

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

Audited summary final results announcement for the year ended 30 June 2020

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
 Normalised earnings R3 086 million (2019: R4 081 million) down 24%
 Headline earnings R1 956 million (2019: R3 801 million) down 49%

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

Discovery 25.0%
 Hastings 29.7%
 Momentum Metropolitan 27.3%
 OUTsurance 89.1%
 RMI Investment Managers 100%
 AlphaCode 100%

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.

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:

For the year ended 30 June

R MILLION	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.

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

For the year ended 30 June

R MILLION	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.

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

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.

Hastings

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.

Momentum Metropolitan

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.

OUTsurance

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.

RMI Investment Managers

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.

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.

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, 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.

EVENTS AFTER THE REPORTING PERIOD

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.

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

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. 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.

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.

Despite the trying environment, many of Momentum Metropolitan's grow 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.

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.

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.

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.

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.

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.

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 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
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 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)

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
30 June 2020						
Normalised earnings	933	407	2 218	486	(958)	3 086
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
30 June 2019						
Normalised earnings	1 261	825	2 390	552	(947)	4 081
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.

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.

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.

Jannie Durand Herman Bosman
Chairman Chief executive officer
Sandton

25 September 2020

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 Teegeer

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

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SPONSOR

(in terms of JSE Listings Requirements)

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TRANSFER SECRETARIES

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This short-form announcement is the responsibility of the directors and is only a summary of the information in the full announcement and does not contain full or complete details. The full announcement was released on the JSE's Stock Exchange News Service (SENS) on 25 September 2020 and can be found on the company's website at www.rmih.co.za or at <https://senspdf.jse.co.za/documents/2020/jse/isse/RMIE/RMI20Final.pdf>. The full announcement is available for inspection at the Company's registered office and the offices of the sponsor during office hours. Any investment decision should be based on the full announcement published on the company's website. The auditor expressed an unmodified audit opinion on the annual financial statements which includes the key audit matters. A copy of the annual financial statements including the audit opinion can be found on <https://www.rmih.co.za>

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