Alexander Forbes Group Holdings Limited

Unaudited interim results and cash dividend announcement
for the six months ended 30 September 2017

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Alexander Forbes Group Holdings Limited

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(Incorporated in the Republic of South Africa)

The condensed consolidated interim results, including the statement of financial position, income statement, statement of changes in equity, statement of comprehensive income and statement of cash flows, for the six months ended 30 September 2017, are prepared in accordance with the JSE Limited (JSE) Listings Requirements, the requirements of International Financial Reporting Standards (IFRS) and its interpretations as adopted by the International Accounting Standards Board, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, financial pronouncements as issued by the Financial Reporting Standards Council, the presentation requirements of IAS 34 *Interim Financial Reporting* and the requirements of the South African Companies Act applicable to summarised financial statements.

The condensed consolidated interim results are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS. This report is presented in South African rand, which is the presentation currency of the group. All amounts are stated in millions of rand (Rm), unless indicated otherwise.

The accounting policies applied in the preparation of these unaudited condensed consolidated interim results are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the group's previous audited consolidated annual financial statements.

These interim results **have not been audited or independently reviewed** by the group's external auditors. The group's 2017 annual financial information has been correctly extracted from the underlying audited consolidated annual financial statements, except where restated for discontinued operations. The directors of the group take full responsibility for the preparation of this report. The results discussed in this announcement are presented in terms of IFRS, with the exception of the normalised results.

In terms of the JSE Listings Requirements, the group no longer posts a physical copy of this announcement to its shareholders. Investors are referred to www.alexanderforbes.co.za where a detailed analysis of the group's financial results for Alexander Forbes Group Holdings Limited can be found.

These condensed consolidated financial statements were compiled under the supervision of Naidene Ford-Hoon, CA(SA), the group chief financial officer.

The results were made publicly available on 4 December 2017.

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EXECUTIVE OVERVIEW

The turnaround at Alexander Forbes Group is intensifying. We are back in the game but we still have much to do. We have focused the business on our crystal-clear investment thesis of 'cash flow plus growth' and are beginning to see the benefits of this reflected in our performance across key group operating metrics.

Overview

Under our refreshed strategy titled 'Ambition 2022', the group continues to deliver strong cash flows from operations of R470 million in the period. Looking at key financial metrics, operating expenses were contained at 2%, group trading margins were further improved to 25.3%, up 40 basis points (bps) and positive operating leverage was once again delivered at 60 bps, up 50 bps from the prior period. Overall, Alexander Forbes delivered operating profit of R455 million, up 5%.

To deliver our investment thesis of 'cash flow plus growth' we need to be financially robust. The group remained financially robust with a strong regulatory surplus position of R1.5 billion, alongside strong cash generated from operations at 103% of operating profit. From this financially robust position the board has approved an 18 cents interim dividend, up 6%, entirely consistent with our focus on sustained shareholder value creation.

Alexander Forbes has an extraordinary depth of talented people who understand our core business drivers of advice, distribution, administration and asset management. Nevertheless, we needed to strengthen some aspects of our skill set, and since the start of the financial year our senior management pool has been deepened with key appointments in finance, asset management, insurance, human resources, IT and transformation, together with numerous internal promotions.

Looking ahead, although we have made progress, turnarounds are rarely linear and the improving results should be tempered by the realism that the business still has issues to address and is performing nowhere near its full potential.

Cash flow

The first part of our 'cash flow plus growth' investment thesis is to convert more of our profits from operations into cash remitted to the group. In this regard the profit to cash conversion was strong with cash generated from operations at 103% of operating profit, at R470 million.

Higher cash remittances allow for optimal capital allocation and dividend flexibility. This remains an area of focus in better targeting capital allocation towards improved enhancement of shareholder value.

"I believe Alexander Forbes is now more focused and better managed."

Andrew A Darfoor
Group chief executive

EXECUTIVE OVERVIEW (CONTINUED)

Operating profit and growth

At the group level, top-line growth of 3% was achieved, with strong performances from a number of our key strategic focus areas. It is clear that certain strategies are beginning to deliver results, particularly across retirements up 16% year on year, group risk up 31% year on year and short-term insurance up 11% year on year. We also launched a number of new solutions into the marketplace over the period.

Profit from operations before non-trading and capital items increased by 5% to R455 million when compared with the same period last year.

The stability of our profit stream underlines our 'cash flow plus growth' investment proposition. While satisfactory at a group level, there remain a number of opportunities to improve both our growth levels and operating profits. Plans are in place to address these issues and execute against performance improvement plans for underperforming businesses.

Expenses

Operating expense growth of 2% over the period reflects the significant effort being taken to address a structural problem within the group – a high cost-to-income ratio. R184 million in cumulative expense reductions and operational efficiencies have been delivered off the 2016 expense base. We are well on track to deliver our R200 million to R250 million expense reduction target by the end of 2020.

That said, significant opportunities remain to reduce expenses and improve operational efficiency. In doing so, our plan is to reinvest some of these additional savings towards initiatives geared towards better equipping us to more efficiently serve our customers through deploying the latest digital, lean and automation technology. I am confident that whatever reallocation is made, this will produce attractive returns and a short payback period required to further improve efficiency.

Going forward, we will measure our expense efficiency using a ratio of operating expenses to operating income ('group expense ratio' or cost-to-income ratio). The group expense ratio for the period was 74.7%, representing an improvement of 40 bps. Lower expense ratios are essential for us to offer competitive products and solutions to our customers, and to produce the necessary returns for our shareholders. It is my intention to show improvement in this ratio year after year.

Improved expense discipline allowed a 2% improvement in the overall group trading margin to 25.3% compared with 24.9% for the same period last year.

People

One of the priorities this financial year was to strengthen the management team to bring new skills into the group and progress has been made in this area. We have appointed new leaders in asset management, human resources, technology and IT, customer solutions and strategy through a combination of senior internal promotions and external hires.

An essential part of our ongoing business transformation is embedding a higher performance culture across Alexander Forbes. We are introducing a new set of values which will guide the day-to-day actions of our people. These values provide the framework on which decisions are made. These values are results, learning and caring.

EXECUTIVE OVERVIEW (CONTINUED)

One of the strengths of Alexander Forbes is the dedication and commitment of our people. This has been exemplary and I would like to thank them for their tireless work on behalf of our customers and shareholders in this transition period as we continue to execute our turnaround under Ambition 2022.

Outlook

The markets we operate in, predominantly South Africa and select emerging markets, continue to experience uncertainty in both political and macroeconomic environments and our business model, much like other financial services organisations, remains sensitive to these factors.

That said, at the interim stage of the 2018 financial year, our performance continues to show progress towards delivering what we said we would do. Our turnaround is intensifying as we focus more on improving operational performance as well as improving the customer experience through an integrated proposition anchored around helping our customers secure a lifetime of financial well-being and security. We have delivered more … more customer-focused solutions, more consistency in delivering positive operating leverage, more trading margins, more operating profit which, alongside more efficient profit to cash conversion, has led to more dividends.

We plan on using big data to be more disruptive in the areas of predictive analytics, taking advantage of our brand strength to drive further efficiency through improved automation. Putting the customer at the centre of our value proposition remains key.

We are also making good progress across our group-wide technology and digital transformation initiatives. We will continue to be selective in our investments with a clinical approach to the allocation of capital.

As a business, we remain focused on building on the progress made over the past year under my tenure as group chief executive. Alexander Forbes is a self-help story with a balanced and increasingly focused portfolio of businesses in South Africa and select emerging markets.

The tendency with self-help or turnaround businesses is to focus on the successes rather than the issues and as a result colleagues become complacent. I want to guard against this happening at Alexander Forbes.

Have we made progress against what we said we would do? Yes, some. Is it a little faster than anticipated? Probably, in the view of some. Have we unlocked the full potential at Alexander Forbes? Not even close … there is certainly much more to come.

Andrew A Darfoor
Group chief executive

FINANCIAL HIGHLIGHTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm		% change	2017	2016 Restated[1]
Operating income[2] (from continuing operations)	↑	3	**1 799**	1 748
Profit from operations (before non-trading and capital items)	↑	5	**455**	435
Trading margin	↑	40 bps	**25.3%**	24.9%
Operating leverage[3]	↑	50 bps	**0.6%**	0.1%
Cash generated (from continuing operations)	↓	(4)	**470**	490
Profit for the period (from continuing operations)	↑	1	**309**	306
Normalised profit for the period (from continuing operations)	↑	1	**359**	355
Headline earnings per share (cents)	↓	(20)	**21.7**	27.0
Interim dividend (cents)	↑	6	**18**	17
Average AuA and AuM (Rbn)	↑	4	**355**	342

1. Restated for discontinued operations – refer to note 9.
2. Operating income represents revenue net of direct expenses.
3. Operating leverage represents the difference in growth of operating income and growth in operating expenses.

OVERVIEW OF FINANCIAL RESULTS

The group's profit from operations before non-trading and capital items has grown by 5% to R455 million for the six months to 30 September 2017.

The results for the six months ended 30 September 2016 included the operating profits from the UK-based Lane Clark & Peacock operation which was discontinued and sold in December 2016.

In addition, on 20 January 2017, the shareholders approved a transaction whereby African Rainbow Capital Proprietary Limited purchased 10% of the group's Africa operations. The earnings of the group for 30 September 2017 reflect the increase in the non-controlling interest resulting from this transaction.

The accumulated profit for the period attributable to equity shareholders of R282 million reflects a decrease of 19% as a result of this discontinued operation and increase in non-controlling interest. The weighted average number of shares in issue of 1 279 million decreased as a result of the 25 million shares repurchased during the period. This share buy-back was offset by a decrease in policyholder shares treated as treasury shares. Headline earnings per share decreased by 20% to 21.7 cents per share for the six months ended 30 September 2017.

Consolidated operating income and profit from operations

Operating income net of direct expenses (hereinafter referred to as operating income) represents gross revenue net of direct product costs. The group's gross revenue is derived from fees charged for consulting, administration and the management of investments through multi-manager portfolios. In addition, operating income includes the net result from both the long-term and short-term insurance operations.

The group produced operating income from continuing operations of R1 799 million for the six months ended 30 September 2017, up 3% when compared with the same period last year.

Operating expenses of R1 344 million were 2% higher than the same period of the previous year. This reflects the significant effort undertaken to reduce costs through driving improved expense discipline and operational efficiencies throughout the group.

Divisional review of operations

The following is a brief summary of the divisional trading results for the six months ended 30 September 2017.

Institutional clients

The institutional clients division delivered R916 million of operating income, which is 5% higher than the prior period. Business units within this division include:

- consulting – administration, consulting and actuarial services to public sector entities, retirement funds and corporates, and healthcare actuarial and consulting;
- retirements – consulting and administration to our umbrella fund offerings, and beneficiary fund consulting and administration;
- investments – investment services, including a range of investment portfolios, advice-led solutions and alternative investments; and
- group risk – group life insurance offered to retirement funds and employers through Alexander Forbes Life.

Expenses were prudently managed with a 5% growth year on year, highlighting a strong

OVERVIEW OF FINANCIAL RESULTS (CONTINUED)

management focus on cost and operational efficiency. As a result profit from operations increased by 4% to R239 million for the six months ended 30 September 2017.

(i) Consulting

New business opportunities were impacted across the business unit as a result of delayed decision-making at trustee and corporate levels. We firmly believe that our value proposition remains relevant and we see strong momentum in clients continuing to value our expertise as a trusted adviser in delivering favourable outcomes and experiences by securing their financial well-being.

Consultants remain key in delivering on our strategic intent, in line with Ambition 2022 to grow our umbrella funds and asset accumulation. One step to ensuring asset accumulation was the launch of the Alexander Forbes Retirement Income Solution (AFRIS) in April 2017. AFRIS provides retirement fund members with a cost-effective solution to preserve their retirement fund savings when changing employment as well as derive an annuity income on retirement.

The healthcare consulting business remained resilient, with operating income up 11% compared with the same period last year. Healthcare broking income grew strongly year on year as a result of an increase in the regulated cap for commission income for broking services, growth in our existing client base and new business wins.

Expenses were managed with a 3% year-on-year increase.

(ii) Retirements

Retirements' operating income increased by 16% year on year, driven by strong new business growth as well as growth in the existing client base. Expenses increased by 14% year on year, attributable to the spend on rolling out financial well-being and member education to umbrella fund clients.

The Alexander Forbes Retirement Fund (AFRF) continues to be a market leader in the umbrella fund industry, providing relevant and cost-effective solutions to the South African market. The Alexander Forbes Coreplan umbrella fund continues to be innovative and provides low-cost simple umbrella solutions with a strong growth trajectory. AF Access, our umbrella fund offering to clients of intermediary financial advisers, continues to achieve good growth in membership and is expected to grow further.

The number of active member records for our umbrella retirement funds increased by 5% year on year to 326 560, with the number of participating employers in our umbrella funds increasing by 4% from the previous year.

Closing assets under management (AuM) for the umbrella funds increased by 10% year on year to R73.2 billion, supported by strong market growth and positive net cash flows. This is compared to an average market growth across portfolios of 5.6%.

(iii) Investments

Operating income increased by 2% for the six months ended 30 September 2017. This was supported by strong market returns from local and global equity markets, which contributed to a blended market return across assets under management and administration of 5.6% for the six months. Continued cost management of direct asset manager costs improved net margin, which increased 5% year on year. Net positive cash flows of R0.2 billion were recorded, underpinned by strong net new business which exceeded retirement fund members' net cash outflow.

OVERVIEW OF FINANCIAL RESULTS (CONTINUED)

A summary of the institutional cash flows for the six-month period is reflected below:

Rbn	2017	2016
Inflows from new business	**6.1**	4.8
Outflows due to client losses	**(1.2)**	(1.9)
Retirement fund member net cash flow movement	**(4.7)**	(9.0)
Ongoing contributions	**16.7**	12.5
Withdrawals for benefit payments	**(21.4)**	(21.5)
Net cash flows	**0.2**	(6.1)

Closing institutional assets under management (including assets under administration) increased by 6% to R301 billion as at 30 September 2017, of which R250 billion are institutional assets under investment management.

Operating expenses increased by 4% for the six months ended 30 September 2017, resulting in profit from operations of R152 million.

AF Investments continues to focus on providing a broad range of investment services ranging from investment portfolios to advice-led solutions and alternatives asset styles, with assets under management, administration and advisement totalling over R800 billion. In September 2017 our Performer portfolio reached 20 years as well as the R100 billion mark. The new investment philosophy of Living*Investing entails outcomes-based investing with a clear objective to help clients secure their financial well-being while managing the risk of uncertain and challenging economic environments.

(iv) Group risk

AF Life group risk grew gross written premium by 22% to R246 million at 30 September 2017, achieving annualised premium income of R534 million as at 30 September 2017. Despite the increase in new business, claims experience continued to be adversely impacted by higher disability claims. Underwriting results improved year on year by 29%.

Retail clients

The retail clients division delivered R690 million of operating income, which is 5% higher than the same period of the previous year, with the majority of growth being delivered by the insurance business and, in particular, the short-term insurance business.

While the business-as-usual operating expenses have been well contained, significant investment has been made in digital and modernisation capabilities. Including the investment in future technology capabilities, expenses increased by 7%, resulting in profit from operations of R223 million, a 1% growth over the prior period.

(i) Wealth and investments

The wealth and investment segment of the retail clients business is focused on generating revenue through the offering of financial advice, administration and management of investments both locally and offshore through our Jersey and Channel Islands operations. This segment incorporates Financial Planning Consultants (FPC), AF Individual Client Administration (AFICA), AF Preservation Fund, the retail components of AF Investments and the Channel Islands.

Operating income increased by 1% to R421 million for the six months ended 30 September 2017. Assets under advisement grew by 7% to R67.8 billion at 30 September 2017. Average assets under administration grew by 3% to R60.7 billion. The operating income split was 73% from

OVERVIEW OF FINANCIAL RESULTS (CONTINUED)

asset-based income and 27% from consulting and advisory fees also linked to asset values.

Over the period, assets being preserved on exit and retirement increased from 46% in September 2016 to 57% in September 2017. The capture rate also increased from 32% in the prior period to 41% for the six months to September.

Assets under management grew by 6% year on year to R55 billion. The flows from FPC to AF products declined from 89% to 85%. The business focus remains on servicing the institutional member client base while expanding the business footprint in discretionary assets, investment in current distribution channels and expansion to include independent financial advisers.

In line with strategy, the retail wealth and investment business is investing in the future technology capabilities that will enhance customer experiences and provide new digital channels of engaging with customers. This has contributed to the 5% increase in expenses and, as a result, profit from operation has decreased by 3% when compared with the prior period.

(ii) Retail insurance

The retail insurance businesses comprise AF Insurance, which provides short-term insurance solutions and the AF Life Retail business which provides long-term insurance solutions to individuals.

Gross written premium in the AF short-term insurance business increased by 5% to R793 million for the six months ended 30 September 2017, with the business continuing to grow as a result of enhanced product offerings and good service levels. The loss ratio for the AF Insurance business improved to 67.3% for the period, well below the target of 71% and a significant improvement on the 74.1% reported at September 2016.

The AF Life Retail business accounts for 1% of the retail clients' business operating income. Over the period the business increased its focus on distribution channels and product innovation, which led to an increase in new life policy sales of 57%. The business remains subscale and as a result incurred an operating loss for the period.

The combined retail insurance businesses produced operating income of R269 million, an increase of 11% over the same period in the prior year. Despite expenses increasing 10% over the prior year, profit from operations increased by 16% to R52 million.

Emerging markets

The emerging markets business comprises institutional and retail operations in Africa.

Year-on-year performance remains challenged with operating income down by 8% compared with the prior period. Costs were contained at 3% year on year, driven by improved expense and operational efficiency initiatives.

Performance in emerging markets is largely led by the SADC region, Namibia and Botswana.

The Namibian business delivered an increase in operating income of 4% over the prior period driven by strong performance in the retail short-term insurance business. Operating income increased by 13% reflecting improved underwriting and management of the loss ratio at 61% when compared with 72% at September 2016. The investments business within institutional also contributed to an

OVERVIEW OF FINANCIAL RESULTS (CONTINUED)

increase in operating income of 6% over the prior period, led by strong asset accumulation. Assets under management of R3.8 billion represents an increase of 8% year on year.

Operating income in Botswana has decreased by 23% over the same period in the prior year, which has affected emerging markets' overall performance. The decline in operating income is a result of the loss of a key client in Botswana, the Government of Botswana, who insourced the Public Officers Pension Fund (BPOPF). The Botswana business has developed and rolled out new initiatives, including beneficiary trust administration and an unclaimed benefits fund.

Nigeria, Uganda and Zambia reflect smaller operations in terms of revenue contribution, and have structured changes to their businesses. Specifically, Uganda and Zambia have new management teams and the Nigerian business is expected to leverage off the actuarial capabilities of the Zimbabwean acquisition to strengthen its capabilities and offering.

The emerging markets business remains a key pillar of the group's strategy and is expected to contribute to the group's ambitions by pursuing both organic and inorganic growth opportunities. The business offers a longer-term play with the pension reform agenda being pursued by many governments across the African continent in view of general demographic development and continued urbanisation.

Administration only

Operating income in the 'admin only' segment comprises fees from pension fund administration, pensioners' payroll and other ad hoc administration fees and excludes umbrella arrangements or where consulting or actuarial solutions are provided. Operating income from these activities is separately disclosed in line with our internal reporting and represents a segment of our business which is not anticipated to grow in the future.

The operating income for this segment declined by 16% from the same period in the prior year, largely as a result of the loss of a large standalone client who chose to insource their administration. The expenses of the division are incorporated with the administration functions supporting the institutional clients and the allocation of these expenses is designed to be in line with the income received. The division therefore does not reflect any profit from operations.

Operations and technology

The operations and technology division continues to focus on driving efficiencies in services provided to our clients. This division is focused on improving standard operating procedures as well as automation.
The significant modernisation programme in which we are replacing the legacy systems within the business is progressing and receiving substantial management attention. Alexander Forbes will continue to enhance its client value proposition and enhance its digital capability through a modern technology platform with an improved customer experience.

Items below profit from operations

Non-trading and capital items

Non-trading and capital items of R73 million (2016: R48 million) include the ongoing accounting amortisation of intangible assets amounting to R46 million (2016: R61 million), once-off costs incurred in defining the group's strategy as well as the results of the cell-captive insurance facility which are consolidated into the group's results. The accounting

OVERVIEW OF FINANCIAL RESULTS (CONTINUED)

for amortisation has no impact on the cash flows of the group and is excluded from the normalised results (refer to the discussion on normalised results).

Investment income

Investment income of R143 million (2016: R93 million income) is generated from the corporate cash balances managed through the group's treasury department. The significant cash balances recorded at 30 September 2017 arise from the sale of our international consulting practice LCP and through the subscription of shares by African Rainbow Capital which occurred in the second half of the prior year.

Investment income related to policyholder investments includes R14 million (2016: R20 million) related to individual policyholder funds in AF Investments that are liable for fund level taxes and for which an equal tax liability is raised. This income (and related tax expense) should theoretically be excluded when assessing the group's own investment income.

Finance costs

Finance costs for the six months ended 30 September 2017 increased to R48 million (2016: R38 million). The finance costs relate largely to the revolving credit facility provided to the group as well as the fair value adjustment associated with a foreign currency hedge linked to the group's software development project.

Accounting for Alexander Forbes shares held in policyholder investment portfolios

In terms of International Financial Reporting Standards (IFRS), any Alexander Forbes shares acquired by underlying asset managers and held by the group's multi-manager investment subsidiary for policyholders (the shares) are required to be accounted for in Alexander Forbes's consolidated financial statements as treasury shares and results in the elimination of any fair value gains or losses made on the shares. Refer to note 13.

This accounting treatment has the effect that fair value movements in respect of linked investment policy assets and liabilities that would normally be offset (and economically should be offset) are not being matched in the income statement. The resultant mismatch between the asset and liability movement does not reflect the economic substance of the transactions. The impact of this mismatch results in an accounting profit or loss that is reported in Alexander Forbes's consolidated income statement, whereas no actual economic profit or loss will ever be realised by the group. The reported loss of R11 million (2016: profit of R2 million) arising from the accounting for policyholder investments as treasury shares for the period is separately disclosed on the face of the income statement.

Profit before and after tax from continuing operations

After non-trading items, finance charges and the effect of the policyholder investments, the group's profit before taxation from continuing operations of R468 million for the six months ended 30 September 2017 is 5% higher compared with the same period last year.

The normalised tax rate excluding the policyholder tax is 31%, resulting in profit after tax of R309 million for the six months ended 30 September 2017.

Discontinued operations

The business results reflected as discontinued operations comprises operations

OVERVIEW OF FINANCIAL RESULTS (CONTINUED)

within East Africa (emerging markets), Alexander Forbes Insurance Consulting Practice as well as Lane Clark & Peacock LLP, together with its subsidiaries in Ireland and the Netherlands (LCP). Both Alexander Forbes Insurance Consulting Practice and LCP were disposed of by 31 March 2017. The comparative information has been restated accordingly. The results of discontinued operations are further detailed in note 9.

Normalised earnings

The group's normalised earnings are presented to reflect the basis upon which management manages the group and reflects the economic substance of the group's performance. The adjustments between the IFRS condensed consolidated income statement and the normalised results are as follows:

(a) Accounting for property lease

The accounting treatment for long-term leases, particularly at the Sandton head office, continues to have a small positive impact on the group's growth rate. The impact is isolated and removed from normalised results to afford a better comparison and to reflect the true premises cost over the long term.

(b) Capitalisation of intangible assets and the related amortisation

Non-trading and capital items include the ongoing accounting amortisation of the intangible assets amounting to R46 million for the six months ended 30 September 2017 (2016: R61 million). The capitalisation of intangible assets and the related amortisation resulted from the required accounting treatment at the time of the private equity acquisition of the group under common control in 2007. As the holding company that was established at the time remains in existence (and is now the listed entity), the amortisation will continue over the expected useful lives established at the time of the transaction. The accounting for amortisation has no impact on the cash flows of the group.

(c) Professional indemnity insurance cell result

The company has a comprehensive insurance programme of which the first layer is self-insured through a cell-captive insurance arrangement. The structure of the cell captive is such that it falls within the requirements of IFRS 10 for controlled entities and is therefore consolidated in our results. The impact of the inclusion of this insurance cell on the group results is separately isolated in non-trading items. The profit or loss of the cell captive is excluded from our normalised results.

(d) Accounting for Alexander Forbes shares held in policyholder investment portfolios

As discussed, this accounting treatment has the effect that fair value movements in respect of linked investment policy assets and liabilities that would normally be offset (and economically should be offset) are not being matched in the income statement. The resultant mismatch between the asset and liability movement does not reflect the economic substance of the transactions.

(e) Investment income and taxation payable on behalf of policyholders

The group's tax rate compared with profits before tax appears high as a result of taxation payable on behalf of policyholders being included in this amount (refer to the investment income discussion as well as note 8). The normalised results exclude the policyholder tax expense and the related investment income which directly offset this tax expense.

OVERVIEW OF FINANCIAL RESULTS (CONTINUED)

Condensed consolidated normalised results (unaudited)

For the six months ended 30 September 2017

Rm	Unaudited Six months 30 Sept 2017	% change	Restated[1] Six months 30 Sept 2016
Operating income net of direct expenses	**1 799**	3	1 748
Operating expenses	**(1 334)**		(1 298)
Profit from operations before non-trading and capital items	**465**	3	450
Non-trading and capital items	**(28)**		7
Operating profit	**437**	(4)	457
Investment income	**129**		73
Finance costs	**(48)**		(38)
Share of profit of associates (net of income tax)	**2**		3
Profit before taxation	**520**	5	495
Income tax expense	**(161)**		(140)
Normalised profit for the period from continuing operations	**359**	1	355
Reconciliation of normalised profit from continuing operations			
Normalised profit for the period from continuing operations	**359**	1	355
Accounting for property lease	**(10)**		(15)
Amortisation of intangible assets arising from business combination	**(46)**		(61)
Reported (loss)/profit arising from accounting for policyholder investments in treasury shares	**(11)**		2
Professional indemnity insurance cell-captive results	**1**		6
Tax effects on above adjustments	**16**		19
Profit for the period from continuing operations	**309**	1	306

1. Restated for discontinued operations.

OVERVIEW OF FINANCIAL RESULTS (CONTINUED)

Financial position and dividends

Financial position and capital requirements

The financial position of the group remains strong and all insurance entities within the group comply with current solvency, liquidity and regulatory capital adequacy requirements.

The board continues to have oversight of and has approved a capital allocation strategy with regard to this cash available, which includes the following:

- continued growth in our dividends to shareholders with a target of 1.5 times cover;
- an acquisition programme, targeting bolt-on value-enhancing businesses in South Africa and select emerging market countries;
- investment in modernisation to position the company for improved efficiency and client service; and
- share buy-backs.

The group is appropriately positioned for the pending introduction of consolidated supervision by the regulators. The current reporting requirements to the regulator already incorporate the expected formal framework.

As at 30 September 2017 the theoretical consolidated regulatory capital position, using the measures and interpretations under the Solvency Assessment and Management (SAM) standard, is a surplus of R1.5 billion (before the declared dividend distribution).

Interim dividend

A dividend declaration has been considered, taking into account the group's current and projected regulatory position, the available cash in the group as well as the highly cash-generative nature of the group and the investment into modernising technology which will demand additional capital investment.

Notice is hereby given that the directors have declared an interim gross cash dividend of 18 cents (14.4 cents net of dividend withholding tax) per ordinary share for the six months ended 30 September 2017.

The dividend above has been declared from income reserves. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt. The issued number of shares, including treasury shares, at the date of declaration is 1 341 426 963.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend
Tuesday, 9 January 2018

Shares commence trading ex dividend
Wednesday, 10 January 2018

Record date
Friday, 12 January 2018

Payment date
Monday, 15 January 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 10 January 2018 and Friday, 12 January 2018, both days inclusive.

Prospects

Our refined strategy keeps our clients at the centre and focuses on securing their financial well-being. Our value proposition is about engaging with our customers at all stages of their lives to help them make the right financial decisions. We will do this by building stronger client relationships, by providing education and sound financial advice, and by delivering

OVERVIEW OF FINANCIAL RESULTS (CONTINUED)

relevant, innovative financial product solutions. Everything we do is to help our customers achieve a lifetime of financial security. Our aim is to be a trusted partner with our customers throughout their life journey.

Under Ambition 2022, our five-pillar strategy revolves around growing each of our businesses in a more integrated and collaborative manner, improving operational efficiency and embracing digital capabilities to improve the overall client experience. We also want to expand the penetration or retailisation of our member base with the concept of lifetime solutions and advice.

In terms of key strategic focus areas, the strategy across the group is centred on five core priorities:

- getting 'back in the boardroom' and improving cross-sell to end-consumers;
- making umbrella the core institutional growth engine to drive access to end-consumers;
- driving small and medium-sized enterprise (SME) penetration;
- using financial well-being to target the end consumer, leveraging data analytics and portfolio pricing; and
- driving asset accumulation across the group.

Over the five-year period to 2022 our aim is to achieve revenue growth at or above market while delivering positive operating leverage. This should translate into improved operating profit growth and margin enhancement.

Change in directorate

On 1 September 2017, Ms B Radebe was appointed as non-executive director of Alexander Forbes Group Holdings Limited and Ms N Ford-Hoon (Fok) was appointed as the group chief financial officer. On 1 November 2017, Mr S Moloko retired as the chairman of the board. Mr Moloko will be replaced by Ms N Nyembezi whose appointment will take effect on 1 January 2018. In the interim Mr MD Collier will serve as the acting chairman. The board wishes to express its sincere appreciation to Mr Moloko for his strategic input, leadership and dedication to the group over the past 10 years.

Corporate governance

On 1 October 2017, Mrs CH Wessels was appointed as group company secretary.

The company is committed to application of the principles contained in the King IV Report on Corporate Governance for South Africa (King IV) and is in the process of aligning policies and practices to the desired principles. We will be providing detailed information on the application of practices as part of the 2018 integrated reporting cycle.

On behalf of the board of directors

AA Darfoor
Group chief executive

MD Collier
Acting chairman

Johannesburg
30 November 2017

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	Notes	**Unaudited Six months 30 Sept 2017**	Restated[1] Six months 30 Sept 2016	Restated[1] 12 months 31 March 2017
Continuing operations				
Fee and commission income	3	**2 002**	1 994	3 970
Direct expenses attributable to fee and commission income		**(533)**	(529)	(1 063)
Net income from insurance operations	4	**330**	283	564
Operating income net of direct expenses		**1 799**	1 748	3 471
Operating expenses		**(1 344)**	(1 313)	(2 534)
Profit from operations before non-trading and capital items		**455**	435	937
Non-trading and capital items	5	**(73)**	(48)	(137)
Operating profit		**382**	387	800
Investment income[2]	6	**143**	93	178
Finance costs	7	**(48)**	(38)	(89)
Reported (loss)/profit arising from accounting for policyholder investments in treasury shares	13	**(11)**	2	(2)
Share of profit of associates (net of income tax)		**2**	3	4
Profit before taxation		**468**	447	891
Income tax expense	8	**(159)**	(141)	(267)
Income tax expense relating to corporate profits		**(145)**	(121)	(245)
Income tax expense on policyholder investment returns		**(14)**	(20)	(22)
Profit for the period from continuing operations		**309**	306	624
Discontinued operations				
Profit from discontinued operations (net of income tax)	9	**15**	110	950
Profit for the period		**324**	416	1 574
Attributable to:				
Owners of the company		**282**	349	1 465
Non-controlling interest holders		**42**	67	109
		324	416	1 574
Basic earnings per share (cents)	10	**22.0**	27.3	114.5
Diluted earnings per share (cents)	10	**22.0**	26.9	113.8
Weighted average number of shares in issue (millions)	10	**1 279**	1 279	1 280

1. Restated for discontinued operations.
2. Investment income includes R14 million (2016: R20 million) recognised as a result of policyholder tax requirements. An amount of R22 million was recognised for the year ended 31 March 2017.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	**Unaudited Six months 30 Sept 2017**	Restated[1] Six months 30 Sept 2016	Audited 12 months 31 March 2017
Profit for the period	**324**	416	1 574
Other comprehensive income			
Items that may be reclassified to profit or loss			
Foreign currency translation differences of foreign operations	**28**	(220)	(329)
Foreign currency translation reserve of disposed foreign operations reclassified to profit or loss	**–**	–	(209)
Fair value adjustment on cash flow hedge	**3**	–	–
	31	(220)	(538)
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations	**–**	–	13
	–	–	13
Total comprehensive income for the period	**355**	196	1 049
Total comprehensive income attributable to:			
Owners of the company	**313**	160	968
Non-controlling interest holders	**42**	36	81
Total comprehensive income for the period	**355**	196	1 049

1. Restated for discontinued operations.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2017

Rm	Notes	**30 Sept 2017**	30 Sept 2016	Audited 31 March 2017
ASSETS				
Financial assets held under multi-manager investment contracts	13	**298 859**	278 817	281 498
Financial assets of insurance and cell-captive facilities		**313**	234	320
Property and equipment		**188**	313	202
Purchased and developed computer software		**302**	154	163
Goodwill		**3 355**	3 898	3 355
Intangible assets		**421**	610	462
Investment in associates		**11**	11	13
Deferred tax assets		**151**	156	148
Financial assets		**526**	490	357
Insurance receivables		**1 204**	1 067	1 137
Trade and other receivables		**411**	962	451
Cash and cash equivalents		**5 970**	4 466	6 263
Assets of disposal groups classified as held for sale	9	**70**	–	66
Total assets		**311 781**	291 178	294 435

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 30 SEPTEMBER 2017

Rm	Notes	**30 Sept 2017**	30 Sept 2016	Audited 31 March 2017
EQUITY AND LIABILITIES				
Owners of the company		**6 448**	5 789	6 901
Non-controlling interest		**251**	169	218
Total equity		**6 699**	5 958	7 119
Financial liabilities held under multi-manager investment contracts	13	**298 944**	278 940	281 604
Liabilities of insurance and cell-captive facilities		**313**	234	320
Borrowings		**725**	807	725
Employee benefits		**166**	174	160
Deferred tax liabilities		**178**	287	199
Provisions		**306**	324	291
Finance lease liability		**72**	78	75
Operating lease liability		**192**	260	182
Deferred income		**4**	47	5
Insurance payables		**3 464**	2 753	2 960
Trade and other payables		**706**	1 316	784
Liabilities of disposal groups classified as held for sale	9	**12**	–	11
Total liabilities		**305 082**	285 220	287 316
Total equity and liabilities		**311 781**	291 178	294 435
Total equity per above		**6 699**	5 958	7 119
Number of shares in issue (net of treasury shares) (millions)		**1 262**	1 280	1 282
Net asset value per ordinary share (cents)		**531**	465	555

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	**Six months 30 Sept 2017**	Restated[1] Six months 30 Sept 2016	Audited 12 months 31 March 2017
Cash flows from operating activities			
Cash generated from operations	**470**	490	1 091
Net interest received	**87**	35	56
Taxation paid	**(127)**	(228)	(378)
Dividends paid	**(600)**	(289)	(509)
Operating cash flows from continuing operations	**(170)**	8	260
Net cash flows received from/(paid to) insurance and policyholder contracts	**390**	(415)	(272)
Net cash flows received from/(paid to) policyholder investment contracts	**167**	2 482	(1 007)
Cash flows from operating activities – discontinued operations	**(3)**	133	250
Net cash inflow/(outflow) from operating activities	**384**	2 208	(769)
Cash flows from investing activities			
Net proceeds from sale of subsidiaries and businesses	**–**	52	883
Dividends from associates	**4**	–	–
Net cash (outflow)/inflow on financial assets	**(174)**	9	27
Capital expenditure for the period (net of proceeds on disposal)	**(173)**	(62)	(125)
Cash flows from investing activities – discontinued operations	**–**	–	(9)
Net cash (outflow)/inflow from investing activities	**(343)**	(1)	776

1. Restated for discontinued operations.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	**Six months 30 Sept 2017**	Restated[1] Six months 30 Sept 2016	Audited 12 months 31 March 2017
Cash flows from financing activities			
Shares purchased in terms of share buy-back programme[2]	**(200)**	–	–
Borrowings raised	**–**	100	100
Repayment of borrowings	**–**	–	(83)
Proceeds from non-controlling interests	**–**	–	744
Payments to non-controlling interests	**(9)**	(6)	(113)
Cash flows from investing activities – discontinued operations	**–**	(116)	(117)
Net cash (outflow)/inflow from financing activities	**(209)**	(22)	531
Net (decrease)/increase in cash and cash equivalents	**(168)**	2 185	538
Cash and cash equivalents at the beginning of the period	**16 087**	15 748	15 748
Exchange gains/(losses) on foreign cash and cash equivalents	**40**	(127)	(199)
Cash and cash equivalents at the end of the period	**15 959**	17 806	16 087
Analysed as follows:			
Cash and cash equivalents of continuing operations	**5 970**	4 234	6 263
Cash held under multi-manager investment contracts	**9 967**	13 323	9 813
Cash held under cell-captive insurance facilities	**13**	17	–
Cash and cash equivalents of disposal groups held for sale	**9**	232	11
	15 959	17 806	16 087

1. Restated for discontinued operations.
2. The group purchased Alexander Forbes Group Holdings Limited shares to the value of R200 million during the period in a general buy-back approved by shareholders on 27 March 2017.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	Share capital	Treasury shares	Other reserves	Accumu-lated (loss)/profit	Total	Non-controlling interest	Total equity
At 31 March 2016	6 192	(181)	157	(267)	5 901	255	6 156
Total comprehensive income	–	–	(189)	349	160	36	196
Profit for the period	–	–	–	349	349	67	416
Other comprehensive income	–	–	(189)	–	(189)	(31)	(220)
Total transactions with owners	–	(1)	19	(290)	(272)	(122)	(394)
Movement of treasury shares in policyholder assets	–	(1)	–	–	(1)	–	(1)
Dividends paid	–	–	–	(287)	(287)	–	(287)
Movement in share-based payment reserve	–	–	20	–	20	–	20
Other movements in non-controlling interest[1]	–	–	(1)	(3)	(4)	(122)	(126)
At 30 September 2016	6 192	(182)	(13)	(208)	5 789	169	5 958
Total comprehensive income	–	–	(321)	1 129	808	45	853
Profit for the period	–	–	–	1 116	1 116	42	1 158
Other comprehensive income	–	–	(321)	13	(308)	3	(305)
Total transactions with owners	–	22	(2)	284	304	4	308
Movement of treasury shares in policyholder assets	–	22	–	–	22	–	22
Introduction of empowerment partner[2]	–	–	5	521	526	222	748
Loss on shareholder transactions[3]	–	–	–	(18)	(18)	(4)	(22)
Dividends paid	–	–	–	(222)	(222)	(197)	(419)
Movement in share-based payment reserve	–	–	(8)	–	(8)	–	(8)
Other movements in non-controlling interest[1]	–	–	1	3	4	(17)	(13)
At 31 March 2017	6 192	(160)	(336)	1 205	6 901	218	7 119

1. These amounts include distributions made to non-controlling interest holders as well as changes to acquisitions and disposal of equity held by non-controlling interest holders.
2. This amount relates to the disposal of equity interest in Alexander Forbes Limited to African Rainbow Capital.
3. Purchase by AF Investments of the remaining 49.99% stake in Caveo Fund Solutions Proprietary Limited from a non-controlling interest.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	Share capital	Treasury shares	Other reserves	Accumu-lated profit	Total	Non-controlling interest	Total equity
At 31 March 2017	6 192	(160)	(336)	1 205	6 901	218	7 119
Total comprehensive income	–	–	31	282	313	42	355
Profit for the period	–	–	–	282	282	42	324
Other comprehensive income	–	–	31	–	31	–	31
Total transactions with owners	–	(129)	(37)	(600)	(766)	(9)	(775)
Shares purchased in terms of share buy-back programme[4]	–	(200)	–	–	(200)	–	(200)
Settlement of share incentive schemes[5]	–	39	(39)	–	–	–	–
Movement of treasury shares in policyholder assets	–	32	–	–	32	–	32
Dividends paid	–	–	–	(600)	(600)	(9)	(609)
Movement in share-based payment reserve	–	–	2	–	2	–	2
At 30 September 2017	6 192	(289)	(342)	887	6 448	251	6 699

4. The group purchased Alexander Forbes Group Holdings Limited shares to the value of R200 million during the period in a general buy-back approved by shareholders on 27 March 2017.

5. During the period R26 million of the conditional share incentive scheme and R13 million of the forfeitable share scheme were settled. Both amounts relate to the 2014 tranche.

GROUP SEGMENTAL INCOME AND PROFIT ANALYSIS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

	Operating income net of direct expenses			Profit from operations before non-trading and capital items		
Rm	**2017**	%	2016	**2017**	%	2016
Institutional clients						
Consulting	**415**	2	405	**43**	–	43
Retirements	**128**	16	110	**33**	22	27
Investments	**335**	2	328	**152**	–	152
Group risk	**38**	31	29	**11**	57	7
	916	5	872	**239**	4	229
Retail clients						
Wealth and investments	**421**	1	415	**171**	(3)	176
Retail insurance	**269**	11	243	**52**	16	45
	690	5	658	**223**	1	221
Emerging markets	**115**	(8)	125	**3**	(81)	16
Administration only	**78**	(16)	93	**–**	–	–
Total group before items below	**1 799**	3	1 748	**465**	–	466
Accounting for property leases				**(10)**	(33)	(15)
Accounting for share scheme costs				**–**	(100)	(16)
Total group	**1 799**	3	1 748	**455**	5	435

The segmental analysis provided above reflects the operating structure under which management currently reports. The above table reflects a change in the segmental analysis previously reported. Owing to the change in structure and the reallocation of certain business lines the prior period's numbers have been represented to provide the appropriate comparative numbers.

SUMMARY NOTES

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

1. Basis of preparation

The condensed consolidated interim results are prepared in accordance with the JSE Limited (JSE) Listings Requirements, the requirements of International Financial Reporting Standards (IFRS) and its interpretations as adopted by the International Accounting Standards Board, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, financial pronouncements as issued by the Financial Reporting Standards Council, the presentation requirements of IAS 34 *Interim Financial Reporting* and the requirements of the South African Companies Act.

The accounting policies applied in the preparation of the condensed consolidated interim results are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

These interim results have not been audited or independently reviewed by the group's external auditors. The group's 2017 annual financial information has been correctly extracted from the underlying audited consolidated annual financial statements, except where restated for discontinued operations.

These condensed consolidated interim results were compiled under the supervision of Naidene Ford-Hoon, CA(SA), the group chief financial officer. The directors take full responsibility for the preparation of this report.

	Six months 30 Sept 2017	Six months 30 Sept 2016	12 months 31 March 2017
2. Exchange rates			
The results of foreign subsidiaries have been translated to rand as follows:			
Weighted average R:GBP rate	**17.0**	19.8	19.0
Closing R:GBP rate	**18.1**	17.9	16.8

The weighted average exchange rate above reflects the weighted exchange rate based on the actual results recorded from the international division during the period under review.

SUMMARY NOTES (CONTINUED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

	Rm	**Six months 30 Sept 2017**	Six months 30 Sept 2016	12 months 31 March 2017
3.	**Fee and commission income**			
	Brokerage fees and commission income	**21**	26	45
	Fee income from consulting and administration services	**1 043**	1 041	2 096
	Revenue from investment management activities	**929**	909	1 790
	Other income	**9**	18	39
	Fee and commission income	**2 002**	1 994	3 970
4.	**Net income from insurance operations**			
	Insurance premiums earned	**1 189**	1 139	2 318
	Less: amounts ceded to reinsurers	**(688)**	(682)	(1 399)
	Investment income from insurance operations	**17**	19	37
	Less: insurance claims and withdrawals	**(835)**	(784)	(1 686)
	Plus: insurance claims and benefits covered through reinsurance contracts	**647**	591	1 294
	Net income from insurance operations	**330**	283	564
5.	**Non-trading and capital items**			
	Non-trading:			
	Professional indemnity insurance cell-captive result	**1**	6	30
	Amortisation of intangible assets arising from business combination	**(46)**	(61)	(117)
	Costs relating to strategic consulting engagement	**(22)**	–	(39)
	Other non-trading items[1]	**(6)**	7	(11)
	Total non-trading and capital items	**(73)**	(48)	(137)

1. Other non-trading items relate to an impairment of developed software.

SUMMARY NOTES (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	**Six months 30 Sept 2017**	Six months 30 Sept 2016	12 months 31 March 2017
6. Investment income			
General operations			
Interest income	**108**	50	115
Investment and dividend income	**21**	13	33
Foreign exchange gains/(losses) on intergroup loans	**–**	10	8
	129	73	156
Multi-manager operations			
Investment income linked to policyholder tax expense	**14**	20	22
Total investment income	**143**	93	178
7. Finance costs			
Finance costs derived from financial liabilities classified and carried at amortised costs:			
Interest on revolving credit facility	**(30)**	(32)	(66)
Net hedging costs[1]	**(9)**	–	–
Other interest costs	**(9)**	(6)	(23)
Total finance costs	**(48)**	(38)	(89)

1. During the period under review the group entered into a foreign exchange contract to hedge foreign denominated cash flows relating to the IT modernisation project. The group designated only the change in the fair value of the spot element as the hedging instrument. Consequently, changes in the spot rate are accounted for in a cash flow hedge reserve via other comprehensive income whereas the changes in fair value as a result of the forward points are immediately recognised in profit or loss and presented under finance costs.

SUMMARY NOTES (CONTINUED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	**Six months 30 Sept 2017**	Six months 30 Sept 2016	12 months 31 March 2017
8. Income tax expense			
South African income tax			
Current tax	**(152)**	(130)	(269)
Current period	**(149)**	(134)	(275)
Prior period	**(3)**	4	6
Deferred tax	**15**	15	33
Current period	**15**	16	26
Prior period	**–**	(1)	7
Foreign income tax			
Current tax	**(6)**	(2)	(4)
Current period	**(6)**	(2)	(4)
Deferred tax	**1**	–	–
Prior period	**1**	–	–
Foreign withholding tax	**(3)**	(4)	(5)
Corporate income tax expense	**(145)**	(121)	(245)
Tax attributable to policyholders	**(14)**	(20)	(22)
Current tax – current period	**(19)**	(36)	(24)
Deferred tax – current period	**5**	16	2
Total income tax expense	**(159)**	(141)	(267)

SUMMARY NOTES (CONTINUED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

9. Discontinued operations

Businesses that have been disposed of or are considered discontinued are disclosed separately with comparative information for the condensed consolidated income statement being restated. Assets and liabilities held at the end of the period in respect of discontinued operations, where the disposal process is ongoing, have been reclassified as assets and liabilities of disposal groups held for sale.

As announced on 20 December 2016 on the JSE, the group disposed of its 60% stake in Lane Clark & Peacock, including the LCP subsidiaries in Ireland and the Netherlands, for a total consideration of £75.4 million. The Alexander Forbes (East Africa) operations continue to be reflected as discontinued with ongoing discussions with management in that region for disposal.

In addition, the group considered the Alexander Forbes Jersey and Channel Islands operations as discontinued at 31 March 2017. Management has, however, decided to continue with these operations in the current period. The results of this business unit are included within the wealth and investments sector of retail clients.

Rm	**Six months 30 Sept 2017**	Six months 30 Sept 2016	12 months 31 March 2017
Assets and liabilities of disposal group classified as held for sale			
Long-term assets	**5**	–	5
Deferred tax assets	**1**	–	1
Trade and other receivables	**53**	–	47
Other current assets	**2**	–	2
Cash and cash equivalents	**9**	–	11
Total assets	**70**	–	66
Trade and other payables	**12**	–	11
Total liabilities	**12**	–	11

SUMMARY NOTES (CONTINUED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	**Six months 30 Sept 2017**	Six months 30 Sept 2016	12 months 31 March 2017
9. Discontinued operations (continued)			
Condensed income statement from discontinued operations			
Operating income net of direct expenses	**27**	956	1 303
Operating expenses	**(20)**	(821)	(1 123)
Operating profit before non-trading and capital items	**7**	135	180
Net investment income/(finance costs)	**1**	2	(7)
Non-trading and capital items	**10**	(14)	(1)
Profit before tax	**18**	123	172
Taxation	**(3)**	(17)	(18)
Profit after tax	**15**	106	154
Profit on disposals	**–**	4	796
Profit from discontinued operations	**15**	110	950

10. Earnings per share

10.1 Basic earnings per ordinary share

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the company by the weighted average number of ordinary shares in issue during the period.

10.2 Headline earnings per ordinary share

Headline earnings per share is calculated by excluding applicable non-trading and capital gains or losses from the profit attributable to ordinary shareholders and dividing the resultant headline earnings by the weighted average number of ordinary shares in issue during the period. Headline earnings is defined in Circular 2/2015 issued by the South African Institute of Chartered Accountants.

SUMMARY NOTES (CONTINUED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

10. Earnings per share (continued)

10.3 Diluted earnings per ordinary share

Diluted earnings per ordinary share is calculated by adjusting the profit attributable to owners of the company for any changes in income or expense that would result from the conversion of dilutive potential ordinary shares; and dividing the result by the weighted average number of ordinary shares increased by the weighted average number of additional ordinary shares that would have been outstanding, assuming the conversion of all dilutive potential ordinary shares.

Million	**Six months 30 Sept 2017**	Six months 30 Sept 2016	12 months 31 March 2017
10.4 Number of shares			
Weighted average number of shares	**1 341**	1 341	1 341
Weighted average shares held by policyholders classified as treasury shares	**(16)**	(20)	(19)
Weighted average treasury shares	**(46)**	(42)	(42)
Weighted average number of shares in issue (net of treasury shares)	**1 279**	1 279	1 280
Dilutive shares (conditional and forfeitable share plan)	**5**	16	7
	1 284	1 295	1 287
Actual number of shares in issue	**1 341**	1 341	1 341
Treasury shares	**(79)**	(61)	(59)
Shares in issue net of treasury shares	**1 262**	1 280	1 282

SUMMARY NOTES (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	Six months 30 Sept 2017	Six months 30 Sept 2016	12 months 31 March 2017
10. Earnings per share (continued)			
10.5 Calculation of basic and headline earnings from total operations			
Profit attributable to owners of the company	**282**	349	1 465
Adjusting items			
Profit on sale of subsidiary	**–**	(4)	(796)
Impairment losses and other capital items	**(5)**	–	14
Headline earnings for the period	**277**	345	683
Earnings per share from total operations			
Basic earnings per share (cents)	**22.0**	27.3	114.5
Headline earnings per share (cents)	**21.7**	27.0	53.4
Diluted basic earnings per share (cents)	**22.0**	26.9	113.8
Diluted headline earnings per share (cents)	**21.6**	26.7	53.1

The group has an approved share scheme for employees that may result in dilution on both earnings per share and headline earnings per share at the future date of vesting. The dilutive effect is conditional on employee retention and performance during the period for each award. The above dilutive effect is calculated based on the performance of the company for the current period in relation to the performance criteria.

SUMMARY NOTES (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	**Six months 30 Sept 2017**	Six months 30 Sept 2016	12 months 31 March 2017
10. Earnings per share (continued)			
10.6 Calculation of basic and headline earnings from continuing operations			
Profit after tax from continuing operations	**309**	306	624
Less: profit attributable to non-controlling interests	**(39)**	(6)	(23)
Profit attributable to owners of the company	**270**	300	601
Adjusted for:			
Impairment losses and other capital items	**6**	–	6
Headline earnings for the period from continuing operations	**276**	300	607
Earnings per share from continuing operations			
Basic earnings per share (cents)	**21.1**	23.5	47.0
Headline earnings per share (cents)	**21.6**	23.5	47.4
Diluted basic earnings per share (cents)	**21.0**	23.1	46.7
Diluted headline earnings per share (cents)	**21.5**	23.2	47.2

SUMMARY NOTES (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	**Six months 30 Sept 2017**	Six months 30 Sept 2016	12 months 31 March 2017
10. Earnings per share (continued)			
10.7 Calculation of basic and headline earnings from discontinued operations			
Profit after tax from discontinued operations	**15**	110	950
Less: profit attributable to non-controlling interests	**(3)**	(61)	(86)
Profit attributable to owners of the company	**12**	49	864
Adjusted for:			
Profit on disposal of subsidiary	**–**	(4)	(796)
Impairment losses and other capital items	**(11)**	–	8
Headline earnings for the period from discontinuing operations	**1**	45	76
Earnings per share from discontinuing operations			
Basic earnings per share (cents)	**0.9**	3.8	67.5
Headline earnings per share (cents)	**0.1**	3.5	6.0
Diluted basic earnings per share (cents)	**1.0**	3.8	67.1
Diluted headline earnings per share (cents)	**0.1**	3.5	5.9

SUMMARY NOTES (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Rm	Six months 30 Sept 2017	Six months 30 Sept 2016	12 months 31 March 2017
11. Capital expenditure for the period	**192**	63	132
12. Operating lease commitments			
Due within one year	**178**	170	187
Due between one and five years	**756**	1 135	766
Due after five years	**447**	813	558
Total operating lease commitments	**1 381**	2 118	1 511

Capital expenditure and commitments will be funded from internal cash resources.

13. Financial assets and liabilities held under multi-manager investment contracts

The policyholder assets held by the group's multi-manager investment subsidiary, Alexander Forbes Investments in South Africa and Namibia, are recognised on the statement of financial position in terms of IFRS. These assets are directly matched by linked obligations to policyholders.

The investments by underlying asset managers in the listed shares of the group are recognised as treasury shares and all fair value adjustments recognised on these treasury shares are reversed, while the corresponding fair value of the liability continues to be recognised in the income statement. The resultant loss for the period of R11 million has been disclosed separately on the face of the statement of comprehensive income. This treatment also impacts on the number of shares in issue, the impact of which is disclosed in note 10.

SUMMARY NOTES (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

13. Financial assets and liabilities held under multi-manager investment contracts (continued)

Below is a reconciliation of the assets held under multi-manager investment contracts with the linked liabilities under such contracts:

Rm	**Six months 30 Sept 2017**	Six months 30 Sept 2016	12 months 31 March 2017
Total assets held under multi-manager investment contracts (per statement of financial position)	**298 859**	278 817	281 498
Reversal of adjustments made under IFRS:			
Alexander Forbes shares held as policyholder assets and reclassified in the group statement of financial position as treasury shares	**105**	158	137
Financial effects of accounting for policyholder investments as treasury shares – prior periods	**(31)**	(33)	(33)
Financial effects of accounting for policyholder investments as treasury shares – current period	**11**	(2)	2
Total financial liabilities held under multi-manager investment contracts	**298 944**	278 940	281 604

14. Financial risk management and financial instruments

14.1 Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements and this disclosure should be read in conjunction with the group's annual financial statements as at 31 March 2017.

There have been no material changes in the risk management or in any risk management policies since the year-end.

14.2 Liquidity risk

Compared with the 31 March 2017 year-end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

SUMMARY NOTES (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

14. Financial risk management and financial instruments (continued)

14.3 Fair value hierarchy

The group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs for valuation that are not based on observable market data (that is, inputs are unobservable).

The table below analyses financial instruments carried at fair value by valuation method.

Rm	Level 1	Level 2	Level 3	Total
30 September 2017				
Financial assets measured at fair value	**198 157**	**87 798**	**2 937**	**288 892**
Financial assets held under multi-manager investment contracts	167	133	–	300
Financial assets of insurance and cell-captive facilities	–	437	–	437
Total financial assets measured at fair value	**198 324**	**88 368**	**2 937**	**289 629**
Cash held under multi-manager investment contracts	–	9 967	–	9 967
Cash held under cell-captive insurance facilities	–	13	–	13
	–	9 980	–	9 980
Financial liabilities measured at fair value				
Financial liabilities held under multi-manager investment contracts	–	298 944	–	298 944
Financial liabilities of insurance and cell-captive facilities	–	313	–	313
Total financial liabilities measured at fair value	**–**	**299 257**	**–**	**299 257**

SUMMARY NOTES (CONTINUED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

14. Financial risk management and financial instruments (continued)

14.3 Fair value hierarchy (continued)

Rm	Level 1	Level 2	Level 3	Total
31 March 2017				
Financial assets measured at fair value				
Financial assets held under multi-manager investment contracts	185 603	83 311	2 771	271 685
Financial assets of insurance and cell-captive facilities	172	148	–	320
General operations	–	260	–	260
Total financial assets measured at fair value	185 775	83 719	2 771	272 265
Cash held under multi-manager investment contracts	–	9 813	–	9 813
	–	9 813	–	9 813
Financial liabilities measured at fair value				
Financial liabilities held under multi-manager investment contracts	–	281 604	–	281 604
Financial liabilities of insurance and cell-captive facilities	–	320	–	320
Total financial liabilities measured at fair value	–	281 924	–	281 924

Transfers between Levels 1 and 2

Movements in financial assets associated with multi-manager investment contracts and cell-captive insurance facilities are directed by clients. These movements are a result of investments and withdrawals made. There were no transfers between Levels 1 and 2 during the period which were as a result of a change in valuation methodology.

Level 3 reconciliation

Level 3 financial assets and liabilities comprise mainly policyholder and cell-owner assets and liabilities. Financial assets and financial liabilities in this level are insignificant in relation to total financial assets and financial liabilities respectively. In addition, the movements in financial liabilities are directly linked to the movements in the linked asset. Any fair value gains or losses resulting from policyholder or cell-owner financial assets and financial liabilities have no impact on profit or loss except to the extent that they relate to treasury shares. There was no change in the valuation methodology of Level 3 assets during the period under review.

SUMMARY NOTES (CONTINUED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

14. Financial risk management and financial instruments (continued)

14.3 Fair value hierarchy (continued)

Sensitivity analysis for Level 3 financial assets

The following table presents significant inputs to show the sensitivity of Level 3 measurements and assumptions used to determine the fair value of the financial assets:

Instrument	Valuation technique	Significant inputs
Suspended listed equities	Exchange traded price	Last exchange traded price
Community property company assets	Discounted cash flow model	Capitalisation rates and discount rates
Infrastructure and development assets	Equity Distribution discount model, cost, mark to market, price earnings multiple and liquidation value	Equity Interest rates and exchange traded prices
	Debt Discounted cash flow model	Debt Interest rates – fixed and floating

The group's overall profit or loss is not sensitive to the inputs of the models applied to derive fair value.

14.4 Valuation methods and assumptions for valuation techniques

There were no changes in the valuation methods and assumptions for valuation techniques since 31 March 2017. A detailed description of the valuation methods and assumptions for valuation techniques is available in our annual financial statements.

14.5 Fair value of financial assets and financial liabilities measured at amortised cost

The fair value of the following financial assets and liabilities measured at amortised cost approximate their carrying amount:

- Trade and other receivables
- Insurance receivables
- Cash and cash equivalents
- Trade and other payables
- Insurance payables
- Borrowings at a floating interest rate

SUMMARY NOTES (CONTINUED)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

15. Critical assumptions and judgements

During the year ended 31 March 2017 we reported a specific matter which was and is still being reviewed by a foreign regulator in respect of a legacy subsidiary business that was sold in prior years. The claim, should any arise, will be as a result of warrantees provided on the original sale of the business. Management have assessed and concluded that it is still too early to determine (i) if there is any liability that may arise and (ii) in the event a liability does arise, if it will impact on the group. The group is adequately insured for possible claims as a result of such errors and omissions. In addition, management have obtained confirmation from the underwriters indicating that, should a liability arise, the event will be covered subject to the terms and conditions of the policy.

16. Events after the reporting period

No matter which is material to the financial affairs of the company has occurred between the reporting date and the date of approval of the interim results.

CORPORATE INFORMATION

Alexander Forbes Group Holdings Limited

Registration number: 2006/025226/06
Tax reference number: 9404/921/15/8
JSE share code: AFH
ISIN: ZAE000191516
(Incorporated in the Republic of South Africa)

Independent directors
MD Collier (acting chairman), D Konar, HP Meyer, BJ Memela

Non-executive directors
MS Moloko (chairman – retired 1 November 2017), DJ Anderson, WS O'Regan, B Radebe (appointed 1 September 2017)

Executive directors
AA Darfoor (group chief executive)
N Ford-Hoon (Fok) (group chief financial officer – appointed 1 September 2017)

Company secretary
CH Wessels (appointed 1 October 2017)

Investor relations
Z Amra

Registered office
Alexander Forbes, 115 West Street, Sandown, 2196

Transfer secretaries
Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
PO Box 61051, Marshalltown, 2107

Sponsor
Rand Merchant Bank (A division of FirstRand Bank Limited)
1 Merchant Place, corner of Fredman Drive and Rivonia Road, Sandton, 2196

Website
www.alexanderforbes.co.za

Date of issue: 4 December 2017

Alexander Forbes Group Holdings Limited

(the company)

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Certain subsidiaries of the company are licensed financial services providers.