premiums net of reinsurance | 7 492 | 7 208 | 4 | 14 173 |
| Commission and other income | 52 | 61 | (15) | 124 |
| Investment income | 425 | 377 | 13 | 760 |
| Profit on sale of subsidiary and other realised gains | - | - | - | 3 |
| Net fair value (losses)/gains on financial assets | (49) | 42 | >(100) | (66) |
| Income | 7 920 | 7 688 | 3 | 14 994 |
| Net claims paid | (3 615) | (3 450) | 5 | (6 535) |
| Provision for cash bonuses | (227) | (213) | 7 | (395) |
| Fair value adjustment to investment contracts and insurance contract provisions | (24) | (70) | (66) | (126) |
| Fair value adjustment to financial liabilities | (104) | (100) | 4 | (193) |
| Acquisition, marketing and administration expenses | (2 160) | (1 968) | 10 | (3 905) |
| Profit before finance costs, share of after-tax results of associates and taxation | 1 790 | 1 887 | (5) | 3 840 |
| Net finance costs | (379) | (387) | (2) | (765) |
| Share of after-tax results of associates | 1 139 | 1 314 | (13) | 2 328 |
| Profit before taxation | 2 550 | 2 814 | (9) | 5 403 |
| Taxation | (547) | (570) | (4) | (1 136) |
| Profit for the period | 2 003 | 2 244 | (11) | 4 267 |
| Attributable to: | | | | |
| Equity holders of RMI | 1 851 | 2 059 | (10) | 3 897 |
| Non-controlling interests | 152 | 185 | (18) | 370 |
| Profit for the period | 2 003 | 2 244 | (11) | 4 267 |

Computation of headline earnings

| R MILLION | Six months ended 31 December 2018 Unaudited | Six months ended 31 December 2017 Unaudited | % change | Year ended 30 June 2018 Audited |
|---|---|---|---|---|
| Earnings attributable to equity holders | 1 851 | 2 059 | (10) | 3 897 |
| Adjustment for: | | | | |
| Loss/(profit) on dilution of shareholding | 26 | (3) | | 80 |
| Impairments relating to held for sale entities | 14 | - | | - |
| Impairment of owner-occupied building below cost | 12 | - | | - |
| Intangible asset impairments | 9 | 33 | | 86 |
| Loss on sale of property and equipment | 1 | - | | 5 |
| Realised profit on sale of available-for-sale financial assets | - | (2) | | (5) |
| Impairment of available-for-sale financial assets | - | - | | 17 |
| Loss on sale of subsidiary | - | - | | 5 |
| Release of foreign currency translation reserve | - | - | | (4) |
| Headline earnings attributable to equity holders | 1 913 | 2 087 | (8) | 4 081 |

Computation of normalised earnings

| R MILLION | Six months ended 31 December 2018 Unaudited | Six months ended 31 December 2017 Restated Unaudited | % change | Year ended 30 June 2018 Restated Audited |
|---|---|---|---|---|
| Headline earnings attributable to equity holders | 1 913 | 2 087 | (8) | 4 081 |
| RMI's share of normalised adjustments made by investee companies: | 190 | 177 | | 209 |
| Amortisation of intangible assets relating to business combinations | 172 | 170 | | 332 |
| Debt restructuring costs resulting from Discovery Card joint venture transaction | 8 | - | | - |
| Unrealised losses/(gains) on foreign exchange contracts not designated as a hedge | 7 | - | | (19) |
| Initial expenses related to Prudential book transfer | 3 | - | | - |
| Non-recurring and restructuring expenses | - | 7 | | 8 |
| Deferred tax on assessed losses | - | - | | (88) |
| Deferred tax timing difference related to new adjusted IFRS tax basis | - | - | | (30) |
| BBBEE costs | - | - | | 6 |
| Group treasury shares | (9) | 17 | | (24) |
| Normalised earnings attributable to equity holders | 2 094 | 2 281 | (8) | 4 266 |

Computation of earnings and dividend per share

| R MILLION | Six months ended 31 December 2018 Unaudited | 2017 Unaudited | % change | Year ended 30 June 2018 Audited |
|---|---|---|---|---|
| Earnings attributable to equity holders | 1 851 | 2 059 | (10) | 3 897 |
| Headline earnings attributable to equity holders | 1 913 | 2 087 | (8) | 4 081 |
| Normalised earnings attributable to equity holders (restated) | 2 094 | 2 281 | (8) | 4 266 |
| Number of shares in issue (millions) | 1 532 | 1 518 | 1 | 1 523 |
| Weighted average number of shares in issue (millions) | 1 524 | 1 510 | 1 | 1 513 |
| Earnings per share (cents) | 121.5 | 136.4 | (11) | 257.7 |
| Diluted earnings per share (cents) | 120.9 | 134.0 | (10) | 252.9 |
| Headline earnings per share (cents) | 125.6 | 138.3 | (9) | 269.7 |
| Diluted headline earnings per share (cents) | 124.9 | 135.8 | (8) | 265.0 |
| Normalised earnings per share (cents) (restated) | 137.2 | 150.9 | (9) | 281.5 |
| Diluted normalised earnings per share (cents) (restated) | 136.5 | 148.3 | (8) | 276.6 |
| Dividend per share | | | | |
| Interim dividend (cents) | 45.0 | 39.0 | 15 | 39.0 |
| Final dividend (cents) | | | | 65.0 |
| Total dividend | 45.0 | 39.0 | 15 | 104.0 |

Summarised consolidated statement of comprehensive income

| R MILLION | Six months ended 31 December 2018 Unaudited | 2017 Unaudited | % change | Year ended 30 June 2018 Audited |
|---|---|---|---|---|
| Profit for the period | 2 003 | 2 244 | (11) | 4 267 |
| Other comprehensive income for the period | | | | |
| Items that may subsequently be reclassified to profit or loss | | | | |
| Fair value losses on other comprehensive income financial instruments | (5) | - | | - |
| Deferred tax relating to other comprehensive income financial instruments | 2 | - | | - |
| Fair value gains and losses on available-for-sale financial instruments | - | 73 | | 93 |
| Deferred taxation relating to available-for-sale financial assets | - | (16) | | (21) |
| Exchange differences on translation of foreign operations | 20 | (149) | | 44 |
| Share of comprehensive income of associates | 5 | (53) | | 314 |
| Items that may subsequently be reclassified to profit or loss, after taxation | 41 | (63) | | 277 |
| Items that will not be reclassified to profit or loss, after taxation | (36) | 10 | | 37 |
| Other comprehensive income for the period | 22 | (145) | >100 | 430 |
| Total comprehensive income for the period | 2 025 | 2 099 | (4) | 4 697 |
| Attributable to: | | | | |
| Equity holders of the company | 1 872 | 1 932 | (3) | 4 310 |
| Non-controlling interests | 153 | 167 | (8) | 387 |
| Total comprehensive income for the period | 2 025 | 2 099 | (4) | 4 697 |

Summarised consolidated statement of financial position

| R MILLION | As at 31 December 2018 Unaudited | As at 31 December 2017 Unaudited | As at 30 June 2018 Audited |
|---|---|---|---|
| Assets | | | |
| Property and equipment | 1 065 | 1 118 | 1 109 |
| Goodwill and other intangible assets | 91 | 47 | 124 |
| Investments in associates | 27 385 | 25 150 | 26 413 |
| Financial assets | 10 747 | 10 186 | 11 262 |
| Loans and receivables including insurance receivables | 2 686 | 2 671 | 2 634 |
| Deferred acquisition cost | 336 | 317 | 307 |
| Reinsurance contracts | 508 | 584 | 286 |
| Deferred taxation | 175 | 125 | 220 |
| Taxation | 191 | 3 | 3 |
| Cash and cash equivalents | 2 875 | 2 494 | 2 417 |
| Total assets | 46 059 | 42 695 | 44 775 |
| Equity | | | |
| Share capital and premium | 15 348 | 14 825 | 14 986 |
| Reserves | 7 870 | 5 880 | 7 386 |
| Capital and reserves attributable to equity holders of the company | 23 218 | 20 705 | 22 372 |
| Non-controlling interests | 1 428 | 1 325 | 1 332 |
| Total equity | 24 646 | 22 030 | 23 704 |
| Liabilities | | | |
| Financial liabilities | 12 627 | 12 412 | 12 608 |
| Insurance contracts | 7 244 | 6 826 | 6 725 |
| Share-based payment liability | 105 | 121 | 134 |
| Payables and provisions | 1 321 | 1 163 | 1 347 |
| Deferred taxation | 39 | 53 | 54 |
| Taxation | 77 | 90 | 203 |
| Total liabilities | 21 413 | 20 665 | 21 071 |
| Total equity and liabilities | 46 059 | 42 695 | 44 775 |

Statement of changes in equity

| UNAUDITED<br>R MILLION | Share capital and premium | Equity accounted reserves | Transactions with non-controlling interests | Other reserves | Retained earnings | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| Balance as at 1 July 2017 | 14 328 | 4 300 | (2 989) | 295 | 3 341 | 1 215 | 20 490 |
| Income statement | - | - | - | - | 2 059 | 185 | 2 244 |
| Other comprehensive income | - | (53) | - | (74) | - | (18) | (145) |
| Dividends paid | - | - | - | - | (979) | (101) | (1 080) |
| Issue of shares | 462 | - | - | - | - | - | 462 |
| Income of associates retained | - | 616 | - | - | (616) | - | - |
| BBBEE cost | - | 1 | - | - | - | - | 1 |
| Movement in treasury shares | 35 | 3 | - | - | - | - | 38 |
| Transactions with non-controlling interests | - | (5) | (22) | - | 1 | (3) | (29) |
| Issue of share capital to non- controlling interests by subsidiaries | - | - | - | - | - | 49 | 49 |
| Share-based payment reserve | - | 15 | - | 3 | (16) | (2) | - |
| Balance as at 31 December 2017 | 14 825 | 4 877 | (3 011) | 224 | 3 790 | 1 325 | 22 030 |
| Balance as at 1 July 2018 | 14 986 | 5 881 | (3 345) | 397 | 4 453 | 1 332 | 23 704 |
| Change in accounting policy - IFRS 9 | - | (32) | - | (114) | 70 | (5) | (81) |
| Change in accounting policy - IFRS 15 | - | 2 | - | - | - | - | 2 |
| Income statement | - | - | - | - | 1 851 | 152 | 2 003 |
| Other comprehensive income | - | 5 | - | 19 | (3) | 1 | 22 |
| Dividends paid | - | - | - | - | (990) | (245) | (1 235) |
| Issue of shares | 345 | - | - | - | - | - | 345 |
| Income of associates retained | - | 759 | - | - | (759) | - | - |
| Movement in treasury shares | 17 | - | - | - | - | - | 17 |
| Transactions with non-controlling interests | - | (280) | (179) | - | (24) | (37) | (520) |
| Issue of share capital to non- controlling interests by subsidiaries | - | - | - | - | - | 212 | 212 |
| Share-based payment reserve | - | 2 | - | (4) | 162 | 18 | 178 |
| Reserve adjustment of associate entities | - | (1) | - | - | - | - | (1) |
| Balance as at 31 December 2018 | 15 348 | 6 336 | (3 524) | 298 | 4 760 | 1 428 | 24 646 |

Consolidated statement of cash flows

| R MILLION | As at 31 December 2018 Unaudited | 2017 Restated Unaudited | As at 30 June 2018 Restated Audited |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | 1 373 | 1 672 | 3 287 |
| Interest income | 335 | 302 | 590 |
| Dividends received | 458 | 611 | 1 285 |
| Income tax paid | (831) | (494) | (1 101) |
| Additions to financial assets(1) | (4 657) | (4 220) | (9 501) |
| Disposal of financial assets(1) | 4 952 | 3 987 | 8 163 |
| Net cash generated from operating activities | 1 630 | 1 858 | 2 723 |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | (37) | (213) | (255) |
| Disposal of property and equipment | - | 2 | 5 |
| Additions to financial assets(2) | (33) | (149) | (188) |
| Disposal of financial assets(2) | 154 | 29 | 273 |
| Investments in associates | (4) | (127) | (216) |
| Net cash inflow/(outflow) from investing activities | 80 | (458) | (381) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 304 | 312 | 493 |
| Borrowings repaid | (10) | (40) | (50) |
| Cost of funding | (47) | (45) | (91) |
| Dividends paid on preference shares in issue | (331) | (342) | (677) |
| Dividends paid by subsidiaries to non-controlling interests | (245) | (101) | (189) |
| Additional shares acquired in subsidiary | (190) | (10) | (360) |
| Cash dividends paid to shareholders | (949) | (829) | (1 394) |
| Proceeds on issue of shares to non-controlling interest | 212 | 49 | 54 |
| Net cash outflow from financing activities | (1 256) | (1 006) | (2 214) |
| Net increase in cash and cash equivalents for the period | 454 | 394 | 128 |
| Unrealised foreign currency translation adjustment on cash and cash equivalents | 4 | (202) | (13) |
| Cash and cash equivalents at the beginning of the period | 2 417 | 2 302 | 2 302 |
| Cash and cash equivalents at the end of the period | 2 875 | 2 494 | 2 417 |

1. Related to the management of insurance liabilities, operational cash flows and regulatory capital.
2. Related to long-term investments of primary shareholder capital.

Reclassification of comparatives

During the six months under review, the group's cash flow statement classification of certain financial assets was reviewed as part of the implementation of IFRS 9. This resulted in cash flows relating to financial assets held to back primarily insurance liabilities being reclassified from cash flows from investing activities to cash flows from operating activities.

The reclassification as at 31 December 2017 and 30 June 2018 is set out in the table below:

| R MILLION | Amount as previously reported | Amount as restated | Difference |
|---|---|---|---|
| 31 December 2017 | | | |
| Cash flows from operating activities | | | |
| Additions to financial assets | - | (4 220) | (4 220) |
| Disposal of financial assets | - | 3 987 | 3 987 |
| Cash flows from investing activities | | | |
| Additions to financial assets | (4 369) | (149) | 4 220 |
| Disposal of financial assets | 4 016 | 29 | (3 987) |
| 30 June 2018 | | | |
| Cash flows from operating activities | | | |
| Additions to financial assets | - | (9 501) | (9 501) |
| Disposal of financial assets | - | 8 163 | 8 163 |
| Cash flows from investing activities | | | |
| Additions to financial assets | (9 689) | (188) | 9 501 |
| Disposal of financial assets | 8 436 | 273 | (8 163) |

Segmental report

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

| UNAUDITED<br>R MILLION | Discovery | MMI | OUTsurance | Hastings | Other(1) | RMI group |
|---|---|---|---|---|---|---|
| **Six months ended 31 December 2018** | | | | | | |
| Net income | - | - | 7 791 | - | 129 | 7 920 |
| Policyholder benefits and transfer to policyholder liabilities | - | - | (3 866) | - | - | (3 866) |
| Depreciation | - | - | (69) | - | (1) | (70) |
| Amortisation | - | - | (43) | - | - | (43) |
| Other expenses | - | - | (1 976) | - | (71) | (2 047) |
| Finance costs | - | - | - | - | (379) | (379) |
| Fair value adjustment to financial liabilities | - | - | (104) | - | - | (104) |
| Share of after-tax results of associates | 574 | 298 | 114 | 164 | (11) | 1 139 |
| Profit/(loss) before taxation | 574 | 298 | 1 847 | 164 | (333) | 2 550 |
| Taxation | - | - | (532) | - | (15) | (547) |
| Profit/(loss) for the period | 574 | 298 | 1 315 | 164 | (348) | 2 003 |
| Hastings included in OUTsurance (net of GBP funding costs) | - | - | (118) | 118 | - | - |
| Profit/(loss) for the period | 574 | 298 | 1 197 | 282 | (348) | 2 003 |
| Normalised earnings | 597 | 429 | 1 329 | 191 | (452) | 2 094 |
| Hastings included in OUTsurance (net of GBP funding costs) | - | - | (157) | 157 | - | - |
| Normalised earnings | 597 | 429 | 1 172 | 348 | (452) | 2 094 |
| Assets | - | - | 15 616 | - | 2 967 | 18 583 |
| Investments in associates | 10 864 | 6 239 | 4 154 | 5 453 | 675 | 27 385 |
| Intangible assets | - | - | 91 | - | - | 91 |
| | 10 864 | 6 239 | 19 861 | 5 453 | 3 642 | 46 059 |
| Hastings included in OUTsurance | - | - | (4 052) | 4 052 | - | - |
| Total assets | 10 864 | 6 239 | 15 809 | 9 505 | 3 642 | 46 059 |
| Total liabilities | - | - | 8 693 | - | 12 720 | 21 413 |

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

| | Discovery | MMI | OUTsurance | Hastings | Other(1) | RMI group |
|---|---|---|---|---|---|---|
| **Six months ended 31 December 2017** | | | | | | |
| Net income | - | - | 7 538 | - | 150 | 7 688 |
| Policyholder benefits and transfer to policyholder liabilities | - | - | (3 733) | - | - | (3 733) |
| Depreciation | - | - | (70) | - | (2) | (72) |
| Amortisation | - | - | (45) | - | - | (45) |
| Other expenses | - | - | (1 756) | - | (95) | (1 851) |
| Finance costs | - | - | - | - | (387) | (387) |
| Fair value adjustment to financial liabilities | - | - | (100) | - | - | (100) |
| Share of after-tax results of associates | 666 | 315 | 165 | 176 | (8) | 1 314 |
| Profit/(loss) before taxation | 666 | 315 | 1 999 | 176 | (342) | 2 814 |
| Taxation | - | - | (551) | - | (19) | (570) |
| Profit/(loss) for the period | 666 | 315 | 1 448 | 176 | (361) | 2 244 |
| Hastings included in OUTsurance (net of GBP funding costs) | - | - | (154) | 154 | - | - |
| Profit/(loss) for the period | 666 | 315 | 1 294 | 330 | (361) | 2 244 |
| Normalised earnings | 716 | 406 | 1 461 | 189 | (491) | 2 281 |
| Hastings included in OUTsurance (net of GBP funding costs) | - | - | (193) | 193 | - | - |
| Normalised earnings | 716 | 406 | 1 268 | 382 | (491) | 2 281 |
| Assets | - | - | 14 411 | - | 3 087 | 17 498 |
| Investments in associates | 9 420 | 5 926 | 3 999 | 5 094 | 711 | 25 150 |
| Intangible assets | - | - | 47 | - | - | 47 |
| | 9 420 | 5 926 | 18 457 | 5 094 | 3 798 | 42 695 |
| Hastings included in OUTsurance | - | - | (3 944) | 3 944 | - | - |
| Total assets | 9 420 | 5 926 | 14 513 | 9 038 | 3 798 | 42 695 |
| Total liabilities | - | - | 8 166 | - | 12 499 | 20 665 |

Geographical segments

| UNAUDITED<br>R MILLION | South<br>Africa | Australia | New Zealand | United<br>Kingdom | Total |
|---|---|---|---|---|---|
| Six months ended 31 December 2018 | | | | | |
| Net income | 4 628 | 3 223 | 69 | - | 7 920 |
| Policyholder benefits and transfer to policyholder liabilities | (2 073) | (1 781) | (12) | - | (3 866) |
| Other expenses | (1 576) | (975) | (47) | (45) | (2 643) |
| Share of after-tax results of associates | 694 | - | - | 445 | 1 139 |
| Profit before taxation | 1 673 | 467 | 10 | 400 | 2 550 |
| Taxation | (403) | (144) | - | - | (547) |
| Profit for the period | 1 270 | 323 | 10 | 400 | 2 003 |
| Assets | | | | | |
| Property and equipment | 363 | 699 | 3 | - | 1 065 |
| Investments in associates | 17 880 | - | - | 9 505 | 27 385 |
| Financial assets | 5 510 | 4 793 | 444 | - | 10 747 |
| Other assets | 3 362 | 3 297 | 203 | - | 6 862 |
| Total assets | 27 115 | 8 789 | 650 | 9 505 | 46 059 |
| Liabilities | | | | | |
| Insurance contract liabilities | 2 241 | 4 852 | 151 | - | 7 244 |
| Other liabilities | 10 185 | 1 165 | 70 | 2 749 | 14 169 |
| Total liabilities | 12 426 | 6 017 | 221 | 2 749 | 21 413 |
| Six months ended 31 December 2017 | | | | | |
| Net income | 4 342 | 3 266 | 80 | - | 7 688 |
| Policyholder benefits and transfer to policyholder liabilities | (1 936) | (1 781) | (16) | - | (3 733) |
| Other expenses | (1 390) | (947) | (74) | (44) | (2 455) |
| Share of after-tax results of associates | 850 | - | - | 464 | 1 314 |
| Profit/(loss) before taxation | 1 866 | 538 | (10) | 420 | 2 814 |
| Taxation | (402) | (168) | - | - | (570) |
| Profit/(loss) for the period | 1 464 | 370 | (10) | 420 | 2 244 |
| Assets | | | | | |
| Property and equipment | 1 064 | 41 | 13 | - | 1 118 |
| Investments in associates | 16 112 | - | - | 9 038 | 25 150 |
| Financial assets | 5 333 | 7 140 | 384 | - | 12 857 |
| Cash and cash equivalents | 2 263 | 192 | 39 | - | 2 494 |
| Other assets | 216 | 769 | 91 | - | 1 076 |
| Total assets | 24 988 | 8 142 | 527 | 9 038 | 42 695 |
| Liabilities | | | | | |
| Insurance contract liabilities | 2 088 | 4 587 | 151 | - | 6 826 |
| Other liabilities | 10 285 | 942 | 100 | 2 512 | 13 839 |
| Total liabilities | 12 373 | 5 529 | 251 | 2 512 | 20 665 |

Financial instruments measured at fair value

The list 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:

| UNAUDITED<br>R MILLION | Level 1 | Level 2 | Level 3 | Total carrying amount |
|---|---|---|---|---|
| 31 December 2018 | | | | |
| Financial assets | | | | |
| Equity securities | | | | |
| - Exchange traded funds | 689 | - | - | 689 |
| - Listed preference shares | 366 | - | - | 366 |
| - Collective investment schemes | - | 106 | - | 106 |
| - Listed equity securities | 172 | - | - | 172 |
| - Unlisted equity securities | - | - | 133 | 133 |
| Debt securities | | | | |
| - Unsecured loans | - | - | 35 | 35 |
| - Zero-coupon deposits | - | 451 | - | 451 |
| - Term deposits | - | 5 236 | - | 5 236 |
| - Government, municipal and public utility securities | - | 410 | - | 410 |
| - Money market securities | - | 2 547 | - | 2 547 |
| - Collective investment schemes | - | 19 | - | 19 |
| - Other debt securities | - | 37 | 575 | 612 |
| - Collateral swaps | - | 11 | - | 11 |
| - Expected credit loss | - | (56) | - | (56) |
| Derivative asset | - | 16 | - | 16 |
| Total financial assets recognised at fair value | 1 227 | 8 777 | 743 | 10 747 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | - | - | 143 | 143 |
| Derivative liability | - | 48 | - | 48 |
| Total financial liabilities recognised at fair value | - | 48 | 143 | 191 |

| UNAUDITED<br>R MILLION | Six months ended 31 December 2018 | 2017 |
|---|---|---|
| Reconciliation of movement in Level 3 assets | | |
| Balance at the beginning of the period | 798 | 814 |
| Additions in the current period | 3 | 130 |
| Disposal (sales and redemptions) | (51) | - |
| Investment income accrued | 30 | 43 |
| Dividends received from the OUTsurance share trusts | (37) | (38) |
| Balance at the end of the period | 743 | 949 |
| Reconciliation of movement in Level 3 liabilities | | |
| Balance at the beginning of the period | 132 | 150 |
| Preference dividends charged to the income statement | 104 | 100 |
| Preference dividends paid | (93) | (110) |
| Balance at the end of the period | 143 | 140 |

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 accrues on a monthly basis.

| UNAUDITED<br>R MILLION | Level 1 | Level 2 | Level 3 | Total carrying amount |
|---|---|---|---|---|
| 31 December 2017 | | | | |
| Financial assets | | | | |
| Equity securities | | | | |
| - Exchange traded funds | 724 | - | - | 724 |
| - Listed preference shares | 346 | - | - | 346 |
| - Collective investment schemes | - | 107 | - | 107 |
| - Listed equity securities | 172 | - | - | 172 |
| - Unlisted equity securities | - | - | 131 | 131 |
| Debt securities | | | | |
| - Unlisted preference shares | - | 102 | - | 102 |
| - Zero-coupon deposits | - | 292 | - | 292 |
| - Term deposits | - | 4 422 | - | 4 422 |
| - Government, municipal and public utility securities | - | 416 | - | 416 |
| - Money market securities | - | 2 569 | - | 2 569 |
| - Collective investment schemes | - | 44 | - | 44 |
| - Other debt securities at fair value through profit or loss | - | 18 | 818 | 836 |
| Derivative asset | - | 25 | - | 25 |
| Total financial assets recognised at fair value | 1 242 | 7 995 | 949 | 10 186 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | - | - | 140 | 140 |
| Derivative liability | - | 30 | - | 30 |
| Total financial liabilities recognised at fair value | - | 30 | 140 | 170 |

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 instruments. The investment in the exchange traded funds track the performance of the top 50 companies listed on the JSE.

Level 2

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are market observable, the instrument is included in Level 2.

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

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

The fair values of money market instruments and government, municipal and public utility securities are determined based on observable market inputs. These instruments consist of fixed and floating rate notes held in segregated portfolios. These instruments are typically listed on a JSE Interest Rate Market and 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 the some of the life insurance products underwritten by OUTsurance Life. The counterparties to these deposits are the large South African banks. The zero-coupon deposits have been structured to allow for the payment of the notional initial deposit to be spread over the specified term to enable cash flow matching. The maturity dates of the accreting zero-coupon deposits are long-term, with maturity dates at the various trading dates not exceeding 15 years. The fair values of the accreting zero-coupon deposits are determined monthly based on observable market inputs. To determine the fair values of the accreting zero-coupon deposits, a risk-free Swap Yield Curve produced every business day by the JSE is referenced. The instruments are designated at fair value through profit or loss, with both the interest accrual and fair value accounted for in profit or loss.

Collateral swaps are used to offset interest rate risk in the long-term policyholder liability. These swaps are fair valued based on observable market inputs.

Level 3

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

A specific valuation technique is used to value this Level 3 financial instrument, which represents an accrued profit related to the FirstRand Limited Homeowners profit sharing arrangement. The fair value is determined based on valuation techniques where the input is determined by management, e.g. profits arising out of profit sharing arrangements, and is not readily available in the market or where market observable input is significantly adjusted. Inputs are determined by the profits arising and calculations are made in accordance with the profit share percentages, stipulated within the profit sharing arrangement. No assumptions or adjustments or any other inputs are made to the profits before or after distribution. Distribution of the profits arising is made in the form of preference dividends.

Other debt securities are valued with reference to the funding rate of the holding company, which is entity-specific and not observable in the market.

The unsecured loan has a five-year term with no contractual interest rate. In calculating the fair value, the interest rate attached to a risk-free government bond with a term to maturity of five years was utilised.

ADMINISTRATION

RAND MERCHANT INVESTMENT HOLDINGS LIMITED (RMI)
Registration number: 2010/005770/06
JSE ordinary share code: RMI
ISIN code: ZAE000210688

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Alternates

DA Frankel, F Knoetze and DR Wilson

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11 March 2019