FY2018

Alexander Forbes Group Holdings Limited

ANNUAL FINANCIAL STATEMENTS

ALEXANDERFORBES

Securing your financial well-being

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DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Companies Act of South Africa requires directors to ensure that the company maintains adequate accounting records and to be responsible for the content and integrity of the group and company annual financial statements of Alexander Forbes Group Holdings Limited and related financial information included in this report. It is their responsibility to ensure that the financial statements, for each financial year, fairly present the state of affairs of the group and company at the end of the financial year and the results of their operations and cash flows in conformity with International Financial Reporting Standards (IFRS).

The accounting policies, supported by judgements, estimates and assumptions which comply with IFRS, have been applied on a consistent and going concern basis.

It is the responsibility of the independent auditors to report on the fair presentation of the financial statements. Their unmodified audit report appears on pages 14 to 20.

The directors are ultimately responsible for the internal controls of the group. To enable the directors to meet these responsibilities, management designs and implements standards and systems of internal control to provide reasonable, but not absolute, assurance as to the integrity and reliability of the financial statements in accordance with IFRS and to adequately safeguard, verify and maintain accountability for group assets. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

Based on the information and explanations given by management and the internal and external auditors, the directors are of the opinion that the system of internal controls provides reasonable assurance that the financial records may be relied on for the preparation of the group and company annual financial statements in accordance with IFRS. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of the internal controls, resulting in a material loss to the group, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the group and company annual financial statements.

DIRECTORS' APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The group and company financial statements have been prepared in accordance with IFRS under the supervision of Ms N Ford-Hoon (Fok), CA(SA), (group chief financial officer), and were approved by the board of directors on 8 June 2018 and are signed on their behalf by:

N Nyembezi
Chair

AA Darfoor
Group chief executive

CERTIFICATE BY THE COMPANY SECRETARY

I, Catharina Helena (Carina) Wessels, hereby confirm, in my capacity as group general counsel and company secretary of Alexander Forbes Group Holdings Limited, that for the year ended 31 March 2018, the company has filed all required returns and notices in terms of the Companies Act 71 of 2008, as amended, with the Companies and Intellectual Property Commission and that all such returns and notices are to the best of my knowledge and belief true, correct and up to date.

CH Wessels
Group general counsel and company secretary

DIRECTORS' REPORT

for the year ended 31 March 2018

Financial highlights

In millions of South African rands (Rm)	2017/2018 % change	12 months ended 31 March 2018	2017*	2016*
Operating income[1] (from continuing operations)	5.1	**3 647**	3 470	3 428
Profit from operations before non-trading and capital items	5.2	**986**	937	909
Trading margin	–	**27.0%**	27.0%	26.5%
Operating leverage[2]	(70 bps)	**0.0%**	0.7%	(0.8%)
Profit from continuing operations	(50.6)	**306**	620	621
Headline earnings per share[3] (cents)	(16.8)	**44.4**	53.4	58.1
Normalised earnings per share (cents)	(13.7)	**51.2**	59.3	62.0
Final dividend (cents)	4.3	**24**	23	22
Special dividend (cents)	–	**–**	23	–
Cash generated (from continuing operations)	(7.1)	**1 013**	1 091	1 056
Closing AuA and AuM (in billions of South African rands)	3.5	**357**	345	339

* Restated for the effect of discontinued operations.
1. Operating income net of direct expenses.
2. Operating leverage is defined as the difference in growth of operating income[1] against growth of operating expenses.
3. The weighted average number of shares in issue decreased to 1 269 million (2017: 1 280 million) due to the share buy-back programme implemented during the year.

The board of directors is pleased to present the results of the Alexander Forbes Group Holdings Limited for the year ended 31 March 2018.

Nature of business

Alexander Forbes Group Holdings Limited (AFGH) is the ultimate holding company of the Alexander Forbes group of companies (the group).

Financial review

The 5.1% year-on-year increase in operating income from continuing operations to R3 647 million reflects progress in performance from key business areas aligned to our strategy, with Group risk up 14%, Investments up 12%, Retail insurance up 7% and Consulting and retirements up 6%. This was partially offset by the increase in reserves in the Retail insurance business and weaker-than-expected performance from the Emerging markets business. Within the Emerging markets business this has necessitated the acceleration of our fix-it and turnaround plan and includes a review of the countries we want to have a presence in, while still maintaining our vision to be a pan-African financial services leader.

Growth in operating expenses was contained to 5.1% (3.0% excluding costs relating to our technology modernisation programme and one-off employee retention costs), attributable to savings delivered by operational and expense efficiency initiatives across the group. The improved focus on cost discipline resulted in cumulative cost savings delivered of R308 million, two years ahead of our 2020 target of R200 million to R250 million. The benefits from the cost-efficiency programme were, however, offset by corporate costs incurred during the year relating to the turnaround of our business, modernisation costs and one-off employee retention costs. The cost-to-income ratio for the full year remained flat at 73.0%; however, excluding technology modernisation expenses (R45 million) and one-off employee retention costs (R32 million), the cost-to-income ratio improves by 210 bps to 70.9%.

Profit from operations before non-trading and capital items improved to R986 million, representing a 5.2% increase over the prior year, reflecting improved top-line growth across key areas of the strategy as well as operating and expense efficiencies.

Non-trading and capital items increased substantially to R476 million (2017: R137 million), two-thirds of which account for an impairment of goodwill of R317 million associated with AF Life, the long-term insurance licensed entity. Goodwill allocated to the cash-generating unit Group risk, previously AF Life, was fully written off during the current year. The business remains below optimal scale with growth expected to occur over the medium to long term.

Consequently the cost per policy is likely to remain high over this time, which has an adverse effect on the profitability of the business. In addition, a reduction in cash flows was experienced, driven by heightened claims experience in the industry. The goodwill impairment therefore is a result of lower growth expected, reserving requirements, increased claims experienced and an increase in the regulatory capital required. The write-off has no impact on cash and is adjusted for in headline earnings. The remainder of the non-trading and capital items relate to one-off strategy costs, recurring amortisation costs and the consolidation of the group's cell-captive insurance facility.

The R47 million year-on-year increase in investment income is mainly due to the surplus cash position of the group through the year. The surplus cash results from the sale of the Lane Clark & Peacock (LCP) business (a UK subsidiary) and the 10% investment from African Rainbow Capital (ARC) in our African business, both completed in the latter part of the prior year. It is important to note that investment income includes policyholder investment returns which are excluded from our normalised results which may be found in the group segmental income and profit analysis.

The 9% increase in finance costs to R97 million is largely due to costs associated with the group's hedge contracts. The group has an unsecured revolving credit facility linked to the JIBAR interest rate.

The group's profit before taxation from continuing operations of R614 million is 31% lower than the previous financial year. The effective tax rate excluding the policyholder tax is 50% largely due to the goodwill written off. The effective normalised tax rate is 32% (2017: 28%). The increase is largely due to foreign withholding tax and non-deductible expenses in various group entities.

The substantial decline in profit from continuing operations to R306 million (2017: R620 million) can be mostly attributed to the increase in non-trading and capital items and the higher effective tax rate. Excluding the above-mentioned impairment of goodwill and other headline adjustments, headline earnings attributed to owners of the company from continuing operations is R561 million (refer to note 9.8), a 6.9% decline on the prior year.

In the prior year, the results of discontinued operations included Alexander Forbes Compensation Technologies (AFCT) and Lane Clark & Peacock (LCP). These operations were disposed of in the same year, resulting in a profit of R796 million. The results of the Alexander Forbes Kenyan operations continue to be reflected as discontinued in line with the prior year. The group remains committed to the disposal of its East African operations.

The weighted average number of shares decreased to 1 269 million (2017: 1 280 million) due to the share buy-back programme which was approved by shareholders and implemented during the year. Consequently, headline earnings per share decreased by 16.8% to 44.4 cents.

Sustained predictable cash flows underpinning strong balance sheet with a cash surplus position of R1.2 billion

The group's cash flows continue to be predictably strong with cash generated from operations of R1 013 million. The cash conversion of profit from operations remains high at 103% when compared to the profit from operations before non-trading and capital items. The group continues to maintain a surplus cash balance of R1.2 billion after the ordinary dividend payment of R529 million and a special dividend payment of R300 million distributed to shareholders during the year.

As at 31 March 2018 the group solvency capital requirement was R1.6 billion which increased 45% from the prior year (2017: R1.1 billion). The increase in capital largely relates to the long-term insurance licensed entity, AF Life. An additional R350 million capital injection for this entity was approved by the board to address counterparty concentration risk, imposed on the Umbrella Fund bank accounts, that are in the name of the life company. AF Life previously had a dispensation granted under current insurance regulations to exclude these accounts as assets of the company. By virtue of the Umbrella Funds forming part of AF Life, all non-policyholder assets on the AF Life balance sheet are considered when assessing the entity's solvency under the prevailing insurance regulations (Solvency Assessment and Management (SAM), effective 1 July 2018). Using the measures and interpretations under the SAM standard, the group has a surplus of R1.2 billion (R0.9 billion after the board-approved dividend distribution).

The total assets of the group increased 5% to R309 billion during the year (2017: R294 billion). It is important to note that approximately 96% of these assets are linked to financial liabilities held under investment contracts that are economically matched. Cash and cash equivalents held on the group balance sheet include amounts payable under insurance-related policies and cash which is held in a fiduciary capacity. Excluding these balances as well as cash and cash equivalent balances required for liquidity and solvency capital, the group has R1.2 billion available in cash resources.

DIRECTORS' REPORT (CONTINUED)

for the year ended 31 March 2018

Focus on deploying capital effectively

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 and management continue to ensure the stated capital allocation objectives of the group are adhered to. These include the following:

- growth in dividends to shareholders (maintaining a dividend cover of at least 1.5 times);
- acquisition programme, targeting select bolt-on value-enhancing businesses in South Africa and select emerging market countries;
- investment in the modernisation technology programme to position the company for improved efficiencies and client experience; and
- continuing with our share buy-back programme to return some of the surplus cash to shareholders.

During the current year the group has:

- paid a special dividend to shareholders of 23 cents in addition to the ordinary dividend, with total cash returned to shareholders amounting to R829 million through the financial period;
- repurchased shares in the amount of R276 million at an average price of 689 cents per share. The general share buy-back of up to 5% of the issued share capital was approved by the shareholders on 27 March 2017 and remains in place until the next annual general meeting; and
- invested R272 million in modernising our technology providing the business with a single view of client as well as providing a digital front-end-enhancing customer experience.

Ordinary annual dividend up 5%

The directors have declared a final gross cash dividend of 24 cents (19.2 cents net of dividend withholding tax) per ordinary share for the year ended 31 March 2018.

The dividend 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 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, 3 July 2018
- Shares commence trading 'ex' dividend: Wednesday, 4 July 2018
- Record date: Friday, 6 July 2018
- Payment date: Monday, 9 July 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 4 July 2018 and Friday, 6 July 2018, both days inclusive.

Divisional review of operations

To simplify our financial reporting in alignment with our strategy the group has decided to change our segmental reporting of results in 2018 to represent Institutional clients which includes Corporate & employee benefits and Investments, Retail clients which includes Wealth and investments and Retail insurance, Emerging markets and Administration only.

Furthermore, the group has decided to separately disclose corporate costs that were previously allocated to each of the segments. Corporate costs include costs associated with the corporate office of the group which is responsible for certain functions that include strategic direction, capital management, group finance and investor relations as well as general group initiatives linked to the transformation journey in line with the Ambition 2022 strategy. To allow for year-on-year segment report comparison the 2017 information was restated to reflect these changes retrospectively.

Institutional clients

Rm	Operating income net of direct expenses			Profit from operations[1]		
	2018	%	2017	2018	%	2017
Corporate & employee benefits	**1 176**	6	1 110	**218**	13	193
Consulting and retirements	**1 111**	6	1 053	**199**	16	172
Group risk	**65**	14	57	**19**	(10)	21
Investments	**712**	12	637	**398**	29	308
Institutional clients	**1 888**	8	1 747	**616**	23	501

1. Profit from operations before share scheme costs, property lease adjustments and non-trading and capital items.

Corporate & employee benefits

Corporate & employee benefits delivered a 6% growth in operating income[2] to R1 176 million, with profit from operations[1] up 13% as a result of strong growth performances from healthcare and retirements alongside disciplined cost management and operational efficiencies.

In line with our Ambition 2022 strategy the focus in the current year has been on 'getting the basics right' with greater emphasis placed on the group's 'Get back to the boardroom' priority, redefining our value proposition, launching our financial well-being programme alongside management focus on disciplined cost and operational efficiency.

Client retention levels continue to remain high and during the year we launched several new products demonstrating our thought leadership and innovation. Through the worksite we offer a comprehensive and integrated employee benefits and outcomes-based investments platform to drive desired outcomes for corporates and pension funds. A key component of this is our new education platform, Alexander Forbes Empower, launched during the year, alongside our ability to help end customers with money management, insurance, investments, retirement and health. Through our first-of-its-kind employer dashboard, called Comprehensive Lifegauge, we can meaningfully measure the impact of employee engagement and financial wellness at the worksite and then harness our broad range of employee benefit and financial well-being solutions to help both corporates and individuals achieve the right outcomes.

The operating income[2] from the consulting business to standalone retirement funds (which is reported under Consulting and retirements) contracted by 2% when compared to the previous financial year. This was impacted by a 4% decrease in the number of active members under administration due to the deliberate strategy being pursued of umbrella fund conversions, as well as client funds changing from active to closed and liquidated funds. The cost base within this business continues to be managed in line with the reduced operating income[2], resulting in an improvement in profit from operations[1] for the year. The consulting division was instrumental in driving improved asset accumulation flows, with R923 million of assets to our institutional investments business, including assets through the newly launched Alexander Forbes Retirement Income Solutions (AFRIS) solution.

Corporate & employee benefits continued to report strong performance in the healthcare business with operating income[2] up 10% over the prior year, benefiting from an increase in the regulated cap for commission income for broking services alongside a significant number of new business wins. In March 2018 the healthcare business announced a new partnership with Evo Financial Services, a 100% black-owned healthcare consultancy firm in South Africa. This partnership plays an important role in sustaining growth in public sector channels, while demonstrating our commitment to broader transformation in the South African financial services sector.

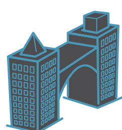
The Alexander Forbes Retirement Fund (AFRF) continues to be a market leader in the umbrella fund industry, providing relevant and cost-effective solutions to the South African market. The umbrella fund division, under Retirements, reported strong growth in profit from operations[1] up 20%, with closing assets under management (AuM) up 8.6% year-on-year to R74.3 billion at 31 March 2018, ahead of the reported 6% market growth. Performance was driven by strong new business wins, portfolio performance and the conversion of standalone clients to our umbrella fund offering. The number of active member records increased 12% to 352 000 members, with an 8% increase in the number of umbrella fund clients (participating employers).

In line with our strategy to grow our umbrella fund business and improve overall profitability of the group we converted 18 standalone clients to our umbrella fund offering, of which eight have translated into asset flows with the transfer of the remainder subject to regulatory approval. The management team remains focused on continuing to strengthen the value proposition, client servicing and administration processes in the business, as well as expand into the SMME sector.

2. Operating income net of direct expenses.

DIRECTORS' REPORT (CONTINUED)
for the year ended 31 March 2018

Within the Group risk business, annualised premium income rose by 34% to R590 million for the year, on the back of growth in the existing book and 91 new client wins with annualised premium income of R96 million. Claims experience on disability claims continued to increase in line with the trend in the industry, with disabilities having longer rehabilitation periods owing to the nature of the disabilities experienced, as well as resultant increases in mental health and cancer-related disabilities. Our claims experience on lump sum death claims increased in line with expectations and the growth in the book. In the current year the business has gone through a thorough process of cleaning up claims data and we have strengthened our reserving for claims, providing additional margin for claims incurred but not yet notified and for pending claims. This has impacted on the growth of operating income[1] which is 14% higher than the prior year. A key focus for the new management team in the Group risk business is strengthening the value proposition, client servicing and administrative process in the business to ensure sustainable growth.



Investments

Alexander Forbes Investments (Investments) reported total assets under administration (AuA) and assets under management (AuM) of R357 billion at 31 March 2018. The assets are segmented as follows:

	2018			2017		
Rbn	Institutional	Retail	Total	Institutional	Retail	Total
AuA	**48**	**6**	**54**	49	8	57
AuM	**247**	**56**	**303**	236	52	288
AuA and AuM	**295**	**62**	**357**	285	60	345

The AuA and AuM for the institutional business grew 3.5% while the AuM grew 4.7% when compared to the prior year.

2018 was a defining year for the Investments business, as the business transitioned from a traditional multi-manager to a new investment philosophy focused on achieving outcomes-based solutions (Living*Investing).

Over the course of the year Investments launched a number of new offerings in the alternative investments asset category, providing clients access to private markets (focused on housing development and infrastructure projects) and, introducing a new fund of hedge funds offering. The introduction of additional alternative offerings not only provide diversification, management of risk and enhanced returns for our clients, but also contributes to the improvement of the net margin on a blended basis for the business.

The highlight for the year was the launch of our flagship outcomes-based solution, Alexander Forbes Clarity™, the first of its kind in South Africa. Clarity is a managed defined contribution retirement solution that focuses on an income goal for clients, helping them achieve specific objectives at retirement. In addition, a new age capital protection portfolio, the AF Steady Growth, was launched which is suitable for clients wanting to have a single portfolio for all members with a smoothed return profile.

Over the year we further strengthened our relationship with our strategic partner, Mercer, and the business is already starting to see strong benefits from this collaboration. Access to Mercer's global platform and product offering has allowed the business to be able to offer more cost-effective solutions to clients, alongside improved net margin. The Tomorrow's Leaders programme was launched during the year, seconding three of the company's top talent to Mercer for them to grow and gain global experience.

The business reported an increase in operating income[1] of 12% over the prior year, alongside improved operational and expense efficiency, resulting in profit from operations[2] increasing by 29%. The turnaround of Investments under the new management team is taking shape, with net margin improving by 5.8% year-on-year alongside the sustained delivery of operating leverage. The business also made good headway in enhancing its operational platform and technological capability.

A summary of the cash flows for the year ended 31 March 2018 is reflected below:

	2018			2017		
Rbn	Institutional	Retail	Total	Institutional	Retail	Total
Controllable	**7**	**(1.4)**	**5.6**	6.8	1.4	8.2
New business	**9.7**	**1.1**	**10.8**	9.9	1.4	11.3
Outflows owing to client losses	**(2.7)**	**(2.5)**	**(5.2)**	(3.1)	–	(3.1)
Uncontrollable	**(12.5)**	**(1.7)**	**(14.2)**	(14.1)	(0.5)	(14.6)
Ongoing contributions	**29.7**	**5.9**	**35.6**	27.9	5.4	33.3
Withdrawals from platform	**(3.5)**	**–**	**(3.5)**	(5.0)	–	(5.0)
Withdrawals for benefit payments	**(38.7)**	**(7.6)**	**(46.3)**	(37.0)	(5.9)	(42.9)
Net cash flows	**(5.5)**	**(3.1)**	**(8.6)**	(7.3)	0.9	(6.4)

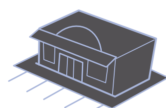
1. Operating income net of direct expenses.
2. Profit from operations before share scheme cost, property lease adjustments and non-trading and capital items.

Strong new institutional business flows of R9.7 billion were reported for the year with a further R4.6 billion awaiting transfer. Despite strong new business cash flows Investments saw negative net cash flows of R5.5 billion in the year, driven by uncontrollable cash withdrawals that are prevalent across the retirement industry, linked to the economic environment and consumer confidence levels. These cash flows were mainly from the platform operation which is at a lower margin.

Retail clients

	Operating income net of direct expenses			Profit from operations[1]		
Rm	2018	%	2017	2018	%	2017
Wealth and investments	**856**	2	836	**391**	(4)	406
Retail insurance	**510**	7	477	**116**	15	101
Retail clients	**1 366**	4	1 313	**507**	–	507

1. Profit from operations before share scheme costs, property lease adjustments and non-trading and capital items.



The retail clients cluster delivered a 4% increase in operating income[2] to R1 366 million, while profit from operations[1] remained flat for the year. Operating income[2] includes certain one-off adjustments in the AF Life Retail business which reduced operating income[2] by R43 million. These adjustments were as a result of reserve strengthening which enhanced the balance sheet of the business. Excluding the effects of these one-off reserving adjustments, retail operating income[2] increased by 7%.

The Retail strategy remains focused on accessing the institutional member base through the deployment of our 'financial well-being for a lifetime' programme. In FY2018 we increased our member interactions by almost three-fold, with a new focus area of accessing members earning lower than R500 000 during the year. The business reported an improved level of retailisation of 8.7%, exceeding the full-year target set of 6%.

Wealth and investments

The operating income[2] rose by 2% to R856 million for the year ended 31 March 2018.

Profit from operations[1] decreased by 4% to R391 million on the back of increased operating expenses resulting from a deliberate strategy to invest in the business across a number of areas, including improving financial well-being programmes, training and campaigns, and administration capabilities.

The increased number of member interactions resulted in a 22% improvement in the preservation rate on exit to 55% and an increase in capture rates (on exit and retirement flows) by 17% to 41%.

Financial planning consultants' average assets under advisement grew by 6% to R67.3 billion at 31 March 2018.

Average assets under administration in wealth and offshore grew by 3% to R61.6 billion. AF Investments' retail average assets under management grew by 7% to R56 billion.

Over the course of the year the business launched the Alexander Forbes Retirement Income Solutions (AFRIS) with the objective of providing individuals with a seamless savings journey during their careers and throughout their retirement years. As part of the core offering members are able to consolidate all preserved assets into this lower-cost solution.

Retail insurance businesses

Gross written premium in the short-term insurance business increased by 4% to R1.6 billion for the year, with the business continuing to grow based on good service levels. The loss ratio for the AF Insurance business ended on 68% for the year, ahead of the target of 71%. This represents a significant improvement on the 71.5% reported in the prior year (2016: 76.3%), reflecting the increased focus in writing more profitable business.

During the year the AF Life individual insurance business focused on improving sales volumes and quality while also improving reserving. An in-depth expense analysis was completed and various assumptions were updated, which resulted in an increase in reserves, recognised as a reduction in operating income[2] of R43 million. While new business has increased (73% improvement in new life policy sales), the business remains subscale and as a result incurred an operating loss for the year, reducing the overall profit from operations[1] for the retail insurance business.

The combined retail insurance businesses produced operating income[2] of R510 million, an increase of 7% over the prior year. Profit from operations[1] improved 15% to R116 million, attributed to good cost control with expense growth contained at 5% year-on-year.

2. Operating income net of direct expenses.

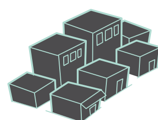
DIRECTORS' REPORT (CONTINUED)

for the year ended 31 March 2018

Emerging markets (covering all operations in Africa outside South Africa)

Rm	Operating income net of direct expenses			Profit from operations[1]		
	2018	%	2017	**2018**	%	2017
Emerging markets						
Namibia	**164**	9	150	**54**	15	47
Botswana	**75**	(5)	79	**14**	(7)	15
Nigeria	**6**	(14)	7	**(6)**	–	(6)
Uganda	**5**	–	5	**(3)**	–	(3)
AFEM head office	**–**	–	–	**(28)**	56	(18)
Total	**250**	4	241	**31**	(11)	35

1. Profit from operations before share scheme costs, property lease adjustments and non-trading and capital items.



Alexander Forbes Emerging markets (Emerging markets) currently operates in five countries across sub-Saharan Africa – Namibia, Botswana, Nigeria, Uganda and Zambia (associate), with the operations in Kenya having been classified as discontinued. Emerging markets' performance is largely led by the core Southern African Development Community (SADC) region, Namibia and Botswana.

Emerging markets recorded modest growth of 4% in operating income[2], with the positive performance from Namibia offset by poor performances in other remaining markets. The 9% improvement in operating income[2] reported in Namibia was largely driven by growth in retirements as well as improved performance in the insurance and investments businesses. The Botswana business remained challenged with operating income[2] decreasing 5% year-on-year which largely reflects the loss of a key client in the prior year, the Government of Botswana, who insourced the Public Officers Pension Fund (BPOPF) which constituted a large portion of the operating income[2]. Botswana has made some progress to narrow the revenue shortfall, with the introduction of new strategic initiatives, including insourcing of beneficiary trust administration, and further initiatives planned for the new financial year.

The Emerging markets business reported an 11% decline in profit from operations[1] to R31 million, largely attributable to increased central head office costs incurred to support and drive growth ambitions.

Outside of SADC, performance continues to be challenged, particularly in Nigeria, Uganda and Zambia. To address this, management has accelerated its turnaround plan for the business with structural cost and operational efficiency initiatives being implemented. The growth of Emerging markets remains a key pillar of the group's ambition to build a pan-African financial services leader.

The results do not include the acquisition of African Actuarial Consultants in Zimbabwe, which post relevant approvals, was concluded after the close of the financial year.

2. Operating income net of direct expenses.

Administration only

	Operating income net of direct expenses			Profit from operations[1]		
Rm	2018	%	2017	2018	%	2017
Administration only	**143**	(15)	169	**–**	–	–

1. Profit from operations before share scheme costs, property lease adjustments and non-trading and capital items.

The Administration only segment is separately reported from the consulting division in Corporate & employee benefits and reflects the revenue earned from clients where we earn fees only based on administration services. The client relationship for these clients resides with the Operations and administration division. The decrease in operating income[2] for the year ended 31 March 2018 largely reflects the transfer of clients to Consulting and retirements as a result of winning multi-carrier appointments.

Costs are allocated from this division to all client-facing businesses. The cost allocation incorporates the fees earned from Administration only clients and as such the division does not reflect any profit from operations[1].

Prospects

Looking ahead, we anticipate the economic and political backdrop to remain challenging across our markets. That said, a ray of light in the past year in South Africa was the moderation of the inflation rate, the resultant reduction in the repo rate which should aid consumers, alongside significant political change with Cyril Ramaphosa appointed as President, with rising business and consumer sentiment.

We remain committed to the execution and delivery of our Ambition 2022 strategy and building a leading pan-African financial services leader, with strong franchises across retirements, health, investments, wealth management and insurance alongside a focus on innovative solutions to help our customers achieve better outcomes and a lifetime of financial well-being and security.

Our focus for the next financial year remains the same. Continued delivery of improvement in our cost-to-income ratio, improving our customer value proposition with the launch of new solutions, progressing with our technology and digital modernisation programme and addressing the issues to allow us to continue to improve returns to shareholders.

With our strong capital base, market-leading franchises and a business model intended to generate cash flows through the cycle, we see significant latent opportunity to continue to drive further organic and acquisitive growth. We believe Alexander Forbes remains well positioned to deliver improved profitability and shareholder value over time.

Change in directorate

Ms N Ford-Hoon (Fok) was appointed as the group chief financial officer on 1 September 2017 and Ms N Nyembezi as the chair of the board on 1 January 2018. Other non-executive director appointments during the period: Ms NB Radebe (1 September 2017), Mr RM Head (1 January 2018), Ms M Ramplin (8 March 2018) and Mr NG Payne (1 May 2018).

A number of directors retired and resigned during the period for reasons previously communicated to stakeholders. Mr MS Moloko retired as the chair of the board on 31 October 2017. Other non-executive directors that resigned during the period: Dr D Konar (8 December 2017) and Mr H Meyer (31 December 2017).

The board wishes to welcome the new directors and express their sincere appreciation to Messrs Moloko, Meyer and Dr Konar for their strategic input, leadership and dedication to the group during their tenure.

Despite the number of changes the board is confident that there is sufficient continuity and that the revised composition provides a balance of skills, experience and diversity.

Corporate governance

Ms CH Wessels was appointed group company secretary on 1 October 2017. The company is committed to the 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 annual report.

2. Operating income net of direct expenses.

AUDIT COMMITTEE REPORT

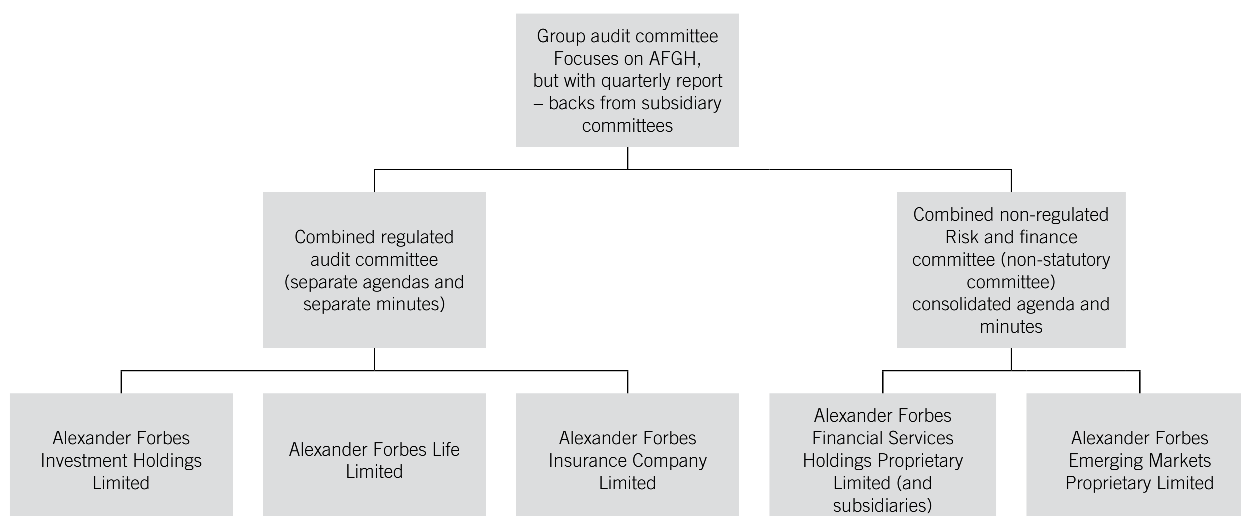
The committee is pleased to present its report for the financial year ended 31 March 2018. This report should be read with the abbreviated report in the integrated report, which focuses on material aspects in relation to the committee for the reporting period, whilst this report focuses primarily on the statutory requirements.

Purpose and structure

The group audit committee is an independent statutory committee in terms of section 94(2) of the Companies Act 71 of 2008, as amended (Companies Act).

Its primary responsibility is as audit committee for Alexander Forbes Group Holdings Limited (AFGH), but it also fulfils the role of a group committee, as permitted by section 94(2)(a) of the Companies Act, for all South African subsidiaries, as well as the offshore and emerging markets subsidiaries and controlled trusts (where bespoke committees have not been established).

To support the group committee and resulting from the highly regulated environment in which the group operates, several subsidiary companies have also established audit committees (either statutory or non-statutory) and the South African structure is reflected below.



Terms of reference

The committee has adopted formal terms of reference, which are reviewed and updated as necessary on an annual basis (or more frequently if required) by both the committee and the board. The committee is satisfied that it complied with its legal, regulatory and other responsibilities during the financial year ended 31 March 2018.

The committee's primary objective is to assist the board with its responsibilities for the management of risk, safeguarding of assets, and oversight over financial control and reporting internal controls, shareholder reporting and corporate governance, particularly relating to legislative and regulatory compliance. The committee's roles and responsibilities include statutory and regulatory duties as per the Companies Act and King IV.

The revised terms of reference and annual plan, aligned with King IV and the new Prudential requirements, were approved during the reporting period. Prior to the amendment, the committee had conducted its affairs in accordance with the previous terms of reference and discharged its responsibilities contained therein.

Although the committee has always fulfilled oversight over risk governance as part of its mandate, a decision was made in March 2018 to formally rename the committee as a risk and audit committee and in the next financial year ensure an increased focus on risk governance oversight.

Composition and attendance

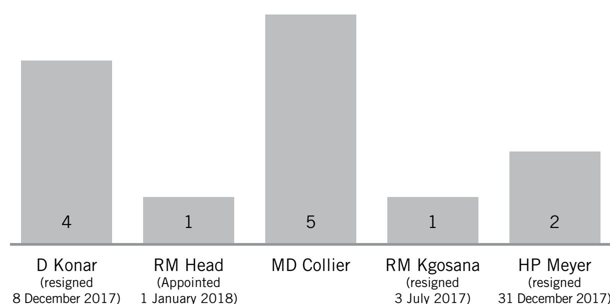
The committee comprises four independent members (independence in accordance with the holistic King IV definition and not merely that of the Companies Act) and are elected by shareholders annually. The board chair is not a member of the committee.

As discussed in the integrated report and King IV report, the board and committee composition underwent several changes in the reporting period. Despite these, the committee is comfortable that there has been sufficient continuity not to expose the company or group to risk.

The board chair and all non-committee member directors, group chief executive, group chief financial officer, group chief risk officer, group chief information officer, external auditor and head of group internal audit are standing invitees.

The committee, however, debates matters without the permanent invitees present, as and when so required. The committee meets at least four times a year. Two meetings (aligned with the approvals of the interim and annual financial results) are held with both the independent external auditors and head of group internal audit, respectively, where management is not present.

Meeting attendance



Financial statements and accounting practices

The committee reviewed the audited consolidated and separate annual financial statements of the company and group for the year ended 31 March 2018, particularly to ensure that disclosure was adequate and that fair presentation had been achieved; the committee recommended the approval of the consolidated and separate annual financial statement to the board of directors. The committee believes that they present a balanced view of the group's performance for the period under review and that they comply with International Financial Reporting Standards.

Evaluation of the appropriateness of the expertise and experience of the group chief financial officer and financial reporting procedures

Mr B Bydawell acted as group chief financial officer until the appointment of Ms N Ford-Hoon on 1 September 2017. The committee formally evaluated the appropriateness of Ms Ford-Hoon's expertise and experience prior to her appointment and again at its meeting held on 6 June 2018. The committee also satisfied itself that under both Mr Bydawell and Ms Ford-Hoon's leadership, appropriate financial reporting procedures had been established and implemented.

External audit

The group's independent external auditors are PwC. Fees paid to the auditors are disclosed in note 4 to the group annual financial statements for the year ended 31 March 2018. During the year under review fees paid to PwC amounted to R31 million (2017: R32 million), which included R27 million (2017: R28 million) for statutory audit and related activities as well as R4 million (2017: R4 million) for preapproved non-audit services. The committee is satisfied with the level and extent of non-audit services rendered during the year by PwC and that such did not impact on their independence.

The committee annually assesses the independence of PwC and again completed such assessment at its meeting on 6 June 2018. PwC was required to confirm that:

- they are not precluded from reappointment due to any impediment in section 90(2)(b) of the Companies Act;
- in compliance with section 91(5) of the Companies Act, by comparison with the membership of the firm at the time of its reappointment in 2017, more than one half of the members remain in 2018; and
- they remain independent, as required by section 94(7)(a) of the Companies Act of South Africa and the Listings Requirements.

The committee also specifically requested PwC to provide the information as required in terms of paragraph 22.15(h) of the JSE Limited Listings Requirements, in relation to, inter alia, registration, inspections, firm internal control and investigations in respect of PwC as firm and the designated auditor, Ms A du Preez.

Based on these assessments and the information considered, the committee again nominated PwC as independent external auditors for the 2018/2019 financial year. Shareholders

AUDIT COMMITTEE REPORT (CONTINUED)

will therefore be requested to re-elect PwC as independent external auditors, with Ms A du Preez as designated auditor, for the 2018/2019 financial year at the AGM on 6 September 2018.

Key audit matters relevant to the consolidated financial statements

Goodwill impairment assessment

The group's goodwill amounting to R3 billion as at 31 March 2018 (2017: R3.4 billion) arose upon its reorganisation in 2007. An impairment expense recognised in the Alexander Forbes Life cash-generating unit (CGU) of R317 million is detailed in note 15.

We considered the goodwill impairment assessment to be a matter of most significance to our audit due to the magnitude of the goodwill balance and because the directors' assessment of the value in use of the group's CGUs involves significant judgement and critical assumptions about the future results of the business and in determining the growth rates, discount rates and terminal growth rates applied to the future cash flow forecasts.

During the current year management reorganised the CGUs used in the goodwill impairment assessment to align these to the new operating model and the segments that management make key business decisions on. The reorganisation of CGUs is disclosed in note 15.

For the year ended 31 March 2018 management performed an impairment assessment over the goodwill balance by calculating the value in use for each CGU using a discounted cash flow method. These models used free cash flows for each CGU for five years, with a terminal growth rate applied after the fifth year.

Refer to the group's accounting policies and note 15 for the disclosure and measurement of goodwill which includes the disclosures made by the directors on the critical assumptions, significant estimates and judgements in respect of the goodwill impairment assessment.

Provision for errors and omissions claims of R189 million (2017: R194 million)

The group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions committed in the ordinary course of its business activities. This results in actual, probable and possible liabilities as accounted for under International Accounting Standard (IAS) 37 *Provisions, Contingent Liabilities and Contingent Assets.*

This was determined to be a key audit matter due to the level of judgement used by management in determining both the likelihood of negative outcomes of the associated claims, as well as the potential magnitude of each outcome.

Furthermore, the group is assessing a specific claim which could potentially be material, but which cannot be reasonably quantified at the date of approving the financial statements. The group has insurance related to any claims of this nature and if this claim does materialise it is the intention of group management to seek reimbursement from the insurance underwriters of any outflows of cash.

The errors and omissions claims policy, the significant estimates and the process of determining the provision amounts and the critical assumptions and judgements applied are disclosed in the group's accounting policies and in note 29.

Capitalisation and impairment assessment of software intangible assets

During the current financial year the group incurred R272 million in costs, inclusive of R7 million reclassified from the hedging reserve, that were capitalised to software intangible assets in line with the group's modernisation plan. Impairment expenses amounting to R17 million are detailed in note 5.

We considered the capitalisation of the software intangible assets to be a matter of most significance to our audit due to the following:

- judgement is required in assessing whether these costs meet the recognition criteria as defined in the group's accounting policies as an asset;
- significant judgement and critical assumptions are required to assess the future efficiencies and benefits arising from these assets; and
- possible impairment indicators were identified as the original term of the contract was renegotiated during the current year.

For the year ended 31 March 2018 management performed an impairment assessment of the software intangible asset balance by calculating the values in use for cash-generating units, using discounted cash flow models. These models used free cash flows which include cost savings expected from the use of each system over the five years post the date of the asset coming into use, with a terminal growth rate applied after the fifth year. The savings are based on enhanced operational efficiencies and productivity. The cash flow forecasts do not include future growth due to the modernisation as this cannot be accurately quantified.

Refer to the group's accounting policies and note 14 for the disclosure and recognition criteria of software intangibles which includes the disclosures made by the directors on the critical assumptions, significant estimates and judgements used in the recognition of software intangibles and testing intangible assets for impairment.

Internal audit

The committee is responsible for ensuring that the group's internal audit function is independent and has the necessary resources, standing and authority within the group to enable it to perform its duties. Furthermore, the committee oversees co-operation between the internal and external auditors, and serves as a link between the board of directors and these functions. The committee approved the internal audit charter and the internal audit function's annual audit plan during the year under review.

The internal audit function reports to the relevant subsidiary audit committees with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the group's operations. The head of group internal audit is responsible for regularly reporting the findings of the internal audit work against the agreed internal audit plan to the audit committees.

Internal controls

Based on the review of the design, implementation and effectiveness of the group's system of internal financial controls conducted by the internal audit function during the year under review, and reports made by the independent external auditors on the results of their audit and management reports, the committee is satisfied that the company's system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements. No findings have come to the attention of the committee to indicate that any material breakdown in internal controls has occurred during the past financial year.

Going concern

The committee, with support and input from the capital oversight committee, has reviewed a documented assessment, including key assumptions prepared by management, of the going concern status of the company and consolidated group and has made a recommendation to the board in accordance therewith. The board's statement on the going concern status of the group, as supported by the committee, appears in the directors' responsibility for financial reporting section of the integrated annual report.

Other group-related key matters

AF Life management performed a detailed data and operational clean-up process within AF Life that resulted in a restatement of mostly statement of financial position classification items and an over accrual on reinsurance payable that required correction. This resulted in a restatement of the company financial statements.
The restatement did not have a material impact on AF Life's regulatory capital, benefits or services to policyholders during the year or tax payments to SARS. The company-level restatement was not considered material on a group level and therefore no restatement was made to the consolidated results of the group.

The group audit committee in conjunction with the group capital oversight committee are in agreement that AF Life is sufficiently capitalised with a SCR (solvency capital requirement) cover ratio of 1.15 on the SAM (Solvency Asset Management) basis and a CAR (capital adequacy requirement) cover ratio of 2.96 under the current regulatory regime.

Nigel Payne
Committee chair

Sandton
8 June 2018

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Alexander Forbes Group Holdings Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Alexander Forbes Group Holdings Limited and its subsidiaries (the Group) as at 31 March 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

What we have audited

Alexander Forbes Group Holdings Limited's consolidated and separate financial statements set out on pages 21 to 124 comprise:

- the group and company statements of financial position as at 31 March 2018;
- the group and company income statements and statements of comprehensive income for the year then ended;
- the group and company statements of changes in equity for the year then ended;
- the group and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

Overall Group materiality

- R47.4 million.

Group audit scope

- Full scope audits for four of the six components (a component represents a subsidiary or a sub-group of subsidiaries) based on their financial significance.
- Specified audit and analytical review procedures were performed on the remaining two components.

Key audit matters

- Goodwill impairment assessment.
- Provision for errors and omissions claims.
- Capitalisation and impairment assessment of software intangible assets.

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

Materiality

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

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

Overall Group materiality	R47.4 million.
How we determined it	5% of consolidated continuing profit before tax adjusted for the software and goodwill impairment expenses (as per notes 14 and 15).
Rationale for the materiality benchmark applied	The benchmark used to calculate materiality for the Group is based on consolidated continuing profit before tax, adjusted for the software and goodwill impairment expense, because, in our view, it is the most suitable benchmark for a profit orientated Group whose equity securities are publicly traded. The software and goodwill impairment expense was added back to consolidated continuing profit before tax as it is not reflective of the ongoing operations of the business. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our Group audit scope

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

We conducted an audit of the financially significant components. For the work performed by local auditors within PwC South Africa, auditors from other PwC network audit firms and the foreign non-PwC firm operating under our instructions, we determined the level of involvement we needed to have in the audit work at those locations to be satisfied that sufficient audit evidence had been obtained for the purposes of our opinion. Our involvement included the following:

- issued Group audit instructions;
- met the component audit teams and reviewed their audit findings;
- for the most significant foreign components (Botswana and Namibia, of which one is audited by the PwC network):
  - Visited these locations;
  - Met with local management and the audit team; and
  - Inspected audit working papers on site;
- attended quarterly audit committee meetings throughout the financial year for all significant components; and
- we kept regular communication with audit teams throughout the year and appropriately directed their audits.

Further audit procedures were performed by the Group engagement team, including analytical review procedures over the remaining balances and the consolidation process. The work performed by component auditors, together with these additional procedures performed at the Group level, provided us with sufficient evidence to express an opinion on the Group's consolidated financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

Key audit matters

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

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

Key audit matters relevant to the consolidated financial statements	How our audit addressed the key audit matters
Goodwill impairment assessment The Group's goodwill amounting to R3 billion as at 31 March 2018 (2017: R3.4 billion) arose upon its reorganisation in 2007. An impairment expense recognised in the Alexander Forbes Life cash-generating unit (CGU) of R317 million is detailed in note 15. We considered the goodwill impairment assessment to be a matter of most significance to our audit due to the magnitude of the goodwill balance and because the directors' assessment of the value in use of the Group's CGUs involves significant judgement and critical assumptions about the future results of the business and in determining the growth rates, discount rates and terminal growth rates applied to the future cash flow forecasts. During the current year, management reorganised the CGUs used in the goodwill impairment assessment to align these to the new operating model and the segments that management make key business decisions on. The reorganisation of CGUs is disclosed in note 15. For the year ended 31 March 2018, management performed an impairment assessment over the goodwill balance by calculating the value in use for each CGU using a discounted cash flow method. These models used free cash flows for each CGU for five years, with a terminal growth rate applied after the fifth year. Refer to the Group's accounting policies and note 15 for the disclosure and measurement of goodwill which includes the disclosures made by the directors on the critical assumptions, significant estimates and judgements in respect of the goodwill impairment assessment.	We tested key assumptions and methodologies used in the goodwill impairment assessment performed by the Group, in particular those relating to the discount rates, growth rates and terminal growth rates: • We used our valuations expertise to evaluate these assumptions with reference to valuations of similar entities. • We compared the key assumptions to externally derived data where possible, including market expectations of investment return, projected economic growth and interest rates. These were observed to be within a reasonable range. • We applied sensitivities in evaluating the directors' assessment of the planned growth rate in cash flows and discount rates applied in the model. • We compared growth rate assumptions with historical results, economic outlook and industry forecasts. Furthermore, the discount rate used by management was compared with market data and industry research. In testing the valuation model: • The calculation to reorganise CGUs was reperformed and we inspected support which agreed the asset allocation basis to general ledger records; • Our IT specialists tested the access, change and maintenance controls of the budget IT program to assess its reasonability. • The Group's budget process, protocols and approval by the Board was understood and assessed for reasonability by comparing actual results to prior year budgets. • The calculations used in the model were reperformed to test accuracy. • We evaluated management's cash flow forecasts by performing a comparison of the historical budgets against actual results. The Group and component audit teams challenged management on the reasonability of these cash flow projections by comparing expected cash flow, terminal values and growth assumptions to historical results, management approved forecasts and independent sources.

Key audit matters relevant to the consolidated financial statements	How our audit addressed the key audit matters
Provision for errors and omissions claims of R189 million (2017: R194 million) The Group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions committed in the ordinary course of its business activities. This results in actual, probable and possible liabilities as accounted for under International Accounting Standard (IAS) 37 – *Provisions, Contingent Liabilities and Contingent Assets*. This was determined to be a key audit matter due to the level of judgement used by management in determining both the likelihood of negative outcomes of the associated claims, as well as the potential magnitude of each outcome. Furthermore, the Group is assessing a specific claim which could potentially be material, but which cannot be reasonably quantified at the date of approving the financial statements. The Group has insurance related to any claims of this nature and if this claim does materialise it is the intention of Group management to seek reimbursement from the insurance underwriters of any outflows of cash. The errors and omissions claims policy, the significant estimates and the process of determining the provision amounts and the critical assumptions and judgements applied are disclosed in the Group accounting policies and in note 29.	Our audit response included: • considered the accounting for the provision for errors and omissions claims in terms of the Group's accounting policies and IFRS by independently evaluating the conclusions made by management on the likelihood and potential magnitude of a sample of claims; • assessed and tested the controls over the identification, evaluation, provisioning and reporting of various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions; • tested the controls around the reporting of incidents and quarterly declarations made by divisional management to the Board of directors. We assessed the risk ratings assigned by management by inspection of the evidence relating to the assigned risk rating for a sample of claims; • circulated legal confirmation letters and instructions to component audit teams to further identify claims not reported by management. No exceptions were identified; • compared a sample of claims paid, to the provisions raised in previous periods and observed that management's provisioning process predicted the outcome within a reasonable range; and • inspected the insurance policies in place to consider the insurance policy values and key agreement terms. We obtained a confirmation letter from the lead insurer subscribing to the primary layer of the most significant potential claim to assess the existence of a reimbursement asset in the event that the insurance policy is triggered.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

Key audit matters relevant to the consolidated financial statements	How our audit addressed the key audit matters
Capitalisation and impairment assessment of software intangible assets During the current financial year, the Group incurred R272 million of costs that were capitalised to software intangible assets in line with the Group's modernisation plan. Impairment expenses amounting to R17 million are detailed in note 14. We considered the capitalisation of the software intangible assets to be a matter of most significance to our audit due to the following: • Judgement is required in assessing whether directly associated costs (which include employee costs and an appropriate portion of relevant overheads of the system development team) meet the recognition criteria as defined in the Group's accounting policies as an asset; • Significant judgement and critical assumptions are required to assess the quantification of economic benefits (which is based on the estimation of future cash flows and discount rates); and • Possible impairment indicators were identified as the original term of the contract was renegotiated during the current year. For the year ended 31 March 2018, management performed an impairment assessment of the software intangible asset balance by calculating the value in use for cash-generating units to which the intangible asset has been allocated, using discounted cash flow models. These models used free cash flows which include cost savings expected from the use of each system over the five years post the date of the asset coming into use, with a terminal growth rate applied after the fifth year. The savings are based on enhanced operational efficiencies and productivity. The cash flow forecasts do not include future growth due to the modernisation as this cannot be accurately quantified. Refer to the Group's accounting policies and note 14 for the disclosure and recognition criteria of software intangibles which includes the disclosures made by the directors on the critical assumptions, significant estimates and judgements used in the recognition of software intangibles and testing intangible assets for impairment.	Our audit response included the following: • compared the measurement and recognition of software intangible assets as per the Group's Accounting Policy to the requirements of IAS 38 – *Intangible Assets*; • inspected management's capitalisation rationale and methodology documentation for costs attributable to developing the system, such as employees and consultant costs that are capitalised; • inspected the cluster and project plans including underlying benefit (e.g. increased efficiency assumptions), approved by management on a sample basis. The plans selected for inspection were approved by management; • selected a sample of invoices for inspection and considered the foreign cost conversion, assessed the capitalisation recognition requirements and assessed whether the costs were recognised in the correct financial period; • inspected and assessed signed vendor contracts amendment and billing arrangements against accounting records and payments; • inspected the steering committee and Board minutes to inform our understanding of the expected benefits and enhanced IT capabilities; • inspected the discounted cash flow models to assess the appropriateness thereof and also whether the model has been consistently applied throughout the Group; • inspected documentation, such as average salary information and transaction volumes to confirm the reasonability of assumptions used in the cash flow forecasts supporting the value in use of new systems; • we made use of our specialised IT skills in our assessment of the benefits of the asset and the governance of the project by inspecting the percentage of costs incurred, relative to the total project cost and compared these percentages to industry benchmarks. These were within an acceptable range; and • meetings were held with the Group's third-party IT project assurance consultant. We also inspected the team's quality assurance, status tracking, capital impact assessments and impairment assessment reports.

Other information

The directors are responsible for the other information. The other information comprises the information included in the *Annual Company and Group Financial Statements of Alexander Forbes Group Holdings Limited for the year ended 31 March 2018*, which includes the Directors' Report, the Audit Committee Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this audit report, and the other information included in the Integrated Annual Report 2018, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

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

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that based on available statutory records, PricewaterhouseCoopers Inc. has been the auditor of Alexander Forbes Group Holdings Limited for 44 years.

PricewaterhouseCoopers Inc.
Director: Alsue du Preez
Registered Auditor

Johannesburg
8 June 2018

The principal accounting policies applied in the preparation of the group and company financial statements are set out below. These policies are consistent with those applied in the previous year, except for the changes required by standards, amendments and interpretations effective in 2018.

Basis of preparation

The annual financial statements are prepared in accordance with, and comply with, the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), interpretations issued by the IFRS Interpretations Committee (IFRS IC) of the IASB, the JSE Listings Requirements, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

They have been prepared in accordance with the going concern principle under the historical cost basis, except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.
- Defined benefit pension plans – plan assets measured at fair value.

The preparation of the group and company financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the group and company financial statements, are disclosed in the notes to these financial statements.

These group and company financial statements are presented in rands, which is the company's functional currency and the group's presentation currency. All financial information presented in rands is rounded to the nearest million, except when otherwise indicated.

Standards, amendments and interpretations effective in 2018

The following standards, amendments and interpretations have been adopted by the group for the first time for the financial year ended 31 March 2018. The adoption of these amendments did not have a significant impact on the current period or any prior period and is not likely to affect future periods.

Effective date	Standard, amendment or interpretation
1 January 2017	Amendment to IAS 7 – Cash flow statements disclosure initiative
	Amendment to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses.*
	Annual improvements 2014 – 2016

Standards, amendments and interpretations not yet effective

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the group as at the reporting date of 31 March 2018.

The following new standards, amendments to standards and interpretations are material to the group.

Title of standard	**IFRS 9 *Financial Instruments***
Nature of change	IFRS 9 addresses the classification, recognition and measurement of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.
Impact	Classification The group of assets classified as financial assets held under multi-manager investment contracts shall continue to be carried at fair value through profit or loss as they are not held for the purposes of collecting cash payments which are solely payments of capital and interest. This conclusion is based on the fact that this group of financial assets is managed and their performance evaluated on a fair value basis (current accounting policies). The same argument applies to financial assets of insurance cell-captive facilities. Trade receivables, insurance receivables, other receivables, some cash and cash equivalents shall continue to be measured at amortised cost. The reason being that these balances are held in accordance with the business model to collect cash payments which are solely payments of capital and interest (even where interest is negligible). Investments in unit trusts are currently carried at amortised cost and classified as cash and cash equivalents due to their short-term nature. These investments will now be carried at fair value through profit or loss. The reason for this change is that unit trust investments are held to collect cash flows which are not solely payments of capital and interest. For instance, the income generated include market movements. However, the measurement of the unit trust balances will not change as the current amortised cost approximates fair value. In addition, the classification as cash and cash equivalents will

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2018

also not change. The same applies to the income statement. Fair value changes and interest are currently shown under investment income – this will also not change under IFRS 9. In short, while the classification in terms of categories of financial statements has changed, the classification or the captions under which investments in unit trusts and related movements are included on the statement of financial position and income statement respectively will not change.

Impairment
The expected credit losses model only applies to financial assets carried at amortised cost. Unlike the incurred loss model under IAS 39, the expected credit losses model forces management to monitor the credit quality of its debtors. The credit quality of the debtor's balances is stratified into three stages.

The allowance for impairment is a function of the expected loss and the probability of default. The challenge that the group faces is that of determining the probability of default. The reason being that it is based on forward-looking information, the forecasting of which requires significant judgement.

Due to the nature of the Alexander Forbes business, management does not expect significant additional credit losses. There are, however, two loan balances that require significant judgement from management. These loans do not require impairment at 1 April 2018 in terms of IFRS 9, however are closely monitored by the group as facts and circumstances unfold.

- The group has a foreign denominated receivable of R29 million relating to an African country.
- One of the subsidiaries has a long-outstanding receivable from a state-owned entity which management still believes is recoverable and therefore do not expect credit losses. The reason being that non-collection of this receivable is an administrative issue as opposed to inability to pay by the state-owned entity. The standard permits preparers to rebut the presumption that balances 90 days and older have a significant increase in credit risk.

Classification of financial liabilities
The IFRS 9 classification of financial liabilities requirements were carried over from IAS 39 and consequently has no impact on the group.

Fair value changes due to own credit risk
The requirement to present in other comprehensive income (OCI) changes in fair value of financial liabilities (designated at fair value through profit or loss) due to own credit risk will not affect the group. The IASB allows this exception where such split presentation would result in an accounting mismatch.

Hedge accounting
Under IAS 39, for hedges of foreign currency risk, an entity has a choice of whether to hedge using either the forward rate or the spot rate. Under IFRS 9 an entity can continue to apply both of the approaches allowed in IAS 39. However, where an entity designates only the change in the spot element as the hedging instrument an additional accounting approach exists for the forward element of the forward contracts (as compared to IAS 39 accounting). Under IFRS 9 the group will continue to designate the change in the spot element as the hedging instrument. In addition, the group will continue to expense in profit or loss movement in the forward points. This choice of hedge accounting is expected to have no material impact on the group.

Presentation and disclosure
The new standard introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments, particularly in the year of the adoption of the new standard.

Adoption of IFRS 9
IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The group has adopted IFRS 9 on 1 April 2018. The group has elected not to restate comparative periods. Instead, the difference between the previous carrying amounts and the new carrying amounts at the date of initial application will be recorded in opening accumulated profits of the annual period that includes the date of initial application.

Title of standard	**IFRS 15 *Revenue from Contracts with Customers***
Nature of change	The IASB has issued a new standard for the recognition of revenue. This standard will replace IAS 18, which covers contracts for goods and services and IAS 11, which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.
Impact	Recognition and measurement The group does not expect a significant impact from the adoption of IFRS 15 in relation to the recognition and measurement of revenue, except as described below. The only income stream that is at risk is revenue generated from consulting work. IFRS 15 requires entities to recognise revenue on completion of a

performance obligation. Consulting jobs often have a single deliverable, meaning that the company can recognise revenue only on completion of the consulting work. The group legal team is currently working on revising certain critical terms of our contracts with customers to enable the company to recognise revenue for work completed to date. Where the group fails to amend the consulting contracts, any related costs to complete the contract incurred by the group shall be capitalised into the contract's assets.

Classification
A portion of interest income is currently classified as revenue as it is generated from ordinary activities, however not from contracts with customers. On the adoption of IFRS 15 this interest income will be reclassified into investment income.

On the other hand, interest from income generated from financing operations will continue to be classified as revenue as it is generated from financing contracts with customers.

Contracts with customers do not contain significant financing arrangements, except where they relate to financing operations.

One of the businesses makes payments to its clients in order to entice the clients to purchase its services. These payments are currently classified as direct costs. On the adoption of IFRS 15, these costs will be deducted from the fees generated from those clients and thereby reducing the amount of revenue that would have been recognised.

Presentation and disclosure
The requirement to disaggregate revenue will impact the layout of the revenue note as well as the segment analysis.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The group has adopted IFRS 15 on 1 April 2018. The group has elected not to restate comparative periods. Instead, the group shall record the cumulative effect of initially applying IFRS 15 – which affects revenue and costs – as an adjustment to the opening balance of equity at the date of initial application.

Title of standard **IFRS 16 *Leases***

Nature of change: IFRS 16 was issued in January 2016. This standard introduces a single on balance sheet accounting model for lessees. Under the new standard an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. Lessor accounting remains unchanged.

Impact: The standard will affect primarily the accounting for the group's operating leases, mainly impacting the head office building lease. As at the reporting date the group has non-cancellable operating lease commitments of R1 293 million (refer to note 34: Commitments).

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The group has elected to apply the practical expedient not to reassess previous lease contracts.

In addition, the nature of expenses related to those operating leases will now change as IFRS 16 replaces the straight-line operating expense with a depreciation charge for the right-of-use asset and interest expense for the lease liabilities.

A comparison between the current straight-line operating lease expense and the IFRS 16 lease expense (depreciation plus interest) indicates that in the year of adoption of this standard, the sum of the depreciation and interest charge will swing such that in the following year it is less than what the straight-line lease expense would have been.

The group intends to complete a detailed assessment of the expected impact in FY19.

No significant impact is expected for the group's finance lease.

IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The group shall adopt this standard on 1 April 2019.

Title of standard **IFRS 17 *Insurance Contracts***

Nature of change: IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are remeasured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. This will likely affect our short term insurance contracts.

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The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

IFRS 17 is mandatory for financial years commencing on or after 1 January 2021. The group shall adopt this standard on 1 April 2021.

There are no other standards, amendments to standards and interpretations that are not yet effective that would be expected to have a significant impact on the group.

Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

All material intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

On the loss of control the group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and components of equity related to the subsidiary. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset, depending on the level of influence retained.

The company's separate financial statements account for subsidiaries at cost less any accumulated impairment losses.

(b) Non-controlling interests

Non-controlling interests in the net assets of subsidiaries are separately identified and presented from the group's equity therein. Non-controlling interests are initially measured either at fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets at the acquisition date. This is not an accounting policy election and the group will apply the choice of measurement basis on an acquisition-by-acquisition basis.

Subsequently the non-controlling interest consists of the amount attributed to such interest at initial recognition plus the non-controlling interest's share of change in equity since the date of the combination.

Non-controlling interests are treated as equity participants of the subsidiary companies. The group treats all acquisitions and disposals of its non-controlling interests in subsidiary companies, which do not result in a loss of control, as an equity transaction. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the change in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the group.

(c) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. The group establishes structured entities for business purposes. The group may or may not have any direct or indirect shareholdings in these entities.

(d) Associates

Associates are entities in which the group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the group holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for using the equity method of accounting and are recognised initially at cost.

The group's share of post-acquisition profit or loss is recognised in the income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds its interest in that associate, including any other unsecured receivables, the group does not recognise any further losses, unless the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment. Associates' accounting policies have been changed, where material and necessary, to ensure consistency with the policies adopted by the group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss, where appropriate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognises the amount adjacent to share of profit/loss of associates in the income statement.

The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses.

(e) Collective investment schemes

Collective investment schemes (or unit trusts) managed by the group are consolidated provided the group can demonstrate the following:

- power to direct the relevant activities that impact the variable returns of the unit trust through its mandates and voting rights;
- exposure to the variable returns of the unit trust through its size of investment in the unit trust (for instance, investment by the group is greater than 20 percent); and
- ability to use its power to impact the variable returns for its own benefit.

The consolidated financial assets of the collective investment schemes attributable to unitholders are shown within 'financial assets held under multi-manager investment contracts' in the group statement of financial position with a matching linked liability to the unitholders shown within 'financial liabilities held under multi-manager investment contracts'.

Fair value adjustments to the financial assets and liabilities of collective investment schemes are recognised in profit or loss.

When the size of the investment in the unit trust falls below the 20 percent threshold it is accounted for as an investment and recorded at fair value through profit or loss.

Foreign currency

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates, in other words its functional currency.

(b) Foreign exchange gains and losses arising in entity accounts

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates at that date. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities are recognised in profit or loss, except when deferred in other comprehensive income for qualifying cash flow hedges.

All foreign exchange gains and losses, including those that relate to borrowings and cash and cash equivalents, are presented in the income statement within 'investment income or finance costs' respectively.

Translation differences on monetary items, such as financial assets held at fair value through profit or loss, are reported as part of the fair value gain or loss on such instruments. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

(c) Foreign exchange gains and losses arising on consolidation

Items included in the financial statements of each of the group's entities are measured in the entity's functional currency. The results and financial positions of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency of the group are translated into South African rand as follows:

- All assets and liabilities of items in the statement of financial position are translated at the reporting date at the exchange rate at that date.
- All income and expenses in the income statement and statement of comprehensive income are translated at the average exchange rates for the relevant financial period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the applicable exchange rates at the dates of the transactions).
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign currency gains or

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losses on such item are considered to form part of the net investment in the foreign operation and are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation) all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates that do not result in the group losing significant influence) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the reporting date at the exchange rate at that date.

Property and equipment

Items of property and equipment are measured at cost less any accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All day-to-day servicing of property and equipment is recognised in profit or loss as incurred.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The expected useful lives applied are as follows:

Item of property and equipment	Period of depreciation
Leasehold property and improvements	Shorter of useful life or period of lease
Computer and network equipment	3 to 5 years
Motor vehicles	4 to 10 years
Furniture and fittings	4 to 10 years
Office equipment	4 to 7 years

Depreciation methods, residual values and useful lives are reviewed at each reporting date and adjusted if required.

Gains and losses on disposals of property and equipment are determined by comparing proceeds from the disposal with the carrying amount of the relevant asset and are recognised in profit or loss.

Goodwill

Goodwill arises on the acquisition of subsidiaries and associates.

The group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred, *plus*
- the amount of any non-controlling interest in the acquiree measured at fair value or at the proportionate share of the acquiree's identifiable net assets, *plus*
- the fair value of the existing equity interest in the acquiree (if the business combination is achieved in stages), *less*
- the fair value of the net identifiable assets acquired and liabilities (including contingent liabilities) assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Goodwill is measured at cost less accumulated impairment losses and is tested annually for impairment. In respect of equity-accounted investees (associates), the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee. Gains and losses on the disposal of an entity are stated after deducting the carrying amount of goodwill relating to the entity sold.

Intangible assets

Intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.

(a) Purchased and developed computer software

Purchased computer software, and the direct costs associated with the customisation and installation thereof, are capitalised and amortised over the useful life of the asset.

Purchased computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over the useful life of the asset. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency costs of developing software. Costs that are directly associated with the production of identifiable and unique software products, which will be controlled by the group and generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. The directly associated costs include employee costs and an appropriate portion of relevant overheads of the system development team. All other costs associated with

developing or maintaining computer software programs are recognised in profit or loss as incurred.

Expenditure, which enhances and extends the benefits of computer software programs beyond their original specifications and lives, is recognised as a capital improvement and added to the original cost of the software. Previously expensed costs are not subsequently capitalised.

Computer software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives of between three and five years.

(b) Contractual customer relationships and trade names acquired as part of a business combination

Contractual customer relationships and trade names acquired as part of a business combination are recognised as intangible assets.

Customer relationships

The initial recognition of the customer relationship is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. These customer relationships are amortised on a straight-line basis over the estimated life of the acquired contracts.

Trade names

Trade names are initially recognised at fair value on the day of acquisition. The fair value is determined using the relief-from-royalty methodology. Trade names are amortised on a straight-line basis over the estimated useful life of the trade name, limited to 20 years.

(c) Deferred acquisition costs (DAC)

Incremental costs directly attributable to securing rights to receive fees for multi-manager investment services sold with investment contracts are capitalised as intangible assets if they can be separately identified, measured reliably and it is probable that their value will be recovered. An incremental cost is one that would not have been incurred if the group had not secured the investment contract.

The DAC represents the group's contractual right to benefit from providing multi-manager investment services and is amortised on a straight-line basis over the period in which the group expects to recognise the related revenue, not exceeding five years. The costs of securing the right to provide these services do not include transaction costs relating to the origination of the investment contract.

The accounting policy in respect of DAC relating to insurance contracts is described in the relevant accounting policy on insurance contracts.

(d) Trademarks and licences

No value is attributed to internally developed trademarks, patents and similar rights. Costs incurred on these items are recognised in profit or loss as incurred. Expenditure on the development and marketing of the group's brands is also recognised in profit or loss as incurred.

Financial assets

The group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity financial assets; and
- available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired.

All financial assets are initially recognised at fair value plus, in the case of financial assets not at fair value through profit or loss, any directly attributable transaction costs. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques of which variables include only data from observable markets. Where the transaction price is not necessarily the fair value of the financial asset, the day-one gain or loss is deferred and recognised over the term that the financial asset is expected to be held.

The purchases and sales of financial assets that require delivery are recognised on trade date, being the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the group has also transferred the risks and rewards of ownership.

Subsequent to initial recognition the fair values of financial assets are based on quoted market prices, excluding transaction costs. If the market for a financial asset is not active or an instrument is an unlisted instrument, the fair value is estimated using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

When a discounted cash flow analysis is used to determine the value of financial assets, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate, at the reporting date, for a financial asset with similar terms and conditions. Where option pricing models are used, inputs are based on observable market indicators at the reporting date.

(a) Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2018

Derivatives are also classified as held for trading, unless they are designated as hedges at inception. All classes of financial assets classified on the statement of financial position as 'financial assets held under multi-manager investment contracts' are designated at fair value through profit or loss.

A financial asset is designated as fair value through profit or loss if the group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the group's documented risk management or investment strategy. Under these criteria the main classes of financial assets designated by the group are preference shares, unit trusts and debt securities. All classes of financial assets classified on the statement of financial position as 'assets of insurance cell-captive contracts' are designated at fair value through profit or loss. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognised in profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include purchased loans. This category does not include those loans and receivables that the group intends to sell in the short term or that it has designated at fair value through profit or loss or available-for-sale. Origination transaction costs and origination fees are capitalised to the value of the loan. Loans and receivables are carried at amortised cost using the effective interest method, less any impairment losses.

Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Short-term trade receivables are carried at original invoice amount less an estimate made for impairment based on a review of all outstanding amounts at the end of each reporting period. The difference between the fair value of short-term receivables and the invoice amount is immaterial. Long-term trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Impairment is recognised in profit or loss when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Objective evidence that receivables are impaired includes observable data that comes to the attention of the company regarding the following events:

- significant financial difficulty of the debtor;
- a breach of contract, such as default or delinquency in payments; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

(c) Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time and may be sold in response to liquidity needs or changes in interest rate, exchange rates or equity prices. Financial assets that are designated in this category or not classified in any of the other categories are classified as available-for-sale financial assets. The main classes of assets classified as available-for-sale are unlisted debt, equity and property securities.

Subsequent to initial recognition available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognised directly in other comprehensive income and presented in the non-distributable reserve in equity. When an investment is derecognised the cumulative gain or loss in equity is reclassified to profit or loss.

Interest income received on available-for-sale financial assets is recognised in profit or loss, using the effective interest method. Dividend income received on available-for-sale financial assets is recognised in profit or loss when the group's right to receive payment is established.

Impairment of financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the group on terms that the group would not consider otherwise, or disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(a) Financial assets carried at amortised cost

The group assesses whether there is objective evidence that a financial asset is impaired at each reporting date. A financial asset is impaired, and impairment losses are recognised in profit or loss only if there is objective evidence of impairment, as a result of one or more events that have occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring

any impairment loss is the current effective interest rate determined under contract. As a practical expedient the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as improved credit rating, the previously recognised impairment loss is reversed and is recognised in profit or loss.

(b) Assets classified as available-for-sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities the group uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Impairment of non-financial assets

(a) Goodwill

Goodwill is assessed annually for impairment. For purposes of impairment testing goodwill is allocated to cash-generating units, being the lowest component of the business which is expected to generate cash flows that are largely independent of any other business component. Each of those cash-generating units represents a grouping of assets no larger than an operating segment as used for segmental reporting purposes in the group financial statements. Impairment losses relating to goodwill are not reversed.

(b) Impairment of other non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment at each reporting date. In addition, intangible assets that have an indefinite useful life are reviewed for impairment whenever events or a change in circumstances during the year indicate that the carrying amount may not be recoverable. Other assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs of disposal and value in use. Value in use is the present value of projected cash flows covering the remaining useful life of the asset. For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); and
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

Any attributable transaction costs are recognised in profit or loss as incurred. The fair value of publicly traded derivatives are based on quoted bid prices for assets held or liabilities to be issued and the current offer prices for assets to be acquired and liabilities held. The fair value of non-traded derivatives is based on discounted cash flow analyses and option pricing models as appropriate.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The group documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The company documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

Movements in the hedging reserve in shareholders' equity are shown in note 23.5. Other changes in the fair value of derivative instruments are recognised immediately in profit or loss.

Cash flow hedges

The effective portion of changes in the fair value of foreign exchange contracts that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

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The group has designated changes in the value of the spot element as the hedging instrument, the group is only concerned about movements in the spot rate (and not changes due to interest rates, which is the forward element). Changes in the spot rate are part of the hedge relationship, and so they are accounted for in accordance with the type of hedge, whereas the changes in fair value due to the forward points are immediately recognised in profit or loss under finance costs.

Amounts accumulated in equity are set off against the carrying amount of the hedged item (basis adjustment). The deferred amounts are ultimately recognised in profit or loss as amortisation or impairment in the case of purchased and developed software.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Cash and cash equivalents

Cash and cash equivalents include the following:

- cash on hand;
- deposits held on call with banks;
- other short-term highly liquid investments with original maturities of three months or less;
- demand deposits; and
- bank overdrafts.

Cash and cash equivalents backing financial liabilities held under multi-manager investment contracts and liabilities of insurance cell-captive contracts are included in the definition of cash and cash equivalents. However, given the restrictions involved in accessing this cash, it is separately identified on the statement of cash flows. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Contract work in progress

Other receivables include contract work in progress in respect of unbilled fee-based services, which are stated at net realisable value. Net realisable value is generally based on the unbilled time incurred to date at the expected charge rates and is the undiscounted value of the receivable.

Equity

(a) Share capital

Ordinary shares and qualifying preference shares are classified as equity. Incremental costs directly attributable to the issue of equity are recognised as a deduction from equity, net of any tax effects.

(b) Dividend distributions

Dividend distributions on ordinary shares are recognised as a reduction in equity in the period in which they are approved by the company's shareholders. Distributions declared after the reporting date are not recognised but are disclosed in the financial statements.

(c) Treasury shares

Where any group company purchases the company's equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's owners until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's owners.

(d) Share-based payment reserve

Upon the vesting of any equity instruments granted by the group, the group transfers the related share-based payment reserve to accumulated profits or loss.

Classification of insurance and investment contracts

The group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the group defines a significant insurance risk as the possibility of having to pay benefits, on the occurrence of an insured event, that are at least 10% more than the benefits payable if the insured event did not occur. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable.

Insurance contracts

Insurance contracts are classified into two main categories, short-term and long-term insurance, depending on the duration of risk and whether or not the terms and conditions are fixed.

(a) Short-term insurance contracts

These contracts are casualty, property and short-duration life insurance contracts. For all these, contracts premiums are recognised as revenue (earned premiums) in profit or loss proportionally over the period of coverage. Premiums are shown gross of commission and reinsurance, and exclude any taxes or duties levied on premiums. Claims and related claims adjustment expenses are recognised in profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

(b) Short-term insurance liabilities

The following are classified as short-term insurance liabilities:

Unearned premiums

Short-term insurance premiums are recognised in profit or loss proportionately over the period of cover for even risk business or in line with the exposure to risk. The portion of premium accrued on in-force contracts that relates to unexpired risks at the reporting date is reported as an unearned premium liability, which is included in financial liabilities of insurance cell-captive facilities.

Outstanding claims

Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the group and statistical analyses of the claims incurred but not reported. Outstanding claims liabilities are recognised as liabilities and included in insurance-related payables from underwriting activities. The expense is recognised in profit or loss as a result of the liability being raised. The group does not discount its liabilities for unpaid claims.

(c) Long-term insurance contracts

These contracts insure events associated with human life over a long duration. Premiums are recognised as revenue in profit or loss when they become payable by the contract holder. Premiums are shown gross of commission and exclude any taxes or duties levied on premiums. Benefits payable to beneficiaries are recorded as an expense in profit or loss when they are incurred.

(d) Long-term insurance liabilities

In terms of IFRS 4 *Insurance Contracts* insurance liabilities are permitted to be measured under existing local practice. The insurance liabilities are to be valued in terms of the financial soundness valuation (FSV) basis as described in the Statement of Actuarial Practice 104 (SAP 104) issued by the Actuarial Society of South Africa. The result of the valuation methodology and assumptions is that profits are released appropriately over the term of the policy to avoid the premature recognition of profits that may give rise to losses in future years.

The liability is valued using a discounted cash flow approach. This approach takes the sum of future expected benefit payments and administration expenses that are directly related to the contract, deducts the expected premiums based on contractual expected premium used and then discounts these resultant cash flows at market-related rates of interest. The liability is based on assumptions of the best estimates of future experience as to mortality, persistency, maintenance expenses and investment income.

Compulsory margins for adverse deviations (first-tier margins) increase the liability as required in terms of SAP 104. Such margins are intended to provide a minimum level of prudence in the liabilities and to ensure that profits are not recognised prematurely. In addition, discretionary margins (second-tier margins) may be added to the liability to ensure that profit and margins for risk in the premiums are not capitalised prematurely and that profits are recognised in line with the risk profile inherent in the contracts and services provided.

(e) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired the group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss. The group gathers evidence that an insurance receivable is impaired using the same process adopted for loans and receivables.

(f) Embedded derivatives

The group does not separately measure embedded derivatives in an insurance contract if the embedded derivative itself qualifies for recognition as an insurance contract. Such an embedded derivative is measured as an insurance contract. All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative.

(g) Deferred policy acquisition costs (DPAC)

Commissions and other acquisition costs arising from property and casualty short-term insurance contracts that vary with, and are related to, securing new contracts and renewing existing contracts are capitalised. All other costs are recognised in profit or loss when incurred. The DPAC is subsequently amortised and recognised in profit or loss over the life of the policies as premiums are earned.

For long-term insurance contracts commissions and other acquisition costs are recognised in profit or loss when incurred.

(h) Liability adequacy test

At each reporting date, for contracts measured on a retrospective basis, liability adequacy tests for insurance contracts are performed to ensure the adequacy of the contract liabilities. In performing these tests current best estimates of future contractual cash flows and claims-handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. For contracts measured on the financial soundness valuation basis, the financial soundness basis is as described in the Statement of Actuarial Practice 104 (SAP 104) issued by the Actuarial Society of South Africa. The result of the valuation methodology and assumptions is that profits are released appropriately over the term of the policy to avoid the premature recognition of profits that may give rise to losses in future years.

(i) Reinsurance contracts held

Contracts entered into by the group with reinsurers, under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. The benefits to which the group is entitled under its reinsurance contracts are recognised as

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reinsurance assets and are included in insurance-related receivables from underwriting activities. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from, or due to, reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in profit or loss when due. The group assesses its reinsurance assets for impairment at each reporting date. If there is objective evidence that the reinsurance asset is impaired the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in profit or loss. The group gathers evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost.

(j) Salvage and subrogation reimbursements

Some insurance contracts permit the group to sell property acquired in settling a claim (in other words, salvage). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims. Salvage property is recognised as an asset when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

The group may also have the right to pursue third parties for payment of some or all costs (in other words, subrogation). Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised as assets when the liability is settled. The allowance is based on an assessment of the amount that can be recovered from the action against the liable third party.

Investment contracts

The group issues investment contracts without fixed terms (unit linked). Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial assets, derivatives or investment property (unit linked) and are designated at inception as financial liabilities at fair value through profit or loss.

Amounts received under investment contracts are recorded as deposits under investment contract liabilities. Amounts paid under investment contracts are recorded as deductions from investment contract liabilities.

Valuation techniques are used to establish the fair value at inception and at each reporting date. The group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the reporting date. If the investment contract is subject to a put or surrender option the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

Financial liabilities

The group classifies its financial liabilities in the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of financial liabilities at initial recognition.

Financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, net of transaction costs incurred in the case of financial liabilities not at fair value through profit or loss.

The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets. Where the transaction price is not necessarily the fair value of the financial liabilities the day-one gain or loss is deferred and recognised over the term of the liability.

A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Other modifications are accounted for by adjusting the carrying amount of the financial liability to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as income or expense.

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(a) Financial liabilities at fair value through profit or loss

This category has two subcategories:

- financial liabilities held for trading; and
- those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if the linked financial asset associated with this liability is acquired principally for the purpose of selling in the short term or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking. Derivative liabilities are also classified as held for trading, unless they are designated as hedges at inception. All classes of financial liabilities classified on the statement of financial position as 'financial liabilities held under multi-manager investment contracts' are designated at fair value through profit or loss.

A financial liability is designated as fair value through profit or loss where the group determines such a designation will eliminate an accounting mismatch because the related assets are carried at fair value through profit or loss.

All classes of financial liabilities classified on the statement of financial position as 'liabilities of insurance cell-captive contracts' are designated as fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value, with subsequent changes in fair value recognised in profit or loss.

(b) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments and fixed maturities.

Financial liabilities classified as financial liabilities at amortised cost comprise borrowings and trade and other payables. Subsequent to initial recognition these financial liabilities are measured at amortised cost and any difference between the proceeds, net of transaction costs and the redemption value, is recognised in profit or loss over the period of the borrowings using the effective interest method.

Deferred tax

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, and the company intends to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be settled simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax relating to fair value remeasurements of available-for-sale assets which are recognised in other comprehensive income are accumulated in equity and are subsequently reclassified into profit or loss together with the deferred gain or loss.

Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through trustee-administered funds, determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans. The pension plans are funded by payment from the relevant group companies and/or by employees.

A defined contribution plan is a post-employment benefit plan under which the group and/or employees pay fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to current or prior employee service. The group pays contributions to the plan on a mandatory, contractual or voluntary basis. The group has no further payment obligation once the contributions have been paid. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due.

A defined benefit plan is a post-employment benefit plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. In countries like South Africa where there is no deep market for corporate bonds the government bond rate is used. This rate is the yield at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the group's obligation.

The calculation is performed annually by qualified actuaries using the projected unit credit method.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.

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Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

When the calculation results in a benefit for the group, in other words plan assets exceed the defined benefit obligation, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. The group measures the economic benefits available to it in the form of refunds or reductions in future contributions at the maximum amount that is consistent with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan in accordance with IFRIC 14.

Past service costs are recognised immediately in profit or loss.

The group's current service costs of the defined benefit plans are recognised in profit or loss in the current year.

(b) Post-employment medical obligations

In terms of certain employment contracts the group provides post-employment medical benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions.

The entitlement to these benefits is based upon employment prior to a certain date and is conditional on employees remaining in service up to retirement age. New employees are not entitled to this benefit. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans.

(c) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognised in profit or loss as the related service is provided. A liability is recognised for the amount that is expected to be paid in the form of annual leave entitlements if the group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Share-based payments

(a) Employee related

The group operates a number of equity-settled, share-based compensation plans under which the entity receives services from employees as consideration for equity instruments (shares) of the group. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted:

- including any market performance conditions (for example, the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

At the end of each reporting period the group revises its estimates of the number of shares that are expected to vest, based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the shares vest, in some circumstances, the company issues new shares to settle.

In other circumstances, when shares vest, the company settles using shares of the company previously acquired from the market.

The grant by the company to the employees of subsidiary undertakings in the group is treated as a capital contribution in the financial statements of the company. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

(b) Non-employee related

For equity-settled share-based payment transactions, the group measures the goods or services received, and the corresponding increase in equity, directly at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the group cannot

estimate reliably the fair value of the goods or services received, it measures their value, and the corresponding increase in equity, indirectly by reference to the fair value of the equity instruments granted.

In particular, if the identifiable consideration received (if any) by the group appears to be less than the fair value of the equity instruments granted, typically this situation indicates that other consideration (i.e. unidentifiable goods or services) has been (or will be) received by the group. The group measures the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received). The group measures the unidentifiable goods or services received at the grant date.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation, as a result of past events, for which it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where the group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

Leases

(a) Finance leases

Assets acquired under lease agreements that transfer substantially all the risks and rewards of ownership to the group are accounted for as finance leases. The asset is capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments upon initial recognition, with an equivalent amount being stated as a finance lease liability. The capitalised asset is depreciated over the shorter of the useful life of the asset or the lease term. Lease payments are apportioned between finance costs and capital repayments using the effective interest method.

Finance costs are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance costs are recognised in profit or loss over the lease period.

(b) Operating leases

Other leases are operating leases and the leased assets are not recognised on the group's statement of financial position. Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

When an operating lease is terminated before the lease term has expired any payment required to be made to the lessor by way of a penalty is recognised as an expense in the period in which termination takes place.

Contingencies and commitments

Transactions are classified as contingencies when the group's obligations depend on uncertain future events not within its control. Items are classified as commitments when the group commits itself to future transactions with external parties.

Income from operations

Income from operations, which excludes value added tax, comprises:

- commission (when the group acts in the capacity of an agent rather than as the principal in a transaction) and fees in respect of brokerage, administration, management and consultancy services;
- net underwriting profit from the risk-taking activities of insurance operations; and
- net interest income from financing operations.

Income recognition – general operations

(a) Financial services

- *Consulting fees* – comprise fees earned in respect of actuarial and other advisory services. Income is recognised based on the stage of completion as the related services are rendered. The stage of completion is determined with reference to the services performed to date as a percentage of total services to be performed.
- *Administration fees* – comprise fees earned for the administration of retirement funds. Income earned for the provision of administration services over a period is recognised over that period.
- *Commission income* – comprises commissions earned in respect of insurance and investment products. Commission income is recognised on the effective commencement or renewal date of the insurance or investment policy. A portion of the income is deferred when further servicing is required to be rendered. The amount deferred is that which will cover the expected future servicing costs, together with a reasonable profit thereon, and is recognised as a liability. Deferred income is recognised in profit or loss evenly over the period of the policy. Where commission income is earned on an indemnity basis, provision is made for the potential repayment of commissions.
- *Healthcare commission income* – comprises commissions earned in respect of healthcare products. Commission income is recognised on the effective commencement or renewal date of the healthcare product.
- *Fund annuity purchase fees* – comprise fees earned on fund annuity purchases. Fees are recognised in income based on the stage of completion of the transfer by reference to the value of the assets to be transferred.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2018

(b) Multi-manager investment – AF Investments (previously Investment Solutions)

- *Multi-manager investment fees* – comprise fees earned for multi-manager investment and administration. Initial administration fees are brought to account upon inception of the investment contract and are recognised on a straight-line basis over the expected period of the contract. Ongoing multi-manager investment and administration fees are calculated on a daily basis as a percentage of assets under management. These fees are recognised in income on a daily basis with reference to average assets under management.
- *Structured product fees* – comprise fees earned on the structuring and administration of portfolios of financial instruments designed to hedge specific financial risks. These fees are recognised in profit or loss evenly over the expected period of the contract.
- *Transition management fees* – comprise fees earned for services provided in relation to the transfer of investment assets. Fees are recognised in income on transfer by reference to the net asset value of the assets transferred.

Income recognition – financing operations

Interest and other finance income received in the form of an interest margin are recognised in profit or loss on a time proportionate basis using the effective interest method. Any directly related interest expense is recognised on the same basis.

Income recognition – insurance operations

- *Income from insurance activities* – refer to the accounting policies on insurance contracts.
- *Reinsurance commission income* – comprises commissions earned in respect of insurance referred to reinsurers. Income is recognised on the effective commencement or renewal date of the insurance policy. A portion of the income is deferred when further servicing is required to be rendered. The amount deferred is that which will cover the expected future servicing costs, together with a reasonable profit thereon, and is recognised as a liability. Deferred income is recognised in profit or loss evenly over the period of the policy.
- *Profit commission* – comprises negotiated profit shares with reinsurers. Income is recognised when earned.
- *Management fees on insurance cell-captive contracts* – income is calculated as a percentage of premiums received. Income is recognised on the effective commencement or renewal dates of the related insurance programme. A portion of the management fees is deferred to cover the expected future servicing costs, together with a reasonable profit thereon, and is recognised as a liability. The deferred income is recognised over the servicing period on a consistent basis reflecting the pattern of servicing activities.

Profit from operations before non-trading and capital items

The profit from operations before non-trading and capital items is made up of trading activities of the group. The trading activities are those revenues and expenses generated by the business operations of the group which are regularly reported to the board of directors when making resource allocation decisions and assessing trading performance. Items of an exceptional nature which are not considered to be fundamental to the resource allocation and performance of business operations are thus disclosed separately as non-trading and capital items. The separate disclosure of these items consequently achieves representative disclosure of activities normally regarded as trading in nature.

Non-trading and capital items

Non-trading activities relate to items such as the group professional indemnity insurance cell, adjustments arising due to business combinations, non-recurring items linked to corporate finance activities, items related to historical client settlement, impairment losses and recoveries, and capital gains or losses on sale of non-current assets. Items of a non-trading nature do not form part of management's consideration of the trading performance or allocation of resources of the group.

Investment income

Investment income from passive investments comprises interest income on funds invested, dividend income and fair value gains on financial assets at fair value through profit or loss. Interest income is recognised on a time proportionate basis in profit or loss using the effective interest method. All dividend income is recognised when the right to receive payment is established, which is the 'ex' dividend date for equity securities.

Finance costs

Finance costs comprise interest expense on borrowings, hedging costs on forward exchange contracts and fair value losses on financial assets at fair value through profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Income tax

Income tax expense comprises current and deferred taxes on both corporate profits and policyholder investment returns. Due to the nature of indirect taxes, including non-recoverable value added tax, stamp duty and skills development levies, these are included in operating expenses in profit or loss.

Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

The income tax expense on policyholder investment returns is presented separately from the income tax expense relating to corporate profits on the income statement.

(a) Current tax

The current income tax and capital gains tax charges are the expected taxes payable or receivable on the taxable

income or loss for the year, using applicable tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(b) Deferred tax

Deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes as detailed in the relevant accounting policy note.

Segment reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components. All operating segments' operating results are reviewed regularly by the group's key decision-makers (the group executive committee, ultimately overseen by the board of directors) to make decisions about resources to be allocated to the segments and assess its performance and for which discrete financial information is available.

Segment results that are reported to the key decision-makers include operating income net of direct expenses and normalised operating profit from operations before non-trading and capital items directly attributable to a segment.

When the group changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, is restated unless the information is not available and the cost to develop it would be excessive.

Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered – primarily through sale rather than through continuing use – are classified as held for sale. The assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, or employee benefit assets, which continue to be measured in accordance with the group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Gains on subsequent increases in fair value less costs to sell are not recognised in excess of any cumulative impairment loss. Intangible assets and property and equipment, once classified as held for sale, are not amortised or depreciated.

Discontinued operations

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation the comparative income statement and statement of other comprehensive income and statement of cash flows are represented as if the operation had been discontinued from the start of the comparative year.

Critical assumptions and judgements

The following critical accounting assumptions and judgements have been applied when preparing these financial statements:

1. **Valuation of policyholder assets and liabilities in respect of long-term insurance contracts**

   The actuarial value of policyholder assets and liabilities arising from long-term insurance contracts is determined using the financial soundness valuation method as described in SAP 104 of the Actuarial Society of South Africa.

   The method requires a number of assumptions as inputs to the valuation model. The process followed to determine the valuation assumptions is outlined in note 32: Insurance payables.

2. **Ultimate liability arising from claims under short-term contracts**

   The estimation of the ultimate liability arising from claims under short-term insurance contracts has several sources of uncertainty. The risk environment can change suddenly and unexpectedly owing to a wide range of events or influences. There is no absolute certainty in respect of identifying risks at an early stage, measuring them sufficiently or correctly estimating their real hazard potential. Over time the group has developed a methodology that is aimed at establishing insurance provisions that have a reasonable likelihood of being adequate to settle all its insurance obligations. Refer to note 32: Insurance payables for more details.

3. **Errors and omissions in the ordinary course of business**

   Due to the nature of its activities the group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions or non-compliance with laws and regulations in the conduct of its ordinary course of business. As with any business with similar operations to the group, the risk exists that new claims relating to past events and significant adverse developments in past claims could result in material changes to provisions made in respect of prior years. Refer to note 29.3: Provision for errors and omissions claims for further information.

4. **Goodwill**

   The group recorded significant goodwill (and intangible assets) upon its reorganisation in 2007 in terms of IFRS 3. These goodwill balances are evaluated for impairment on an annual basis. This evaluation is based on the estimation of future cash flows and discount rates as further explained in note 15: Goodwill.

5. **Fair value**

   Financial instruments

   The group's policy for determining the fair value of financial instruments is described in the accounting policies. The group holds a number of financial assets and liabilities that are designated at fair value through

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2018

profit or loss. Full disclosure of the valuation hierarchy and sensitivities is contained in the risk management section of this report. Refer to note 45: Financial risk.

Refer to note 5: Non-trading and capital items.

6. Retirement benefit obligations

The present value of the post-employment medical benefit obligations and the defined benefit pension funds is determined on an actuarial basis based on various assumptions. The assumptions used in determining the net cost/(income) for the post-employment medical benefit obligation and the defined benefit pension fund include, inter alia, the discount rate which is used to determine the present value of estimated future cash outflows expected to settle the obligation. The group, in conjunction with a professional actuary, determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related post-employment medical benefit obligation and the defined benefit pension funds. In countries like South Africa where there is no deep market for corporate bonds the government bond rate is used.

The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country-specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index-linked bonds of a similar term.

Other key assumptions for post-employment medical benefit obligations are based in part on current market conditions. Additional information is disclosed in note 27: Employee benefits.

Any changes in these assumptions will impact the carrying amount of post-employment medical benefit obligations and defined benefit pension funds.

7. Collective investment schemes

When the size of an investment in a unit trust falls below the 20 percent threshold it is accounted for as an investment and recorded at fair value through profit or loss. On the other hand, unit trust investments greater than 20% are consolidated.

IFRS 10 does not provide for a bright line when determining that an investment in a fund creates significant exposure. In the absence of a bright line, management have applied the guidance in IAS 28 by analogy. Consequently, an investment of 20% or greater is believed to create significant exposure to stable returns.

Refer to note 47: Consolidated and unconsolidated structured entities.

8. Developed computer software

Costs that are directly associated with the production of identifiable and unique software products, which will be controlled by the group and generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. The directly associated costs include employee costs and an appropriate portion of relevant overheads of the system development team. All other costs associated with developing or maintaining computer software programs are recognised in profit or loss as incurred.

Refer to note 14: Purchased and developed computer software.

The quantification of economic benefits is based on the estimation of future cash flows and discount rates. These calculations use cash flow projections based on financial budgets approved by the board of directors for the forthcoming year and forecasts for a further four years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates which do not exceed the expected long-term economic growth rate for the geographic segment.

An insignificant portion of the developed computer software was impaired during the year. Key assumptions used in the impairment review, apart from the reorganisation of CGUs, are consistent with past experience and external sources of information.

Refer to note 15.4 for key assumptions and sensitivity thereof.

GROUP INCOME STATEMENT
for the year ended 31 March 2018

Rm	Notes	2018	2017*
Continuing operations			
Fee and commission income	2	**4 094**	3 969
Direct expenses attributable to fee and commission income	2	**(1 070)**	(1 063)
Net income from insurance operations	3	**623**	564
Insurance premiums earned		**2 505**	2 318
Less: Amounts ceded to reinsurers		**(1 473)**	(1 399)
Plus: Investment income from insurance operations		**43**	37
Less: Insurance claims, commissions and withdrawals		**(1 774)**	(1 686)
Plus: Insurance claims and benefits covered by reinsurance contracts		**1 322**	1 294
Operating income net of direct expenses		**3 647**	3 470
Operating expenses	4	**(2 661)**	(2 533)
Profit from operations before non-trading and capital items		**986**	937
Non-trading and capital items	5	**(476)**	(137)
Operating profit		**510**	800
Investment income	6	**225**	178
Finance costs	7	**(97)**	(89)
Reported loss arising from accounting for policyholder investments as treasury shares	11.3	**(24)**	(2)
Profit before taxation		**614**	887
Income tax expense	8	**(308)**	(267)
Income tax expense relating to group profits		**(319)**	(245)
Income tax credit/(expense) relating to policyholder investment returns		**11**	(22)
Profit for the year from continuing operations		**306**	620
Discontinued operations			
Profit from discontinued operations (net of tax)	22.1	**21**	954
Profit for the year		**327**	1 574
Profit attributable to:			
Owners of the company		**240**	1 465
Non-controlling interest	9	**87**	109
		327	1 574
Basic earnings per share (cents)			
Continuing operations		**18.0**	46.7
Discontinued operations		**0.9**	67.8
Total operations	10	**18.9**	114.5
Diluted earnings per share (cents)			
Continuing operations		**17.9**	46.4
Discontinued operations		**0.9**	67.4
Total operations	10	**18.8**	113.8

* Restated for the effects of discontinued operations.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2018

Rm	Note	2018	2017
Profit for the year		**327**	1 574
Other comprehensive income:			
Foreign currency translation differences – foreign operations		**(9)**	(329)
Foreign currency translation reserve reclassified to profit or loss on loss of control		**–**	(209)
Cash flow hedge	23.5	**(37)**	–
Other comprehensive income for the year that may be reclassified to profit or loss[1]		**(46)**	(538)
Remeasurement of post-employment benefit obligation	27.3	**3**	13
Other comprehensive income that will not be reclassified to profit or loss[1]		**3**	13
Total comprehensive income for the year		**284**	1 049
Total comprehensive income attributable to:			
Owners of the company		**201**	968
Non-controlling interest		**83**	81
Total comprehensive income for the year		**284**	1 049

1. Net of related taxes.

GROUP STATEMENT OF FINANCIAL POSITION

at 31 March 2018

Rm	Notes	2018	2017
ASSETS			
Financial assets held under multi-manager investment contracts	11	**296 758**	281 498
Financial assets of insurance cell-captive facilities	12	**352**	320
Property and equipment	13	**174**	202
Purchased and developed computer software	14	**400**	163
Goodwill	15	**3 038**	3 355
Intangible assets	16	**390**	462
Investment in associates	17	**–**	13
Deferred tax assets	28	**175**	148
Financial assets	18	**445**	357
Insurance receivables	19	**1 339**	1 137
Tax assets	42	**15**	53
Trade and other receivables	20	**284**	398
Cash and cash equivalents	21	**5 794**	6 263
Assets of disposal group classified as held for sale	22	**82**	66
Total assets		**309 246**	294 435
EQUITY AND LIABILITIES			
Share capital		**6 192**	6 192
Treasury shares		**(392)**	(160)
Other reserves		**41**	(336)
Accumulated profit		**169**	1 205
Owners of the company	23	**6 010**	6 901
Non-controlling interest		**287**	218
Total equity		**6 297**	7 119
Financial liabilities held under multi-manager investment contracts	24	**296 825**	281 604
Financial liabilities of insurance cell-captive facilities	25	**352**	320
Borrowings	26	**719**	725
Employee benefits	27	**162**	160
Deferred tax liabilities	28	**119**	199
Provisions	29	**304**	291
Finance lease liabilities	30	**51**	75
Operating lease liabilities	31	**197**	182
Insurance payables	32	**3 572**	2 960
Trade and other payables	33	**585**	786
Tax liabilities	42	**49**	3
Liabilities of disposal group classified as held for sale	22	**14**	11
Total liabilities		**302 949**	287 316
Total equity and liabilities		**309 246**	294 435

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2018

Rm	Notes	2018	2017
Cash flows from operating activities			
Cash generated from operations	36	**1 013**	1 091
Interest received	37	**230**	140
Interest paid	38	**(79)**	(84)
Net cash flows received from/(paid to) insurance and policyholder contracts	40	**348**	(272)
Net cash flows paid to policyholder investment contracts	41	**(1 920)**	(1 007)
Taxation paid	42	**(333)**	(378)
Dividends paid		**(829)**	(509)
Cash flows from operating activities – discontinued operations		**16**	250
Net cash outflow from operating activities		**(1 554)**	(769)
Cash flows from investing activities			
Proceeds from sale of subsidiaries and businesses		**–**	883
Payments for intangible assets		**(3)**	–
Payments for financial assets		**(258)**	(192)
Proceeds from disposal of financial assets		**113**	219
Payments for capital expenditure incurred on property, equipment and computer software		**(321)**	(125)
Cash flows from investing activities – discontinued operations		**–**	(9)
Net cash (outflow)/inflow from investing activities		**(469)**	776
Cash flows from financing activities			
Repayment of borrowings	26	**–**	(83)
Proceeds from borrowings raised		**–**	100
Payments of lease liabilities		**(9)**	–
Purchase of shares in terms of share buy-back transaction[1]		**(276)**	–
Purchase of shares in terms of share incentive schemes		**(57)**	–
Proceeds from non-controlling interests		**–**	744
Payments to non-controlling interests		**(14)**	(113)
Cash flows from financing activities – discontinued operations		**–**	(117)
Net cash (outflow)/inflow from financing activities		**(356)**	531
(Decrease)/increase in cash and cash equivalents		**(2 379)**	538
Cash and cash equivalents at the beginning of the year		**16 087**	15 748
Effects of exchange rate changes on cash and cash equivalents		**(6)**	(199)
Cash and cash equivalents at the end of the year		**13 702**	16 087
Analysed as follows:			
Cash and cash equivalents of disposal group classified as held for sale	22	**15**	11
Cash and cash equivalents of continuing operations	21	**5 794**	6 263
Cash held under multi-manager investment contracts		**7 887**	9 813
Cash held under insurance cell-captive contracts		**6**	–
		13 702	16 087

[1] The group purchased Alexander Forbes Group Holdings Limited shares to the value of R276 million during the year in a general buy-back approved by shareholders on 27 March 2017.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2018

Rm	Share capital	Treasury shares	Other reserves	Accumu-lated profit/ (loss)	Total	Non-controlling interest	Total equity
At 1 April 2016	6 192	(181)	157	(267)	5 901	255	6 156
Total comprehensive income	–	–	(510)	1 478	968	81	1 049
Profit for the year	–	–	–	1 465	1 465	109	1 574
Other comprehensive income	–	–	(510)	13	(497)	(28)	(525)
Total transactions with owners	–	21	17	(6)	32	(118)	(86)
Introduction of empowerment partner[1]	–	–	5	521	526	222	748
Movement of treasury shares in policyholder assets	–	21	–	–	21	–	21
Movement in share-based payment reserve	–	–	12	–	12	–	12
Dividends paid	–	–	–	(509)	(509)	(197)	(706)
Loss on shareholder transactions[2]	–	–	–	(18)	(18)	(4)	(22)
Other movements in non-controlling interest[3]	–	–	–	–	–	(139)	(139)
At 31 March 2017	**6 192**	**(160)**	**(336)**	**1 205**	**6 901**	**218**	**7 119**
Total comprehensive income	**–**	**–**	**(41)**	**242**	**201**	**83**	**284**
Profit for the year	**–**	**–**	**–**	**240**	**240**	**87**	**327**
Other comprehensive income	**–**	**–**	**(41)**	**2**	**(39)**	**(4)**	**(43)**
Total transactions with owners	**–**	**(232)**	**418**	**(1 278)**	**(1 092)**	**(14)**	**(1 106)**
Shares purchased in terms of share buy-back programme[4]	**–**	**(276)**	**–**	**–**	**(276)**	**–**	**(276)**
Shares purchased in terms of share incentive schemes	**–**	**(57)**	**–**	**–**	**(57)**	**–**	**(57)**
Settlement of share incentive schemes[5]	**–**	**39**	**(39)**	**–**	**–**	**–**	**–**
Movement of treasury shares in policyholder assets	**–**	**62**	**–**	**–**	**62**	**–**	**62**
Dividends paid	**–**	**–**	**–**	**(829)**	**(829)**	**(14)**	**(843)**
Movement in share-based payment reserve	**–**	**–**	**8**	**–**	**8**	**–**	**8**
Transfer to retained earnings[6]	**–**	**–**	**449**	**(449)**	**–**	**–**	**–**
At 31 March 2018	**6 192**	**(392)**	**41**	**169**	**6 010**	**287**	**6 297**

[1] This amount relates to a disposal of equity interest in Alexander Forbes Limited to ARC.

[2] Purchase by Alexander Forbes Investments Holdings Limited of the remaining 49.99% stake in Caveo Fund Solutions Proprietary Limited from a non-controlling interest.

[3] These amounts include distributions made to non-controlling interest holders, as well as changes to acquisition and disposal of equity held by non-controlling interests.

[4] The group purchased Alexander Forbes Group Holdings Limited shares to the value of R276 million during the year, at an average price of R6.89 per share, in a general buy-back approved by shareholders on 27 March 2017.

[5] During the year 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.

[6] During the year the group transferred a redemption reserve amounting to R449 million into accumulated profits. This reserve arose in prior years on the redemption of preference shares. The transfer has a nil impact on total equity, however, results in a reduction in accumulated profits.

GROUP SEGMENTAL INCOME AND PROFIT ANALYSIS

for the year ended 31 March 2018

	Institutional								
	Consulting and retirements			Group Risk			Investments		
Rm	2018	%	2017	2018	%	2017	2018	%	2017
Operating income net of direct expenses	**1 111**	6	1 053	**65**	14	57	**712**	12	637
Operating expenses before accounting for property lease[1]	**(912)**	4	(881)	**(46)**	28	(36)	**(314)**	(5)	(329)
Operating profit before share scheme costs	**199**	16	172	**19**	(10)	21	**398**	29	308
Share scheme costs	**–**	(100)	(1)	**–**	–	–	**–**	–	–
Normalised operating profit before non-trading and capital items	**199**	16	171	**19**	(10)	21	**398**	29	308
Normalised non-trading and capital items	**(6)**	(77)	(26)	**–**	–	–	**–**	–	–
Normalised operating profit	**193**	33	145	**19**	(10)	21	**398**	29	308
Normalised net finance income	**(15)**	15	(13)	**8**	–	8	**51**	(23)	66
Normalised profit before tax from continuing operations	**178**	35	132	**27**	(7)	29	**449**	20	374
Taxation[2]	**(58)**	57	(37)	**(9)**	13	(8)	**(144)**	36	(106)
Normalised profit for the year from continuing operations	**120**	26	95	**18**	(14)	21	**305**	14	268
Adjustments				**(317)**					
Amortisation of intangible assets arising from business combination									
Goodwill write-off arising from business combination				**(317)**					
Professional indemnity insurance cell-captive results									
Accounting for property lease									
Reported loss arising from accounting for policyholder investment in treasury shares									
Tax effects on above adjustments									
Profit for the year from continuing operations	**120**	26	95	**(299)**	<(100)	21	**305**	14	268
Depreciation and amortisation[1]	**(22)**	–	(22)	**(4)**	33	(3)	**(23)**	5	(22)

[1] Operating expenses before accounting for property lease includes depreciation and amortisation.
[2] Computed using the group's normalised effective tax rate.
[3] The trading margin and cost to income is computed using operating expenses inclusive of share scheme costs and accounting for property lease.

	Retail																	
	Wealth and Investments			Retail Insurance			Emerging Markets			Administration only			Corporate			Total		
	2018	%	2017	**2018**	%	2017	**2018**	%	2017	**2018**	%	2017	**2018**	%	2017	**2018**	%	2017
	856	2	836	**510**	7	477	**250**	4	241	**143**	(15)	169	**–**	–	–	**3 647**	5	3 470
	(465)	8	(430)	**(394)**	5	(376)	**(219)**	6	(206)	**(143)**	(15)	(169)	**(153)**	104	(75)	**(2 646)**[3]	6	(2 502)[3]
	391	(4)	406	**116**	15	101	**31**	(11)	35	**–**	–	–	**(153)**	104	(75)	**1 001**	3	968
	–	(100)	(1)	**–**	(100)	1	**–**	(100)	(1)	**–**	–	–	**–**	(100)	(3)	**–**[3]	(100)	(5)[3]
	391	(3)	405	**116**	14	102	**31**	(9)	34	**–**	–	–	**(153)**	96	(78)	**1 001**	4	963
	(26)	–	–	**–**	–	–	**(16)**	–	–	**–**	–	–	**(6)**	(75)	(24)	**(54)**	8	(50)
	365	(10)	405	**116**	14	102	**15**	(56)	34	**–**	–	–	**(159)**	56	(102)	**947**	4	913
	(9)	13	(8)	**(9)**	–	(9)	**(1)**	(67)	(3)	**–**	–	–	**114**	>100	26	**139**	>100	67
	356	(10)	397	**107**	15	93	**14**	(55)	31	**–**	–	–	**(45)**	(41)	(76)	**1 086**	11	980
	(116)	4	(112)	**(35)**	35	(26)	**(4)**	(56)	(9)	**–**	–	–	**14**	(33)	21	**(352)**	27	(277)
	240	(16)	285	**72**	7	67	**10**	(55)	22	**–**	–	–	**(31)**	(44)	(55)	**734**	4	703
													(111)	(34)	(83)	**(428)**	>100	(83)
													(80)	(32)	(117)	**(80)**	(32)	(117)
													–	–	–	**(317)**	–	–
													(25)	<(100)	30	**(25)**	<(100)	30
													(15)	(42)	(26)	**(15)**	(42)	(26)
													(24)	>100	(2)	**(24)**	>100	(2)
													33	3	32	**33**	3	32
	240	(16)	285	**72**	7	67	**10**	(55)	22	**–**	–	–	**(142)**	3	(138)	**306**	(51)	620
	(24)	–	(24)	**(25)**	9	(23)	**(6)**	–	(6)	**–**	–	–	**(3)**	>100	(1)	**(107)**	6	(101)
													Trading margin[3] (%)			**27**	–	27
													Cost to income ratio[3] (%)			**73**	–	73

GROUP SEGMENTAL INCOME AND PROFIT ANALYSIS (CONTINUED)

for the year ended 31 March 2018

To simplify our financial reporting in alignment with our strategy the group has decided to change our internal segmental reporting of results in 2018 to represent Institutional clients which includes Corporate & employee benefits and Investments, Retail clients which includes Wealth and investments and Retail insurance, Emerging markets and Administration only. Shared services, Operations and administration, and Information technology costs continue to be fully allocated into the business segments.

Furthermore, the group has decided to separately disclose corporate costs that were previously allocated to each of the segments. Corporate costs include costs associated with the corporate office of the group which is responsible for certain functions that include strategic direction, capital management, group finance and investor relations as well as general group initiatives linked to the transformation journey in line with the Ambition 2022 strategy.

To allow for year-on-year segment report comparison, the 2017 information was restated to reflect these changes retrospectively.

Institutional clients
The Corporate & employee benefits division includes consulting, retirements and group risk solutions for corporates.

- Consulting and retirements includes actuarial consulting, healthcare actuarial and consulting, fund administration, consulting to standalone retirement funds, fund administration and consulting to umbrella retirement funds and beneficiary funds; and
- Group risk – group risk and disability insurance through Alexander Forbes Life.

Investments – investment services, including a range of investment portfolios, advice-led solutions and alternative investments

Retail clients
Retail clients includes the following business units:

- Wealth and investments – The Wealth and investments segment of the Retail clients business is focused on generating revenue through the offering of financial advice, the administration and management of investments. This segment incorporates Financial Planning Consultants (FPCs), AF Individual Client Administration (AFICA), AF Preservation Fund and the retail assets under management in AF Investments; and
- Retail insurance – this segment comprises AF Insurance, which provides short-term insurance solutions to individuals and the AF Life individual insurance business.

Emerging Markets
Alexander Forbes Emerging Markets (Emerging Markets) operates in five countries across Africa – Namibia, Botswana, Nigeria, Uganda and Zambia, with a primary offering of Corporate & employee benefits. Namibia, however, has both an Institutional and Retail offering much like the South African business, whilst the Nigeria business operates as a Consulting and Actuarial practice. We note that the operations in Kenya have been discontinued.

Administration only
The Administration only segment is separately reported from the consulting division in Corporate & employee benefits and reflects the revenue earned from clients where we earn fees only based on administration services.

Corporate
Corporate costs include costs associated with the corporate office of the group which is responsible for certain functions that include strategic direction, capital management, group finance and investor relations as well as group projects undertaken as part of the transformation journey.

Normalised segmental results
The group's segmental results are reflected to include the normalised results which is the basis upon which management manages the group and reflects the economic substance of the group's performance. The adjustments between the IFRS summary consolidated income statement and the normalised results are as follows:

Amortisation of intangible assets arising from business combination – Non-trading and capital items include the ongoing accounting amortisation of intangible assets amounting to R80 million for the year ended 31 March 2018 (2017: R117 million). Additionally, the goodwill write-off amounting to R317 million has been included in non-trading and capital items. The capitalisation of intangible assets, and the related amortisation as well as the goodwill and associated write-off, resulted from the required accounting treatment at the time of the private equity acquisition of the group in 2007.

Professional indemnity insurance cell-captive results – The profits and losses of the facility are a result of the premiums paid, claims experienced and the changes made to the provision for expected future claims. The recorded profits and losses of the cell-captive facility should trend to zero over the longer term. The annual premiums paid for this insurance is included in the operating expenses of each segment. The group is required to consolidate the financial results of the cell-captive which are recorded in the non-trading and capital items.

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 operating profit growth rate while the absolute value is an expense of R15 million for the year ended 31 March 2018 (2017: R26 million).

Reported loss arising from accounting for policyholder investment in treasury shares – In terms of IFRS, as presently constituted, any Alexander Forbes shares acquired by underlying asset managers (under a discretionary mandate) 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. As a result any fair value gains or losses made on the shares, which are economically matched to the policyholder liabilities, are recognised in the group's income statement.

Investment income and taxation payable on behalf of policyholders – The group's tax expense includes both deferred and income taxation payable on behalf of policyholders within the AF investments insurance licensed entity. The recognition of the recovery of this tax expense is included in the group's investment income. The normalised results exclude the policyholder tax expense and the related investment income which directly offset this tax expense.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

1. Foreign currency exchange rates

Certain transactions of the group occur in foreign currencies. In the current year the most significant foreign currency is the Great British Pound. These transactions have been translated using the exchange rates below. Other less material foreign subsidiaries have been translated to rand in line with IAS 21 The Effects of Changes in Foreign Exchange Rates, using the weighted average rates for income statement items and the closing rates for items in the statement of financial position.

Rm		2018	2017
Weighted average rate	(rand:sterling)	**17.0**	19.0
Closing rate	(rand:sterling)	**16.6**	16.8

2. Fee and commission income*

	2018	2017
Brokerage fees and commission income	**41**	45
Fee income from consulting and administration services	**2 143**	2 096
Fee income from investment management activities	**1 892**	1 790
Other income	**18**	38
	4 094	3 969
Direct expenses related to fees and commission income relate to sub-agent expenses, commissions paid and asset management fees	**(1 070)**	(1 063)

* Restated for the effects of discontinued operations.

3. Net income from insurance operations

	Long-term insurance		Short-term insurance		Total	
Rm	2018	2017	2018	2017	2018	2017
Gross earned premiums	**571**	443	**1 934**	1 875	**2 505**	2 318
Gross written premiums[1]	**571**	443	**2 020**	1 924	**2 591**	2 367
Less: Movement in unearned premium provision	**–**	–	**(86)**	(49)	**(86)**	(49)
Reinsurers' share thereof	**(378)**	(306)	**(1 095)**	(1 093)	**(1 473)**	(1 399)
Net earned premiums	**193**	137	**839**	782	**1 032**	919
Investment income from insurance operations	**12**	11	**31**	26	**43**	37
Commission expenses related to insurance operations	**(10)**	(7)	**(22)**	(21)	**(32)**	(28)
Net premium and investment income	**195**	141	**848**	787	**1 043**	928
Gross claims and transfers to policyholders' funds	**(431)**	(314)	**(1 311)**	(1 344)	**(1 742)**	(1 658)
Reinsurers' share thereof	**306**	258	**1 016**	1 036	**1 322**	1 294
Net claims and transfers to policyholders' funds	**(125)**	(56)	**(295)**	(308)	**(420)**	(364)
Net income from insurance operations	**70**	85	**553**	479	**623**	564

[1] Gross written premium for the short-term insurance includes reinsurance commission of R345 million (2017: R291 million) for the year ended 31 March 2018.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

4. Operating expenses*

Rm	2018	2017
Operating expenses classified by nature are as follows:		
Amortisation	(44)	(31)
Purchased and developed computer software (refer to note 14)	(44)	(31)
Computer and IT costs	(212)	(161)
Depreciation (refer to note 13)	(63)	(70)
Leasehold improvements	(4)	(2)
Computer equipment	(49)	(59)
Furniture fittings, office equipment and other assets	(10)	(9)
External auditors' remuneration	(31)	(32)
Audit service – fees for audit	(27)	(28)
Non-audit service	(4)	(4)
Professional fees	(87)	(56)
Regulatory and compliance costs	(24)	(33)
Insurance costs	(63)	(69)
Premises' operating costs	(57)	(47)
Operating lease charges	(197)	(179)
Premises – actual charges	(212)	(205)
– accounting for contractual escalations	15	26
Staff costs[1]	(1 516)	(1 476)
Salaries, wages and other benefits	(1 374)	(1 395)
Share-based payments	(16)	(16)
Termination benefits	(23)	(13)
Retirement benefit contributions – defined contribution plans	(10)	(9)
Training	(23)	(15)
Temporary staff costs	(27)	(27)
Other staff costs	(43)	(1)
Travel and conference costs	(46)	(41)
Marketing and communications	(91)	(88)
Other operating expenses	(230)	(250)
Total operating expenses[2]	**(2 661)**	(2 533)

* Restated for the effects of discontinued operations.

1 Staff costs include executive directors' and non-executive directors' remuneration. Refer to note 43 for a detailed analysis.

2 Total operating expenses exclude non-trading and capital items which are disclosed in note 5.

5. Non-trading and capital items

Rm	2018	2017
Costs relating to strategic consulting engagement	(34)	(39)
Impairment/write-off of software	(17)	(6)
Other	(3)	(5)
Normalised non-trading and capital items	(54)	(50)
Amortisation of intangible assets arising from business combination	(80)	(117)
Goodwill written off[3]	(317)	–
Professional indemnity insurance cell-captive result	(25)	30
	(476)	(137)
Amortisation of intangible assets arising from business combination		
Purchased and developed computer software (refer to note 14)	(5)	(17)
Intangible assets (refer to note 16)	(75)	(100)
	(80)	(117)

3 The goodwill balance for each cash-generating unit (CGU) is tested for impairment annually based on value-in-use calculations. During the current year goodwill allocated to the Group risk (previously AF Life) CGU was fully written off. Refer to note 15.

Rm	2018	2017
6. Investment income		
Interest income	**210**	115
Investment and dividend income	**31**	33
Foreign exchange (losses)/gains on intergroup loans	**(5)**	8
Investment income from general operations	**236**	156
Multi-manager operations		
Investment returns linked to policyholder tax expense	**(11)**	22
Total investment income	**225**	178
Investment income is derived from the following categories of financial assets:		
Loans receivable	**210**	115
Financial assets designated at fair value	**15**	63
Total investment income	**225**	178
7. Finance costs		
Interest on revolving credit facility	**(60)**	(66)
Costs of hedging[1]	**(17)**	–
Other interest	**(20)**	(23)
	(97)	(89)

[1] During the year the group entered into a forward exchange contract to hedge foreign denominated cash flows relating to the IT modernisation project. The group designated the changes 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.

Rm	2018	2017
8. Income tax expense		
South African income tax		
Current tax	**(335)**	(268)
Current year	**(322)**	(274)
Prior years	**(13)**	6
Deferred tax	**39**	33
Current year	**34**	26
Prior years	**5**	7
Foreign income tax		
Current tax	**(16)**	(5)
Foreign withholding tax	**(7)**	(5)
Income tax expense relating to group profits	**(319)**	(245)
Income tax credit/(expense) relating to policyholder investment returns	**11**[2]	(22)
Current tax – current year	**(44)**	(24)
Deferred – current year	**55**	2
Income tax expense	**(308)**	(267)

[2] Credit due to net release of unrealised gains.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

8. Income tax expense (continued)

The standard South African income tax rate for companies is reconciled to the group's actual tax rate as follows:

%	2018	2017
South African income tax rate for companies	**28.0**	28.0
Adjusted for the effects of:		
Foreign withholding tax	**0.9**	0.6
Policyholder tax	**(1.8)**	2.5
Unutilised tax losses (net of prior-year assessment loss utilised)	**1.1**	0.1
Exempt income	**1.9**	(1.2)
Disallowed expenses		
Legal fees	**0.9**	0.6
Donations	**–**	0.2
Unrealised investment losses	**0.4**	–
Goodwill write-off	**14.4**	0.2
Fair value adjustment of treasury shares	**1.1**	0.1
Loss on disposal of investment in subsidiary	**0.1**	0.4
Sundry items	**0.8**	(0.1)
Foreign tax rates	**0.9**	(0.4)
Prior-year underprovision (net of prior-year overprovision)	**1.4**	(1.5)
Adjustment for capital gains included in taxable income	**–**	0.5
Effective tax rate per income statement	**50.1**	30.0

9. Profit attributable to non-controlling interest

	2018	2017
Profit attributable to non-controlling interest	**87**	109

The profits attributable to non-controlling interest in the current year largely comprise ARC who hold a 10% shareholding in Alexander Forbes Limited, a holding company for the African subsidiaries. The prior-year profits relate to the discontinued and sold partnership in LCP. Details of non-wholly-owned subsidiaries are provided in note 47: Consolidated and unconsolidated entities.

10. Earnings per share

10.1 Basic earnings per share

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

10.2 Headline earnings per share

Headline earnings per share is calculated by excluding applicable non-trading and capital gains and losses from the profit attributable to shareholders and dividing the resultant headline earnings by the weighted average number of shares in issue during the period. Headline earnings is defined in Circular 4/2018 issued by the South African Institute of Chartered Accountants.

10.3 Diluted earnings per share

Diluted earnings per 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 shares and dividing the result by the weighted average number of shares increased by the weighted average number of additional potential shares that would have been outstanding, assuming the conversion of all dilutive potential shares.

10.4 Normalised earnings per share

Normalised earnings per share is calculated by dividing the normalised profit for the year attributable to owners of the company per the group segmental income and profit analysis by the weighted average number of shares in issue, adjusted for shares held by policyholders classified as treasury shares.

			2018	2017
10.5	**Number of shares (million)**			
	Weighted average number of shares		**1 341**	1 341
	Weighted average shares held by policyholders classified as treasury shares		**(14)**	(19)
	Weighted average treasury shares		**(58)**	(42)
	Weighted average number of shares in issue (net of treasury shares)		**1 269**	1 280
	Dilutive shares		**6**	7
	Diluted weighted average number of shares		**1 275**	1 287
	Actual number of shares in issue		**1 341**	1 341
	Actual treasury shares		**(95)**	(59)
	Shares in issue net of treasury shares		**1 246**	1 282
	Normalised number of shares			
	Weighted average number of shares in issue		**1 269**	1 280
	Shares held by policyholders classified as treasury shares		**14**	19
	Normalised number of shares in issue		**1 283**	1 299
10.6	**Calculation of basic and headline earnings from total operations (Rm)**			
	Profit attributable to owners of the company		**240**	1 465
	Adjusting items:			
	– Profit on disposal of subsidiary – discontinued operations		**–**	(796)
	– Impairment of goodwill and intangible assets		**332**	14
	– Other capital items		**(9)**	–
	Headline earnings for the year		**563**	683
	Earnings per share from total operations[1]			
	Basic earnings per share	(cents)	**18.9**	114.5
	Headline earnings per share	(cents)	**44.4**	53.4
	Diluted basic earnings per share	(cents)	**18.8**	113.8
	Diluted headline earnings per share	(cents)	**44.2**	53.1

[1] Amounts computed using unrounded numbers.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

			2018	2017
10.	**Earnings per share** (continued)			
10.7	**Calculation of normalised earnings from total operations (Rm)**			
	Normalised profit for the year from continuing operations per group segmental income and profit analysis		**734**	703
	Adjusted for:			
	Profit from discontinued operations		**–**	172
	Attributable to non-controlling interests		**(77)**	(105)
	Normalised profit attributable to owners of the company		**657**	770
	Normalised basic earnings per share[1]	(cents)	**51.2**	59.3
10.8	**Calculation of basic and headline earnings from continued operations (Rm)**			
	Profit after tax from continuing operations		**306**	620
	Less: Profit attributable to non-controlling interests		**(77)**	(23)
	Profit attributable to owners of the company		**229**	597
	Adjusted for:			
	– Write-off relating to intangible assets		**332**	6
	Headline earnings from continuing operations		**561**	603
	Earnings per share from continuing operations[1]			
	Basic earnings per share from continuing operations	(cents)	**18.0**	46.7
	Headline earnings per share from continuing operations	(cents)	**44.2**	47.1
	Diluted basic earnings per share from continued operations	(cents)	**17.9**	46.4
	Diluted headline earnings per share from continued operations	(cents)	**44.0**	46.9
10.9	**Calculation of basic and headline earnings from discontinued operations (Rm)**			
	Profit after tax from discontinued operations		**21**	954
	Less: Profit attributable to non-controlling interests		**(10)**	(86)
	Profit from discontinued operations attributable to owners of the company		**11**	868
	Adjusted for:			
	– Profit on disposal of subsidiary		**–**	(796)
	– Other capital items		**(9)**	8
	Headline earnings from discontinued operations		**2**	80
	Earnings per share from discontinued operations[1]			
	Basic earnings per share from discontinued operations	(cents)	**0.9**	67.8
	Headline earnings per share from discontinued operations	(cents)	**0.2**	6.3
	Diluted basic earnings per share from discontinued operations	(cents)	**0.9**	67.4
	Diluted headline earnings per share from discontinued operations	(cents)	**0.2**	6.2

[1] Amounts computed using unrounded numbers.

11. Financial assets held under multi-manager investment contracts

The policyholder assets held by the group's multi-manager investment subsidiaries, AF 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.

11.1 Movement in multi-manager and unit trust investment contract assets

Rm	2018	2017
A reconciliation between financial assets held under multi-manager and unit trust investment contracts:		
Opening balance	**281 498**	276 385
Movement during the year:[1]		
Premium inflow	**51 693**	40 010
Withdrawals	**(50 645)**	(45 264)
Investment returns after tax	**16 410**	12 701
Policyholder fees charged/investment portfolio expenses	**(2 248)**	(2 325)
Other	**50**	(9)
Closing balance[2]	**296 758**	281 498

[1] This amount is economically offset by a corresponding movement in financial liabilities held under multi-manager investment contracts (refer to note 24).
[2] Included in this balance are 19 funds that are consolidated when the group's interest in the funds increases above the 20% threshold (refer to the accounting policies for further detail).

11.2 Analysis of multi-manager and unit trust investment contract assets

An analysis of the aggregate financial assets of multi-manager and unit trust investment contracts is set out below:

Rm	2018	2017
Financial assets designated as fair value through profit or loss		
Equity securities – listed	**106 547**	114 883
– unlisted	**84**	413
Preference shares – listed	**332**	437
Collective investment schemes	**87 940**	71 746
Debt securities – listed	**20 510**	22 926
– government stock	**20 734**	13 736
Debentures – listed	**3 053**	3 363
– unlisted	**–**	3
Policy of insurance		
Cash and deposits	**2 247**	2 069
Bonds and debentures	**8 285**	7 637
Equities	**13 591**	13 837
Unlisted equities	**1 038**	705
Other portfolio assets	**1 456**	626
Derivative financial instruments	**(1)**	1
Money market	**23 055**	19 303
Cash and cash equivalents		
Cash	**7 887**	9 813
Total financial assets held under multi-manager investment contracts	**296 758**	281 498

Financial assets disclosure on maturity and currency is not provided as these multi-manager and unit trust investment contract assets are directly matched to linked obligations.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2018

11. Financial assets held under multi-manager investment contracts (continued)

11.3 Reconciliation of assets held under multi-manager investment contracts

As a result of the group being listed, the investments by underlying asset managers in the Alexander Forbes Group Holdings' listed shares are recognised as treasury shares and all fair value adjustments recognised on these treasury shares are reversed, while the corresponding fair value adjustment of the liability continues to be recognised in the income statement. The resultant loss for the year of R24 million (2017: loss of R2 million) has been disclosed separately on the face of the income statement. This treatment also affects the number of shares in issue, the impact of which is disclosed in note 10.

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

Rm	2018	2017
Total financial assets held under multi-manager investment contracts (per statement of financial position)	**296 758**	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	**73**	137
Financial effects of accounting for policyholder investments as treasury shares – prior year	**(30)**	(33)
– current year	**24**	2
Total financial liabilities held for policyholders under multi-manager investment contracts	**296 825**	281 604

12. Financial assets of insurance cell-captive facilities

All financial assets relating to insurance investments held by Alexander Forbes Investments in South Africa and relating to cell-captive contracts in Emerging Markets Namibia are included in the consolidated statement of financial position of the group. An analysis of the financial assets attributable to policyholders and cell shareholders' interests in the cell-captive insurance companies is provided below. These financial assets are directly matched to linked obligations to the policyholders and cell shareholders of the insurance cell-captive companies. The promoter cells' share (or shareholders' interest) in the other financial assets of the insurance cell-captive companies are included in the relevant line items of the group statement of financial position.

Rm	2018	2017
Financial assets designated as 'fair value through profit or loss'		
Money market	**178**	172
Cash and cash equivalents		
Cash	**6**	–
Reinsurance assets		
Receivables	**58**	41
Reinsurers' share of outstanding claims	**3**	2
Reinsurers' share of unearned premium provision	**104**	102
Reinsurers' share of IBNR provision	**3**	3
Total financial assets attributable to policyholders and cell shareholders' interests in insurance cell-captive companies	**352**	320

Financial assets' disclosure on maturity and currency is not provided as these insurance cell-captive facility assets are directly matched to linked obligations. Refer to note 25.

13. Property and equipment

Rm	Leasehold improvements	Computer equipment	Furniture and fittings, office equipment and other assets	Total
2018				
Carrying value				
Cost	**34**	**312**	**80**	**426**
Accumulated depreciation and accumulated impairment losses	**(14)**	**(212)**	**(26)**	**(252)**
Carrying value at 31 March 2018	**20**	**100**	**54**	**174**
Cost				
Balance at 1 April 2017	**31**	**279**	**94**	**404**
Additions to enhance existing operations	**3**	**38**	**6**	**47**
Disposals	**–**	**(5)**	**(9)**	**(14)**
Transfer to disposal group held for sale	**–**	**–**	**(11)**	**(11)**
Balance at 31 March 2018	**34**	**312**	**80**	**426**
Accumulated depreciation and accumulated impairment losses				
Balance at 1 April 2017	**(10)**	**(168)**	**(24)**	**(202)**
Depreciation charge for the year – continuing operations	**(4)**	**(49)**	**(10)**	**(63)**
Disposals	**–**	**5**	**7**	**12**
Transfer to disposal group held for sale	**–**	**–**	**1**	**1**
Balance at 31 March 2018	**(14)**	**(212)**	**(26)**	**(252)**
2017				
Carrying value				
Cost	31	279	94	404
Accumulated depreciation and accumulated impairment losses	(10)	(168)	(24)	(202)
Carrying value at 31 March 2017	21	111	70	202
Cost				
Balance at 1 April 2016	147	320	180	647
Additions to enhance existing operations	7	28	13	48
Disposals	(98)	(58)	(76)	(232)
Transfer to disposal group held for sale	–	(2)	(8)	(10)
Foreign subsidiaries' exchange differences	(25)	(9)	(15)	(49)
Balance at 31 March 2017	31	279	94	404
Accumulated depreciation and accumulated impairment losses				
Balance at 1 April 2016	(47)	(158)	(87)	(292)
Depreciation charge for the year	(6)	(64)	(12)	(82)
Continuing operations	(2)	(59)	(9)	(70)
Discontinued operations	(4)	(5)	(3)	(12)
Disposals	32	47	58	137
Transfer to disposal group held for sale	–	–	6	6
Foreign subsidiaries' exchange differences	11	7	11	29
Balance at 31 March 2017	(10)	(168)	(24)	(202)

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2018

13. Property and equipment (continued)

Included in property and equipment are assets capitalised as part of a finance lease. The net book value of these assets is as follows:

Rm	2018	2017
Furniture and fittings	**21**	24
Cost	**38**	38
Accumulated depreciation	**(17)**	(14)
Computer equipment	**15**	20
Cost	**45**	45
Accumulated depreciation	**(30)**	(25)

Refer to note 30: Finance lease liabilities for more information on the lease arrangement.

14. Purchased and developed computer software

At the beginning of the current year the group announced a significant contractual agreement amounting to $51 million relating to system and process development. In addition, the group entered into a forward exchange contract in order to reduce the currency risk associated with this contract. The foreign exchange gains and losses on the spot component of this forward exchange contract are deferred in equity. When the related developed computer software asset is recognised, a portion of those deferred exchange gains or losses is offset against the developed computer software asset as a basis adjustment (refer to note 23.5).

Rm	In use	In development	2018 Total
Carrying value			
Cost	**414**	**287**	**701**
Accumulated amortisation and accumulated impairment losses	**(284)**	**(17)**	**(301)**
Carrying value at 31 March 2018	**130**	**270**	**400**
Cost			
Opening balance	**356**	**45**	**401**
Movement during the year:			
Additions[1]	**33**	**265**	**298**
Reclassification of hedging reserve[2]	**–**	**7**	**7**
Disposals	**(5)**	**–**	**(5)**
Transfer to in use	**30**	**(30)**	**–**
Balance at 31 March 2018	**414**	**287**	**701**
Accumulated amortisation and accumulated impairment losses			
Opening balance	**(238)**	**–**	**(238)**
Movement during the year:			
Amortisation for the year – continuing operation	**(44)**	**–**	**(44)**
Amortisation charge arising from business combination	**(5)**	**–**	**(5)**
Transfer to assets held for sale	**3**	**–**	**3**
Impairment charge through the income statement	**–**	**(17)**	**(17)**
Balance at 31 March 2018	**(284)**	**(17)**	**(301)**

[1] Additions relating to the IT modernisation project, included in development for the financial year, amounted to R272 million (inclusive of R7 million reclassification of hedging reserve).
[2] Reclassification of FEC reserves relating to IT modernisation project.

14. Purchased and developed computer software (continued)

Rm	In use	In development	2017 Total
Carrying value			
Cost	356	45	401
Accumulated amortisation and accumulated impairment losses	(238)	–	(238)
Carrying value at 31 March 2017	118	45	163
Cost			
Opening balance	323	33	356
Movement during the year:			
Additions	63	21	84
Disposals	(28)	–	(28)
Transfer to assets held for sale	(6)	–	(6)
Transfer to in use	9	(9)	–
Foreign subsidiaries' exchange differences	(5)	–	(5)
Balance at 31 March 2017	356	45	401
Accumulated amortisation and accumulated impairment losses			
Opening balance	(217)	–	(217)
Movement during the year:			
Amortisation for the year	(34)	–	(34)
Continuing operations	(31)	–	(31)
Discontinued operations	(3)	–	(3)
Amortisation charge arising from business combination	(17)	–	(17)
Transfer to assets held for sale	3	–	3
Accumulated amortisation on disposals	23	–	23
Foreign subsidiaries' exchange differences	4	–	4
Balance at 31 March 2017	(238)	–	(238)

15. Goodwill

The CGUs to which goodwill was previously allocated were reorganised as part of a financial statement enhancement exercise. This resulted in a reallocation of the goodwill balance into new CGUs which align to the group's operating segments.

	Rm	2018
15.1	**Analysis of goodwill balances per the reorganised cash-generating units**	
	Institutional clients	**1 872**
	Consulting and retirements	**480**
	Group risk[1]	**–**
	Investments	**1 392**
	Retail clients	**1 091**
	Wealth and investments	**646**
	Retail insurance	**445**
	Emerging markets	**75**
		3 038

[1] Group risk goodwill amounting to R317 million was written off.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

15. Goodwill (continued)

15.2 Analysis of goodwill balances per the prior year cash-generating units

Rm	2017
SA Risk and Insurance Services	
AF Insurance – Personal Services	445
SA Financial Services	
Financial Services	1 126
AF Life	317
SA AF Investments	1 392
Emerging markets	75
	3 355

15.3 Reconciliation of movement in carrying value

Rm	2018	2017
Opening balance	**3 355**	3 995
Movement during the year:		
Group risk (previously AF Life) – write-off	**(317)**	–
Emerging markets – write-off	**–**	(8)
International Financial Services – disposal of subsidiary	**–**	(505)
– foreign currency exchange movement	**–**	(127)
Closing balance	**3 038**	3 355

15.4 Impairment review of goodwill

Goodwill is allocated to CGUs in accordance with the group's accounting policies. This represents the lowest level at which goodwill is monitored for internal management purposes and in all cases is at or below the company's operating segment. The goodwill balances are subject to an annual impairment review as required by IAS 36.

Each CGU goodwill balance is tested for a recoverable amount as determined, based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the board of directors for the forthcoming year and forecasts for a further four years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates which do not exceed the expected long-term economic growth rate for the geographic segment.

Goodwill allocated to the Group risk CGU (previously AF Life) was fully written off during the current year. The CGU remains subscale with growth expected to take place over the medium to long term. Consequently, the cost per policy is likely to remain high over this time, which has an adverse effect on the profitability of the business. In addition, a reduction in cash flows was experienced, driven by heightened claims experience in the business and industry in general. The goodwill impairment is therefore a result of the subscale growth expected, higher reserving requirements, the increase in regulatory capital required and the increase in claims experience, all of which reduce the expected cash generation from this business. This write-off has no impact on cash flows or growth of the CGU. The residual assets of this CGU was considered for impairment and it was concluded that the value in use of this CGU did not warrant further impairment.

Key assumptions used in the impairment review apart from the reorganisation of CGUs are consistent with past experience and external sources of information that informed the risk discount rate and terminal growth rates applied.

15. Goodwill (continued)

15.4 Impairment review of goodwill (continued)

Key assumptions used include:

%	South Africa 2018	South Africa 2017	Emerging markets 2018	Emerging markets 2017
Discount rates – weighted average cost of capital	**12.5**	13.3	**14.3**	14.3
Terminal growth rate	**4.0**	5.2	**4.0**	5.2
Range of average growth rate in operating income net of direct expenses[1]				
Institutional clients				
Consulting and retirements	**4% – 8%**	–	**–**	–
Group risk	**written off**	–	**–**	–
Investments	**6% – 10%**	–	**–**	–
Retail clients				
Wealth and investments	**6% – 10%**	–	**–**	–
Retail insurance	**10% – 14%**	–	**–**	–
Emerging markets	**–**	–	**7% – 11%**	–

[1] Comparative growth rates have not been presented due to the reorganisation of goodwill.

Sensitivity analysis

Consideration of sensitivities to key assumptions can evolve from one financial year to the next, however, in the current year a sensitivity analysis had been performed per CGU on each of the base case assumptions used for assessing the goodwill with other variables held constant. These include an increase of the discount rate by 2%, reduction of the terminal growth rate by 1% and a reduction of the operating income net of direct expenses by 10%.

The board has considered the headroom and concluded that, in all cases, there are no reasonably possible changes in key assumptions that may give rise to the carrying amount of goodwill exceeding the value in use.

16. Intangible assets

Intangible assets comprise values attributed to contractual customer relationship lists and market-related trade name intangible assets. All intangible assets arise from business combinations and are non-current.

	Rm	2018	2017
16.1	**Carrying value**		
	Cost	**1 485**	1 482
	Accumulated amortisation and accumulated impairment losses	**(1 095)**	(1 020)
	Balance at 31 March	**390**	462
16.2	**Analysis of intangible assets**		
	Customer lists	**247**	308
	Trade names	**140**	154
	Intellectual property	**3**	–
		390	462
16.3	**Reconciliation of movement in carrying value**		
	Opening balance	**462**	681
	Movement during the year:		
	Additions	**3**	–
	Disposal	**–**	(94)
	Amortisation charge (refer to note 5)	**(75)**	(100)
	Foreign subsidiaries' exchange differences	**–**	(25)
	Closing balance	**390**	462

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

	Rm	2018	2017
17.	**Investment in associates**		
17.1	**Equity-accounted carrying value**		
	Cost	**2**	2
	Share of cumulative post-acquisition reserves	**(2)**	11
		–	13
17.2	**Reconciliation of movement in equity-accounted carrying value**		
	Opening balance	**13**	8
	Movement during the year:		
	Share of profits of associates	**2**	4
	Transfer to disposal groups held for sale	**(15)**	–
	Other	**–**	1
	Closing balance	**–**	13

At 31 March 2018 the group had a financial interest in two associates, Alexander Forbes Insurance Brokers Kenya (Kenya Insurance Brokers) and Alexander Forbes Financial Services Zambia (AF Zambia). Kenya Insurance Brokers operates as a short-term insurance broker and AF Zambia operates as a pension fund administrator. Both exclusively operate in their country of incorporation. During the year the Kenya Insurance Brokers was classified as a disposal group held for sale. Refer to notes 22 and 47 for further detail.

	Rm	2018	2017
18.	**Financial assets**		
18.1	**Total financial assets**		
	Non-current financial assets	**90**	98
	Current financial assets	**355**	259
		445	357
18.2	**Analysis of financial assets**		
	Financial asset classified as available for sale	**14**	13
	ASISA investment	**14**	13
	Financial assets designated as fair value through profit or loss	**264**	260
	Money market instruments	**80**	92
	Collective investment schemes	**142**	129
	Bonds	**42**	39
	Financial assets classified as loans and receivables	**85**	84
	Equity release housing loans	**29**	30
	Other loans	**56**	54
	Derivative financial asset	**82**	–
	Forward exchange contract	**82**	–
		445	357

Rm	2018	2017
19. Insurance receivables		
Insurance brokerage income receivable and other insurance balances	**296**	323
Reinsurance brokerage income receivables	**139**	109
Receivables from short-term insurance contracts	**366**	255
Premium debtors	**7**	7
Reinsurers' share of unearned premium provision	**27**	28
Reinsurers' share of outstanding claims provision	**204**	175
Reinsurers' share of IBNR provision	**47**	45
Reinsurance recoverable	**81**	–
Receivable from long-term insurance contracts	**513**	425
Premium debtors	**46**	47
Reinsurers' share of policyholder liability (group life)	**467**	378
Other insurance-related receivables	**25**	25
	1 339	1 137

A reconciliation of the receivables from short-term and long-term insurance contracts with the payables from such contracts is provided in note 32.

20. Trade and other receivables

Rm	2018	2017
Financial assets		
Trade receivables	**167**	146
Other receivables	**57**	196
	224	342
Non-financial assets		
Accrued and not billed balances	**22**	24
Prepayments	**38**	32
	284	398

Included in trade and other receivables are impairments of trade receivables of R6.4 million (2017: R4.6 million).

21. Cash and cash equivalents

21.1 Total cash and cash equivalents

Rm	2018	2017
Cash and bank balances	**4 572**	4 173
Short-term deposits	**1 222**	2 090
	5 794	6 263

21.2 Analysis of cash resources

Rm	2018	2017
Total cash and cash equivalents	**5 794**	6 263
Less: Restricted cash relating to policyholder balances, capital and regulatory requirements and other restrictions	**(4 637)**	(3 805)
Available cash resources	**1 157**	2 458

21.3 Cash and cash equivalents included in policyholder and cell-owner assets are as follows:

Rm	2018	2017
Multi-manager and unit trust investment contracts	**7 887**	9 813
Insurance cell-captive facilities	**6**	–
	7 893	9 813

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2018

22. Assets and liabilities of disposal group classified as held for sale and discontinued operations

As part of the group's strategic refocusing of its operations certain entities have been discontinued and disposed of. The assets and liabilities of these entities are reclassified to assets and liabilities of disposal groups classified as held for sale at the date of discontinuance. The results of operations of the discontinued entity are reported separately in the income statement with the prior year also being restated to take this into effect.

The operations of Alexander Forbes East Africa (East Africa) were classified as a discontinued operation during the year ended 31 March 2017. The assets and liabilities of this operation were presented as assets and liabilities of disposal groups classified as held for sale. Certain delays caused by circumstances beyond the control of the group have resulted in East Africa still being presented as a discontinued operation. The group, however, remains committed to its plan to sell East Africa.

In the prior year the results of discontinued operations included Alexander Forbes Compensation Technologies (AFCT) and Lane Clark & Peacock (LCP). These operations were disposed of in the same year, resulting in a profit of R796 million.

22.1 Net profit of business units discontinued up to effective date of disposal

Rm	**2018**	2017*
Fee and commission income	**81**	1 303
Operating income net of direct expenses	**81**	1 303
Operating expenses	**(66)**	(1 124)
Profit from operations before non-trading and capital items	**15**	179
Non-trading and capital items[1]	**8**	(7)
Operating profit	**23**	172
Share of net profit of associate	**2**	4
Profit before taxation	**25**	176
Income tax expense	**(4)**	(18)
Profit for the year from discontinued operations	**21**	158
Profit on disposals	**–**	796
Total profit from discontinued operations	**21**	954

* Restated.

[1] Non-trading and capital items relate mainly to deferred proceeds on the sale of Alexander Forbes Compensation Technologies.

22. Assets and liabilities of disposal group classified as held for sale and discontinued operations (continued)

22.2 Assets and liabilities of disposal group classified as held for sale

The table below provides an analysis of the components of assets and liabilities of disposal groups classified as held for sale.

Rm	Notes	2018	2017
Long-term assets		**25**	5
Deferred tax asset		**1**	1
Trade and other receivables		**33**	47
Other current assets		**8**	2
Cash and cash equivalents		**15**	11
Total assets		**82**	66
Deferred tax liability		**2**	–
Provisions		**1**	–
Trade and other payables		**11**	11
Total liabilities		**14**	11

23. Owners of the company's funds

23.1 Total owners of the company's funds

	Notes	2018	2017
Share capital at no par value	23.2	**6 192**	6 192
Treasury shares	23.3	**(392)**	(160)
Other reserves		**41**	(336)
Share-based payment reserve	23.4	**22**	53
Foreign currency translation reserve		**53**	61
Cash flow hedge reserve		**(33)**	–
Redemption reserve	23.6	**–**	(449)
Other		**(1)**	(1)
Accumulated profit		**169**	1 205
		6 010	6 901

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

23. Owners of the company's funds (continued)

23.2 Analysis of share capital

	2018 Number of shares '000	2018 Share capital Rm	2017 Number of shares '000	2017 Share capital Rm
Authorised				
Ordinary shares each	**2 500 000**	**–**	2 500 000	–
Non-convertible redeemable B preference shares	**45 000**	**–**	45 000	–
Issued				
Ordinary shares	**1 341 427**	**6 192**	1 341 427	6 192
	1 341 427	**6 192**	1 341 427	6 192

23.3 Treasury shares

Rm	2018	2017
Opening balance	**(160)**	(181)
Movement during the year:		
Purchase of treasury shares in policyholder assets	**62**	21
Purchase of shares in terms of share buy-back programme	**(276)**	–
Purchase of shares in terms of share incentive schemes	**(57)**	–
Settlement of share incentive schemes	**39**	–
Closing balance	**(392)**	(160)

23. Owners of the company's funds (continued)

23.3 Treasury shares (continued)

23.3.1 BEE Employee Share Option Plan (ESOP)

In order to address certain broad-based black economic empowerment imperatives the group has established a BEE Employee Share Option Plan for the benefit of its qualifying employees, and particularly qualifying black female employees. The establishment of the ESOP is intended to help entrench a culture of share ownership amongst the employees within the group. It is believed that employee share ownership will incentivise employees to align their interests with those of the group's shareholders, and to attract and retain talented employees and managers.

The Isilulu Trust (trust) was set up as the vehicle through which the ESOP will operate. Alexander Forbes issued 39 070 700 ordinary shares to the trust at one cent per share and rank pari passu with other ordinary shares, with the exception of dividend rights for these shares.

There are two types of beneficiaries, Pool A beneficiaries and Pool B beneficiaries. Pool A beneficiaries are black women and are entitled to 70% of the trust income available for distribution. Pool B beneficiaries are all beneficiaries not in pool A and are entitled to 30% of the trust income available for distribution.

The shares are entitled to 30% of the dividends distributed to ordinary shareholders. The trust is restricted from disposing of or encumbering these shares during the term of the trust. Dividends distributed by the trust are treated as employee benefits. Dividend income earned by the trust and subsequently distributed to qualifying employees was R6 million (2017: R3.9 million) during the current financial year.

AFGH has a call option in terms of which the shares may be repurchased under specific criteria relating to change in control, change in BEE rating and various other provisions. The repurchase price will be calculated in terms of a repurchase formula specifically defined in the agreements. The group does not currently anticipate executing the repurchase for the next 10 years.

	Rm	2018	2017
23.4	**Share-based payment reserve**		
	Opening balance	**53**	36
	Expensed to income statement	**8**	17
	Settlement of share incentive schemes	**(39)**	–
	Closing balance	**22**	53

The group has two types of awards of shares to its employees: the forfeitable share plan and the conditional share incentive scheme. These schemes are discussed below under notes 23.4.1 and 23.4.2.

23.4.1 Forfeitable shares issued to staff

Under this scheme shares are awarded to employees which will vest at a future date if the employee remains employed. The employee participates in the benefits of the share during the vesting period. Shares are forfeited if the employee ceases to be an employee of the group. The group has no legal or constructive obligation to repurchase or settle the award in cash. To hedge exposure to the shares issued under this scheme the group acquires shares in the market which are then held on behalf of the employees by a trust which was set up specifically for this purpose. The trust is consolidated and the shares are reflected as treasury shares. The employees are entitled to dividend distributions during the vesting period of three years.

	Total shares issued
2015 tranche	409 897
2016 tranche	458 356
2017 tranche	5 131 327

Movement in the number of shares allocated is as follows:

'000	2018	2017
At 1 April	**3 033**	2 956
Granted	**5 699**	591
Forfeited	**(2 732)**	(514)
31 March	**6 000**	3 033

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

23. Owners of the company's funds (continued)

23.4 Share-based payment reserve (continued)

23.4.1 Forfeitable shares issued to staff (continued)

Shares granted and outstanding at the end of the year have the following vesting dates:

'000	Vesting date	Total shares granted 2018	2017
2014 tranche	24 July 2017	–	2 035
2015 tranche	31 July 2018	**410**	468
2016 tranche	24 July 2019	**458**	530
2017 tranche	24 July 2020	**5 132**	–
		6 000	3 033

The grant date fair value of the shares is determined based on the market price at the date of issue which was R7.50 per share for the 2014 tranche, R8.89 per share for the 2015 tranche, R7.47 per share for the 2016 tranche and R7.09 for the 2017 tranche.

23.4.2 Conditional share incentive scheme

Under this scheme executives, senior managers and other key employees of the group ('participants') are granted performance-related awards, i.e. conditional rights to receive shares. In addition, these awards are subject to a vesting period determined by the remuneration committee. The performance condition is aligned to the financial year of the group. Further, each participant will not have any shareholder or voting rights prior to the vesting date. Employees are not required to pay for the shares granted under this scheme.

The shares granted under this scheme are subject to the group achieving its target growth in headline earnings per share (HEPS) over the period. The cumulative HEPS over the performance period is equal to the sum of the base year HEPS grown by the consumer price index (CPI) and real gross domestic product (GDP) per annum over the performance period.

Movement in the number of shares outstanding is as follows:

'000	2018	2017
At 1 April	**40 524**	29 620
Granted	**15 929**	20 131
Forfeited	**(18 536)**	(9 227)
31 March	**37 917**	40 524

Shares granted and outstanding at the end of the year have the following vesting dates:

'000	Vesting date	Total shares granted 2018	2017
2014 tranche	24 July 2017	–	10 800
2015 tranche	4 August 2018	**10 200**	12 803
2016 tranche	24 July 2019	**13 079**	16 921
2017 tranche	24 July 2020	**14 638**	–
		37 917	40 524

The grant date fair value of the shares is determined based on the market price at the date of issue less the net present value of expected dividends over the vesting period. The grant date fair value of the shares allocated is R6.70 per share for the 2014 tranche, R8.12 per share for the 2015 tranche, R6.21 for the 2016 tranche and R6.15 for the 2017 tranche.

Rm	2018	2017

23. Owners of the company's funds (continued)

23.5 Cash flow hedge reserve – forward exchange contract

Rm	2018	2017
Opening balance	–	–
Change in fair value of hedging instrument recognised in OCI for the year	(53)	–
Capitalised to purchased and developed software	7	–
Deferred tax impact of above items	13	–
Closing balance[1]	**(33)**	–

[1] The closing balance of the cash flow hedge reserve is reflected net of the non-controlling interest's share amounting to R4 million.

As outlined under note 14, the group entered into a foreign exchange contract in order to reduce the currency risk associated with the IT modernisation contract. The group designated only the change in the fair value of the spot component as the hedging instrument. As a result, changes in the spot rate are accounted for in this cash flow hedge reserve via other comprehensive income.

23.6 Redemption reserve

During the year, the group transferred the redemption reserve amounting to R449 million into accumulated profits. This reserve arose in prior years on the redemption of preference shares. The transfer has nil impact on total equity, however results in a reduction in accumulated profits.

24. Financial liabilities held under multi-manager investment contracts

24.1 Movement of liabilities under multi-manager and unit trust investment contracts

Rm	2018	2017
Opening balance	281 604	276 509
Movement during the year:[2]		
Premium inflows	51 692	40 010
Withdrawals	(50 645)	(45 264)
Investment return net of taxation	16 463	9 965
Policyholder fees charged/investment portfolio expenses	(2 318)	(2 337)
Other	29	2 721
Closing balance	**296 825**	281 604

[2] This amount is economically offset by a corresponding movement in 'Financial assets held under multi-manager investment contracts' (refer to note 11).

24.2 Discounted maturity analysis of liabilities under multi-manager and unit trust investment contracts

Rm	2018	2017
Open ended – payable on demand	296 825	281 604

These policyholder liabilities arise from multi-manager and unit trust investment contracts issued by the group's multi-manager investment subsidiaries in South Africa and Namibia. The policyholder liabilities are directly matched to the linked policyholder assets.

These are financial liabilities designated as fair value through profit or loss.

Rm	2018	2017
Financial liabilities linked to investment contracts	296 825	281 604

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

25. Financial liabilities of insurance cell-captive facilities

Under IFRS all insurance-related cell-captive financial liabilities in Emerging Markets Namibia are included in the consolidated statement of financial position of the group. An analysis of the policyholders' and cell owners' interests in the financial liabilities of these insurance cell-captive companies is provided below. The promoter cell (or shareholder's) interest in the other financial liabilities of the insurance cell-captive companies is included in the relevant line item of the group statement of financial position.

Rm	2018	2017
Short-term insurance technical liabilities	**330**	310
Gross unearned premium provision	**323**	293
Gross outstanding claims provision	**4**	14
Gross IBNR provision	**3**	3
Long-term insurance technical liabilities		
Policyholder liability	**(1)**	(1)
Insurance liabilities of insurance cell-captive facilities	**329**	309
Other liabilities attributable to policyholders and cell owners	**23**	11
Cell owners' interest[1]	**25**	20
Receivables[1]	**(11)**	(7)
Taxation payable/(receivable)	**9**	(2)
	352	320

[1] These are designated as financial liabilities at fair value through profit or loss.

These liabilities are directly matched to linked financial assets. Refer to note 12.

Rm	2018	2017

26. Borrowings

26.1 Analysis of borrowings

Rm	2018	2017
Revolving credit facility (refer to note 26.4)	**719**	719
Other	**–**	6
	719	725

26.2 Reconciliation of movement in borrowings

Rm	Revolving credit facility	Other	2018 Total	2017 Total
Opening balance	**719**	**6**	**725**	705
Movements for the year:				
Interest accrued	**60**	**–**	**60**	68
Interest paid	**(60)**	**–**	**(60)**	(65)
Borrowings repaid	**–**	**–**	**–**	(83)
Borrowings raised	**–**	**–**	**–**	100
Reclassified to held for sale	**–**	**(6)**	**(6)**	–
Closing balance	**719**	**–**	**719**	725

26.3 Discounted maturity analysis of borrowings

Rm	2018	2017
Due within one year	**719**	725

26.4 Revolving credit facility

The credit facility with Rand Merchant Bank is unsecured and bears interest at JIBAR plus 1.25% per annum compounded quarterly. The interest is payable quarterly while the capital is repayable annually together with any unpaid interest on 31 March 2018. The facility is renewable annually for a 12-month period. Renewal is subject to an annual credit review by the lender and the financing needs of the group.

If Alexander Forbes Limited (AFL) fails to pay any principal amount or interest amount payable by it on its due date, interest will accrue on the loan and any accrued and unpaid interest from the due date up to the date of actual payment at a rate which is equal to the interest rate (JIBAR plus 1.25%) which would otherwise be applicable plus 2%, for so long as such payment remains outstanding and has not been remedied after any applicable grace period (if any).

The credit facility agreement is for R800 million (2017: R1 billion) and may be drawn or repaid at any time, in whole or in part, which would include the capital plus any accrued and unpaid interest to the repayment date.

The credit facility is subject to certain mandatory repayment events. For instance, the loan would be repaid if AFL or any other member of the group disposes of any of its assets or business (whether pursuant to a single transaction or a series of transactions) which, when aggregated with all other assets disposed of by members of the group since the signature date, directly or indirectly contribute more than 30% of the consolidated EBITDA or assets of the group for the 12-month period up to and as at the date of disposal.

In addition, all amounts outstanding on the credit facility, together with accrued and unpaid interest, will become immediately due and payable in the event of a sale of all or substantially all of the assets or business of the group or if a change of control occurs. AFL must repay the credit facility if the lender becomes aware that it is unlawful in any applicable jurisdiction for such lender to perform its obligations under a term finance document.

26.5 Financial covenants

Due to the nature of the revolving credit facility there are no financial covenants included in the agreement.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

27. Employee benefits

27.1 Total employee benefits

Rm	2018	2017
Defined benefit pension fund obligation – South Africa (refer to note 27.2)	**–**	–
Post-employment benefit obligation – South Africa (refer to note 27.3)	**105**	108
Provision for leave pay (refer to note 27.4)	**57**	52
	162	160

Substantially all employees are covered by defined contribution retirement fund arrangements in the major territories in which the group operates. The group also has a defined benefit pension fund as disclosed below (which is closed to new entrants). Provisions for pension obligations are established for benefits payable in the form of retirement, disability and surviving dependant pensions. The defined contribution and defined benefit pension funds in South Africa are both governed by the Pension Funds Act.

27.2 Defined benefit pension fund obligation – South Africa

The closed defined benefit pension fund provides a pension of 2% of final pensionable salary for each year of pensionable service plus 0.5% of final pensionable salary for each year of pensionable service in excess of 25 years. The fund was closed to new members on 31 December 1992.

The pension fund is funded with the assets of the fund being held independently of the group's assets in a separate trustee-administered fund.

The fund is valued by a statutory actuary on a tri-annual basis, with a full actuarial assessment being completed on 31 March 2018. The actuary is of the opinion that the fund is in a sound financial position. For accounting reporting the projected unit credit method is used to value the liability.

The membership of the fund as at the last actuarial valuation at 31 March 2018 comprised ten active members and 63 pensioners.

A portion of fund assets are managed by our subsidiary, AF Investments, and the total value is R200 million (2017: R196 million). Another portion of the fund assets is invested with a financial institution with a credit rating of Baa2 per Moody's. These assets are secured by South African government bonds. As such Alexander Forbes pension fund will be entitled to the proceeds of the bonds should the financial institution default.

Rm	2018	2017
Present value of benefit obligation	**(150)**	(147)
Fair market value of the plan assets	**208**	206
	58	59
Impact of asset ceiling	**(58)**	(59)
Total	**–**	–

27. Employee benefits (continued)

27.2 Defined benefit pension fund obligation – South Africa (continued)

Reconciliation of movements

Rm	Present value of obligation	Fair value of plan assets	Total	Impact of asset ceiling	Total
At 31 March 2016	(155)	212	57	(57)	–
Current service costs	(2)	–	(2)	–	(2)
Interest expense	(14)	19	5	–	5
Remeasurements	9	(11)	(2)	(2)	(4)
Contributions	–	1	1	–	1
Payment from plans – benefits paid	15	(15)	–	–	–
At 31 March 2017	**(147)**	**206**	**59**	**(59)**	**–**
Current service costs	**(1)**	**–**	**(1)**	**–**	**(1)**
Interest expense	**(13)**	**19**	**6**	**–**	**6**
Remeasurements	**(1)**	**(6)**	**(7)**	**–**	**(7)**
Contributions	**–**	**1**	**1**	**–**	**1**
Payment from plans – benefits paid	**12**	**(12)**	**–**	**–**	**–**
Adjustment to the asset ceiling	**–**	**–**	**–**	**1**	**1**
At 31 March 2018	**(150)**	**208**	**58**	**(58)**	**–**

%	2018	2017	2016
The principal actuarial assumptions applied are as follows:			
Discount rate	**8.6**	9.2	9.4
Inflation (CPIX) rate	**5.6**	6.3	7.1
Salary increase rate	**6.6**	7.3	8.1
Pension increase allowance	**5.6**	6.3	7.1

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions above are as follows:

Rm	Change in assumption	Increase in obligation	Decrease in obligation
Discount rate	**1%**	**(9.0)**	**10.6**
Inflation (CPIX) rate	**1%**	**10.8**	**(9.2)**
Salary increase rate	**1%**	**0.2**	**(0.2)**
Pension increase allowance	**1%**	**10.5**	**(9.0)**

The mortality rates are assumed as follows:
Pre-retirement: SA85-90 (Light) table
Post-retirement: PA(90) ultimate table rated down two years plus 1% improvement per annum from 28 February 2004

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

27. Employee benefits (continued)

Methods and assumptions in sensitivity analysis:

27.2 Defined benefit pension fund obligation – South Africa (continued)

The components of plan assets are as follows:

%	**2018**	2017
Cash	**7.98**	3.92
Equity		
Listed equities	**23.67**	16.63
Unlisted equities	**0.02**	6.53
Bonds	**48.42**	53.04
Property	**2.05**	3.71
International		
Equity	**11.37**	11.09
Bonds	**0.16**	0.10
Cash	**2.09**	2.38
Property	**0.19**	0.33
Other	**–**	0.58
Other	**4.05**	1.69
	100.00	100.00

27.3 Post-employment benefit obligation – South Africa

In South Africa certain employees, who joined the group before 1 March 1997, are entitled to a post-employment medical aid subsidy. At 31 March 2018 this applies to a total of 257 people (2017: 275) and comprises 30 active employees (2017: 35) and 227 pensioners (2017: 240). Employees who joined the group after 1 March 1997 are not eligible for post-employment medical aid subsidies.

Certain employees employed before 1 March 2009 are eligible for a death-in-service subsidy. If a member eligible for a death-in-service subsidy dies in service, their dependants are eligible to receive a 50% subsidy of medical scheme contributions subject to the fixed rand amount as for the post-employment subsidy.

The obligation is valued every year by actuaries using the projected unit credit method. The date of the last actuarial valuation was 31 March 2018. The post-employment medical obligation is partly funded through an insurance cell-captive arrangement. The assets of the insurance cell totalled R61 million at 31 March 2018 (2017: R60 million).

The insurance cell-captive policy is consolidated in the group's results and the related asset which backs this post-employment liability is reflected in cash and cash equivalents.

The post-employment medical aid subsidy paid to pensioners is subject to a maximum rand amount. This rand amount increases with inflation (CPI) each year. In order to compensate for the rand amount increase of the subsidy being different to medical aid inflation, the group established a hardship fund in 2004 to provide assistance to specifically identified pensioners in financial need.

27. Employee benefits (continued)

27.3 Post-employment medical benefit obligation – South Africa (continued)

Rm		2018	2017
The latest actuarial valuation reflected the following:			
Medical benefit obligation		**95**	98
Hardship fund liability		**10**	10
Recognised liability in the statement of financial position		**105**	108
A reconciliation of the movement in the post-employment medical benefit obligation in South Africa is as follows:			
Opening balance		**98**	105
Current service costs		**1**	2
Interest expense		**9**	13
Remeasurements[1]		**(5)**	(13)
Benefits paid		**(8)**	(9)
Closing balance		**95**	98
The principal actuarial assumptions applied are as follows:			
Discount rate	(%)	**8.8**	9.9
Inflation (CPIX) rate	(%)	**6.0**	7.0
Retirement age	(years)	**62/65**	60/65

[1] Gross of related taxes.

Mortality rates are assumed as follows:

Pre-retirement: SA85-90 (Light) ultimate table
Post-retirement: PA(90) ultimate table rated down two years plus 1% improvement per annum (from a base year of 2006)

The sensitivity of the post-employment medical benefit obligation to changes in the principal actuarial assumptions above is as follows:

%	Change in assumption	Increase in obligation	Decrease in obligation
Discount rate	**1**	**10.8**	**9.0**
Inflation (CPIX) rate	**1**	**10.8**	**9.1**

27.4 Provision for leave pay

Rm	2018	2017
Provision for leave pay		
Opening balance	**52**	50
Movement during the year:		
Increase in provision	**15**	19
Decrease in provision	**(10)**	(17)
Closing balance	**57**	52

The group's policy is that leave days are forfeited at the end of the next annual leave cycle, unless a carry-forward of leave days is specifically authorised or provided for in an employment agreement. The timing of the use of the leave pay provision depends on employees' leave plans and resignations from employment during the year.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

	Rm	2018	2017
28.	**Deferred tax assets and liabilities**		
28.1	**Net deferred tax liability balance**		
	Deferred tax assets (refer to note 28.4)	**175**	148
	Deferred tax liabilities (refer to note 28.5)	**(119)**	(199)
		56	(51)
28.2	**Reconciliation of movement in the net deferred tax asset balance**		
	Opening balance	**148**	157
	Movement during the year:		
	Credit per/(charge to) income statement	**14**	(11)
	Charge to other comprehensive income	**11**	–
	Transfer to disposal group classified as held for sale	**–**	1
	Disposal as a result of a sale of business	**–**	(1)
	Foreign subsidiaries' exchange differences	**2**	2
	Closing balance	**175**	148
28.3	**Reconciliation of movement in the net deferred tax liability balance**		
	Opening balance	**(199)**	(262)
	Movement during the year:		
	Credit per income statement	**80**	46
	Transfer to disposal group classified as held for sale	**2**	–
	Disposal as a result of a sale of business	**–**	17
	Foreign subsidiaries' exchange differences	**(2)**	–
	Closing balance	**(119)**	(199)
28.4	**Analysis of deferred tax assets**		
	Post-employment benefit obligations	**15**	16
	Deferred income	**2**	2
	Calculated tax losses[1]	**50**	11
	Cash flow hedges	**19**	–
	Provisions	**36**	50
	Operating lease liability	**55**	50
	Other items	**(2)**	19
	Total deferred tax assets	**175**	148
28.5	**Analysis of deferred tax liabilities**		
	Policyholder assets	**(8)**	(64)
	Accelerated tax allowances, provisions and other items	**(3)**	(5)
	Deferred tax recognised in terms of IFRS 3 *Business Combination*[2]	**(108)**	(130)
	Total deferred tax liabilities	**(119)**	(199)

[1] Assessed losses not recognised on the balance sheet amounts to R174 million (2017: R141 million).

[2] This amount represents the deferred tax balance raised on intangible assets recognised at the time of the private equity transaction.

Rm	2018	2017
29. Provisions		
Proposed client settlements (refer to note 29.2)	**104**	97
Provision for errors and omissions claims (refer to note 29.3)	**189**	194
Other[1]	**11**	–
Total	**304**	291

[1] Other provisions relate to planned strategic reorganisations undertaken within the business, with detailed formal plans, and valid expectations having been implemented by management.

29.1 Analysis and reconciliation of movement in provisions

Rm	Proposed client settlements	Provision for errors and omissions claims	Other	Total
Balance at 31 March 2016	100	249	3	352
Movement during the year:				
Net increase/(decrease) in provision	2	(4)	(1)	(3)
Payments made	(5)	–	–	(5)
Disposal of subsidiary	–	–	(2)	(2)
Foreign subsidiaries' exchange differences	–	(51)	–	(51)
Balance at 31 March 2017	**97**	**194**	**–**	**291**
Movement during the year:				
Net increase in provision	**8**	**2**	**11**	**21**
Payments made	**(1)**	**(4)**	**–**	**(5)**
Foreign subsidiaries' exchange differences	**–**	**(3)**	**–**	**(3)**
Balance at 31 March 2018	**104**	**189**	**11**	**304**

The provision for proposed client settlements is current in nature while all other provisions are considered to be non-current.

Uncertainties affecting the timing and amount of the settlement of provisions are discussed in the relevant note below.

29.2 Provision for client settlements and other legal claims

The group voluntarily appointed independent legal advisers to conduct a full review of past and current business practices across all of the South African operations in 2006. The results of the review were fully disclosed and published on the group's website. Following this review the provision for proposed client settlements for historical business practices, including the practice referred to as 'bulking' (refer to note 35.2 for further details on 'bulking'), was made. Interest accrues on this provision at the prime lending rate less 4% up to the date of settlement payments.

To date the group has made substantial progress in relation to the client settlement process, with the vast majority of all retirement funds that received offers having accepted the settlement offer; however, an increase in the provision was made in the current year, in anticipation of further settlements to be made.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

29. Provisions (continued)

29.3 Provision for errors and omissions claims

In the conduct of its ordinary course of business, the group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations.

The group's errors and omissions risk is insured in the London market (the market policy), with a limit of R2 billion for every claim or loss in the annual aggregate in excess of the aggregate deductible of R90 million. The market policy covers all subsidiary and associate companies.

Upon exhaustion of the aggregate deductible of R90 million a deductible of R1.2 million for each claim or loss will apply, but the ZAR equivalent of £30 000 for every claimant in respect of investment and investment-related business activities regulated by the Financial Services Authority in the UK.

The aggregate deductible of R90 million is insured with a third-party cell-captive insurer, Mannequin Insurance PCC Limited (the Mannequin policy). The limit of the Mannequin policy is equal to the limit of the aggregate deductible of the market policy, i.e. R90 million. The Mannequin policy imposes a deductible of R1.5 million per claim for Africa operations or £100 000 for operations outside Africa.

From 1 April 2014 the Mannequin policy also covers associates and non-wholly-owned operations (NWOS). Except for Namibia operations (which have access to a R2 billion limit), associates and NWOS have a limit of R125 million per claim and in the aggregate. In the event of the exhaustion of the aggregate excess of R90 million, the market policy will drop down to cover associates and NWOS to the full limit of R125 million respectively less any amount paid for claims in respect of associates and NWOS. The Mannequin policy imposes a deductible of R375 000 per claim in respect of associates and NWOS.

The group has an equity investment in a cell in Mannequin Insurance PCC Limited, which entitles the group to the underwriting profits earned by this insurance cell. The group is required to maintain the insurance cell and ensure it is adequately capitalised. Additional capital is required to be paid in the event that underwriting losses are incurred by the insurance cell.

The assets, liabilities, income statement and cash flow effects attributable to the group's investment in the Mannequin insurance cell are included in the consolidated financial statements of the group. The effect is to eliminate the premium payments to the cell-captive insurer on consolidation and to recognise the assets, liabilities, cash flows and net operating results of the insurance cell in the consolidated financial statements of the group. The insurance premiums charged to the various group operations continue to be allocated to the relevant businesses in determining the trading results of operations reflected in the segmental profit analysis.

Critical assumptions and judgements

Twice a year a committee of senior group managers conducts a detailed review of all outstanding claims. The merit of each claim is assessed and each claim is scored based on the probability (on a scale of 1 (unlikely) to 10 (extremely likely)) of being realised and the estimated cost to the group. A provision is raised for the product of the probability and the estimated cost. Judgement is exercised when assessing probability and potential cost based on past experience and any industry developments. Legal advice is sought where necessary and all calculations are submitted to the group insurance underwriters for their comment and review. Where the probability of a claim is assessed at 5 or more, an accrual is made for any excess payable.

In the prior year we referred to a specific matter which was and is still being reviewed by a foreign regulator in respect of a legacy subsidiary business that has been sold. Whilst this review is ongoing the skilled person appointed by the regulator has issued a draft report indicating further investigation and work is justified and is currently being undertaken. The claim, should any arise, will be as a result of warrantees provided on the original sale of the business. Management has assessed and concluded that it is still too early to determine (i) the likelihood and magnitude of any liability that may arise and (ii) in the event a liability does arise, if it will impact the group. The group is adequately insured for possible claims as a result of such errors and omissions. In addition, management has obtained confirmation from the insurance underwriters indicating that should a liability arise, the event will be covered subject to the terms and conditions of the policy.

30. Finance lease liabilities

Rm	Future minimum lease payments	Interest	Present value of minimum lease payments at 31 March
2018			
Not later than one year	**51**	**–**	**51**
	51	**–**	**51**
2017			
Not later than one year	9	–	9
Later than one year but not later than five years	43	(4)	39
Later than five years	34	(7)	27
	86	(11)	75

Rm	2018	2017
Reconciliation of movement in finance lease liability		
Opening balance as at 1 April	**75**	80
Interest accrued	**1**	3
Remeasurement of finance lease liability	**(16)**	–
Cash payment	**(9)**	(8)
Closing balance as at March 2018	**51**	75

In 2010 the group entered into a 12-year lease agreement for its head office building which took effect on 1 October 2012. This head office building comes fully furnished with items of furniture and fixtures, including IT equipment. The items of furniture, fixtures and equipment will be used for the majority of their economic lives and consequently have been classified as finance-leased assets. The minimum lease payments were therefore split between (i) land and building (operating lease component) and (ii) furniture and fixtures including IT equipment (finance lease component) based on their relative fair values.

During March 2018 the group successfully negotiated a settlement of the future minimum lease payments relating to the furniture, fixtures and IT equipment. As part of the deal the group would take over legal ownership of the related assets upon payment of the agreed settlemet price of R51.3 million. The group paid this amount shortly after year-end. As a result, the carrying value of finance lease liabity at year-end was remeasured from R68 million to R51 million. In addition, the related deferred tax and notional value added tax balances were reduced proportionally. The remeasurement of the liability and related balances were recognised in profit or loss, resulting in an after-tax gain of R12 million.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

Rm	2018	2017
31. Operating lease liabilities		
Accrued liability	**197**	182

The operating lease accrued liability is as a result of the accelerated recognition of lease costs resulting from straight-lining of lease expenses. The significant lease to which this accrual relates is 115 West Street, Sandton (starting from October 2012). The escalation is 7.5% per annum.

32. Insurance payables

32.1 Total insurance payables

Rm	2018	2017
Payables from insurance contracts		
Claims float held for insurance operations	**64**	35
Policyholder liability under long-term insurance contracts (group life)	**545**	399
Other insurance-related payables	**16**	15
Payables from insurance-related activities		
Reinsurance creditors	**579**	489
Reinsurance commission	**3**	3
Payables from short-term insurance contracts	**336**	325
Gross unearned premium provision	**41**	43
Gross outstanding claims provision	**230**	220
Gross IBNR provision	**65**	62
Payables from umbrella retirement fund activities*	**2 029**	1 694
	3 572	2 960

* A substantial portion of the payables from umbrella fund activities results from a timing difference between the receipt of funds from new clients at year-end and the investment of these funds with the group's multi-manager investment subsidiary subsequent to year-end.

32. Insurance payables (continued)

32.2 Policyholder liability under long-term insurance contracts

The policyholder liability arises from the group life business written by a long-term insurance subsidiary of the group. The net liability position comprises:

Rm	2018	2017
Gross policyholder liability (refer to note 32.1)	**545**	399
Less: Reinsurers' share of policyholder liability (refer to note 19)	**(467)**	(378)
Net liability to policyholders	**78**	21
A reconciliation of the movement in the net policyholder liability is as follows:		
Opening balance	**21**	14
Movement during the year:		
Increase in reserving	**34**	–
Increase in policies' claims experience	**23**	7
Closing balance	**78**	21

Critical assumptions and judgements

The actuarial value of policyholder assets and liabilities arising from long-term insurance contracts is determined using the financial soundness valuation method as described in SAP 104 of the Actuarial Society of South Africa.

Assumptions need to be made in respect of inputs to the model. The following process is followed to determine the valuation assumptions:

- Management exercises judgement in deciding on best estimates for assumptions.
- Prescribed margins are then applied, as required by the Long-term Insurance Act in South Africa and Board Notice 72 issued in terms of the Act.
- Discretionary margins may be applied, as required by the valuation methodology or if the statutory actuary considers such margins necessary, to cover the risks inherent in the contracts.

Best estimate assumptions as to mortality and morbidity, expenses, investment income and tax are used which may vary at each reporting date. Reliance is placed on historical information and statistical models. A margin for adverse deviations is included in the assumptions. Improvements in estimates have a positive impact on the value of the liabilities and related assets, while deteriorations in estimates have a negative impact.

The process for determining assumptions used are as follows:

- ***IBNR liabilities***
  The methodology remains the same as the prior year, i.e. actual experience is used as a base for the run-off triangle approach. The run-off triangle approach is based on a blended method, consisting of the Chain Ladder and Bornhuetter-Ferguson methods. If the development to date (for a period) is greater than 91% the IBNR is calculated using the Chain Ladder method for that period, otherwise the IBNR is calculated using the Bornhuetter-Ferguson method.
- ***Mortality and morbidity***
  For group life insurance contracts, the rate of recovery from disability is derived from industry experience studies adjusted, where appropriate, for the group's own experience. For individual life insurance contracts, demographic assumptions are set with reference to reinsurer rates and industry experience.
- ***Expenses***
  Expense assumptions are based on an expense analysis, using a functional cost approach. This analysis allocates expenses between initial fees (costs relating to the acquisition of new business) and maintenance fees (costs relating to the maintenance of all contracts).
- ***Investment income***
  Estimates are made as to future investment income and are tested against market conditions as at the valuation date, taking into account the terms of the liabilities. Inflation assumptions are tested against market conditions and, with regard to consistency, are tested against interest rate assumptions.
- ***Tax***
  Allowance is made for future taxation and taxation relief.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2018

32. Insurance payables (continued)

32.2 Policyholder liability under long-term insurance contracts (continued)

Margins for adverse deviations are included in the assumptions as set out below:

%	Compulsory margin	Discretionary margin
Assumption		
Mortality	**7.5**	**7.5**
Morbidity	**10.0**	**10.0**
Withdrawal	**25.0**	**25.0**
Expenses	**10.0**	**10.0**
Investment return	**25 basis points**	

Also refer to note 44.5: Long-term insurance.

Rm	2018	2017
32.3 Net payables from short-term insurance contracts		
The net payables from short-term insurance contracts arise from short-term insurance business written by the short-term insurance subsidiaries of the group. The net payables position comprises:		
Payables from short-term insurance contracts (refer to note 32.1)	**336**	325
Less: Receivables from short-term insurance contracts (refer to note 19)	**(366)**	(255)
Net (receivable)/payable from short-term insurance contracts	**(30)**	70
A reconciliation of the movement in the net payables is as follows:		
Opening balance	**70**	81
Claims incurred[1]	**(100)**	(11)
Closing balance	**(30)**	70

[1] The increase is due to catastrophe claims experienced during the financial year. The risk is largely mitigated by reinsurance contracts.

Critical assumptions and judgements

Outstanding claims provisions include notified claims as well as incurred but not yet reported claims (IBNR). Each notified claim is assessed on a case-by-case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar claims. Case estimates are regularly reviewed and updated if necessary. The Chain Ladder technique has been used to calculate the provision for IBNR. This methodology is based on the analysis of statistics including the pattern of notification of claims in respect of different underwriting periods.

33. Trade and other payables

Rm	2018	2017
Financial liabilities		
Trade payables	**206**	275
Accrued expenses	**143**	174
Other payables	**161**	202
	510	651
Non-financial liabilities		
Employee-based accruals	**75**	135
	585	786

34. Commitments

34.1 Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

Rm	2018 Total	2017 Total
Due within one year	**184**	187
Due between one to five years	**755**	766
Due after five years	**354**	558
	1 293	1 511

Rm	2018	2017
34.2 Capital commitments		
Commitments in respect of capital expenditure approved by directors:		
Contracted for	**298**	–
Not contracted for	**10**	1
	308	1

These commitments relate largely to software purchases and development costs, and the funds to meet these commitments will be provided from internal cash resources generated by operations.

35. Contingencies

35.1 Overview

In the conduct of its ordinary course of business the group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims eventuating, that the group has adequate insurance programmes and provisions in place to meet such claims. However, like all businesses of this type, the risk exists that significant adverse developments in past claims, or a significant increase in the frequency or severity of future claims for errors and omissions, could have a material effect on the group's reported results.

The structure of the group's professional indemnity insurance programme is explained in note 29.3 to these financial statements.

35.2 Client settlements arising from historical business practices

'Bulking' is the term used to describe the practice of aggregating, on a notional basis, the total value of administered bank current accounts in order to negotiate better interest rates with the banks on behalf of clients. In response to identifying that there was inadequate disclosure to clients of fees historically received in respect of such bulking arrangements implemented by a subsidiary, it made settlement offers to such affected clients. In addition, as part of the commitment to meet the highest standards of governance and integrity Alexander Forbes appointed independent legal advisers and auditors to conduct a full review of the past and current business practices across all of the South African operations of the group during 2006. As a result of the bulking matter and the comprehensive business practice review the group made provision for amounts in respect of proposed client settlements relating to bulking and issues identified during the wider business practice review. Interest accrues on these settlement amounts up to the date of payment. As of the date of these financial statements most clients and past clients have accepted these settlement offers and the necessary payments have been made. The group continues to make progress with settlement payments to remaining clients which now mainly consist of closed and liquidated funds.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

Rm	2018	2017
36. Cash generated from operations		
Profit before taxation from continuing operations	**614**	887
Items disclosed separately:		
Net interest expense	**(128)**	(89)
Non-cash items:		
Depreciation of property and equipment	**63**	70
Amortisation of intangible assets and software	**124**	148
Included in operating expenses	**44**	31
Included in non-trading and capital items	**80**	117
Movement in operating lease liability	**15**	20
Relating to South African operations	**15**	26
Relating to UK operations	**–**	(6)
Movement in provisions	**8**	(19)
Reported loss arising from accounting for policyholder investments in treasury shares	**24**	2
Movement in working capital (refer to note 39)	**(39)**	26
Foreign exchange movements on intercompany loans	**–**	17
Share-based payments	**–**	17
Goodwill write-off	**317**	–
Impairment of software	**17**	–
Movement in other non-cash items	**(2)**	12
	1 013	1 091

Rm	2018	2017
37. Interest received		
Investment income per income statement	**225**	178
Less non-cash investment income from financial assets	**(6)**	(16)
Exclude policyholder-related returns	**11**	(22)
	230	140

Rm	2018	2017
38. Interest paid		
Finance costs per income statement	**(97)**	(89)
Non-cash finance costs	**18**	5
	(79)	(84)

Rm	2018	2017
39. Movement in working capital		
Decrease in trade and other receivables	**114**	96
Decrease in trade and other payables	**(153)**	(70)
	(39)	26

Rm	2018	2017
40. Operating cash flows relating to insurance and policyholder balances		
Increase in insurance receivables	**(202)**	(156)
Increase in insurance payables	**612**	83
Decrease in policyholder working capital balances	**(51)**	(221)
Investment return relating to policyholder tax expense	**(11)**	22
	348	(272)

41. Cash flows from policyholder investment contracts

Rm	2018	2017
Premium inflows	**51 693**	40 010
Cash flows arising from fund switches	**(2 974)**	4 248
Insurance cell-captive facilities cash inflow	**6**	–
Investment withdrawals	**(50 645)**	(45 265)
	(1 920)	(1 007)

42. Taxation paid

Rm	2018	2017
Taxation payable at the beginning of the year	**(3)**	(35)
Prepaid tax at the beginning of the year	**53**	4
Charge in income statement	**(319)**	(278)
Policyholder tax credit/(charge) in income statement	**11**	(22)
Charge to income statement for operations included in discontinued operations	**(4)**	–
Other non-cash movements	**(105)**	3
Prepaid taxation at the end of the year	**(15)**	(53)
Taxation payable at the end of the year	**49**	3
	(333)	(378)

43. Related party disclosure

43.1 List of related party relationships

Major shareholders

The owners of the company are detailed in Annexure A.

Mercer Africa Limited, a subsidiary of the US-listed Marsh & McLennan Companies Inc., holds a 33% interest in the company.

Material non-controlling interest

African Rainbow Capital (ARC) holds a 10% interest in the African operations of the group.

Subsidiaries, joint ventures and associates

Details of subsidiaries, joint ventures and associates, which are considered material to the group and in respect of which the group has a continuing interest, are provided in note 47: Consolidated and unconsolidated entities to these financial statements.

Post-employment benefit plans

Details of retirement benefit plans are provided in note 27: Employee benefits.

Directors

Details of the directors of the company are provided in the directors' report.

Prescribed officers

The group has defined the group chief executive, the group chief financial officer and the managing directors of the major operating segments as prescribed officers of the group as defined by the Companies Act of South Africa.

Key management personnel

Key management personnel are defined as the prescribed officers and the board of directors of Alexander Forbes Group Holdings Limited, including certain members of the group executive committee.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

43. Related party disclosure (continued)

43.2 Summary of related party transactions

Transactions with shareholders

In 2012 the group disposed of a significant portion of its risk services business to MMC. Certain transactions are still maintained between the group and risk services (now a subsidiary of MMC). The transactions during the current year included rental costs from shared office space in certain offices in South Africa and the group's insurance broking. These transactions are at arm's length and there are no significant balances outstanding at year-end relating to these transactions.

Transactions with subsidiaries and joint ventures

Details of dividends and fees received from subsidiary companies, where applicable, are provided in the company financial statements. The company has loans to and from its subsidiary companies, details of which are provided in the company financial statements. All transactions and balances with subsidiaries are eliminated on consolidation in line with the group's accounting policies.

There have been no material transactions with joint ventures during the year.

Transactions with associates

There were no material transactions with associates and no dividends (2017: nil) were received from Alexander Forbes Insurance Brokers Kenya Limited during the year.

Transactions with post-employment benefit plans

Contributions to retirement benefit plans amounted to R1 million (2017: R2 million) to the defined benefit fund and R8 million (2017: R8 million) to the post-employment medical obligation plan, as detailed in note 27: Employee benefits. There are no amounts outstanding at year-end. Assets of the retirement benefit plans are invested through Alexander Forbes Investments Limited; these assets amount to R200 million (2017: R196 million).

The retirement benefit plans of the group are compulsory funds and as such key management are participants in the fund. At 31 March 2018 the investments held through the retirement benefit plans by key management are R6 million (2017: R32 million).

Transactions with directors

The remuneration of executive directors is determined and approved by the remuneration committee. The remuneration of non-executive directors, in the form of fees, is proposed by the remuneration committee and approved by shareholders at each annual general meeting.

The remuneration committee consists of non-executive directors. As a committee of the board, the committee determines, agrees and develops the general policy on executive directors' and senior management's remuneration. The objective is to ensure that such remuneration is fair, responsible and appropriate and that the conditions of employment and remuneration scales are market-related and at levels sufficient to attract, retain and motivate individuals of quality, taking account of the fact that the group is an international business. The remuneration committee is also mandated to determine the criteria necessary to measure the performance of the executive directors in discharging their responsibilities.

There are no management, consulting, technical or other fees, nor any commission, paid to directors other than what is disclosed below.

Executive directors' and chairman's remuneration paid to current office holders during the current and prior years are detailed below. The bonus for the 2018 year reflects the amount accrued and approved by the remuneration committee for the year ended 31 March 2018 and paid in June 2018.

43. Related party disclosure (continued)

R'000		Salary	Bonus	Benefit and allowances	Retirement fund contri-butions	Total
Executive directors and prescribed officers[1]						
2018						
AA Darfoor (group chief executive)		**5 934**	**2 445**	**231**	**88**	**8 698**
N Ford-Hoon (Fok) (group chief financial officer)	Appointed 01/09/2017	**1 848**	**817**	**20**	**194**	**2 879**
L Greyling* (chief executive officer: investments)	Appointed 14/03/2017	**2 715**	**1 501**	**47**	**285**	**4 548**
J Mather* (group chief information officer)	Appointed 01/10/2017	**372**	**–**	**5 618**	**–**	**5 990**
V Naicker* (group chief risk officer)		**2 691**	**754**	**52**	**282**	**3 779**
T Powis* (head of corporate and employee benefits)	Appointed 01/01/2018	**813**	**–**	**185**	**–**	**998**
S Price* (group chief operating officer)	Resigned 30/04/2018	**2 777**	**–**	**53**	**358**	**3 188**
S Reddy* (chief executive officer: retail clients)		**2 793**	**796**	**119**	**343**	**4 051**
B Schluep* (chief executive officer: emerging markets)	Appointed 12/04/2017 – Resigned 01/05/2018	**3 307**	**–**	**53**	**293**	**3 653**
M Weiss* (group head of strategy and operations)	Appointed 20/10/2017	**1 724**	**627**	**94**	**376**	**2 821**
Total for the year		**24 974**	**6 940**	**6 472**	**2 219**	**40 605**
2017						
AA Darfoor (group chief executive)	Appointed 01/09/2016	3 589	3 930	1 068	28	8 615
DM Viljoen (group chief financial officer)	Resigned 30/04/2017	3 949	–	97	637	4 683
D Msibi* (managing director)	Resigned 30/04/2017	2 534	–	58	408	3 000
P Edwards* (managing director)	Resigned 31/03/2017	2 711	–	406	369	3 486
S Reddy* (chief executive officer: retail clients)		2 672	2 541	106	329	5 648
S Price* (group chief operating officer)		2 316	2 247	54	298	4 915
V Naicker* (group chief risk officer)		2 549	2 345	52	267	5 213
Total for the year		20 320	11 063	1 841	2 336	35 560

* Prescribed officers.
[1] Remuneration to directors relates to services performed for both the group company, as well as other companies within the group.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

43. Related party disclosure (continued)

Transactions with directors (continued)

Long-term incentive share plan (LTIP)

The long-term incentive share plan is administered by the remuneration committee and is available to executive directors and senior management and key employees of the company. The aim of the LTIP is to provide direct alignment between the participants and the shareholders. The share awards under the plan are subject to achieving performance and vesting conditions stipulated by the remuneration committee.

In line with the requirements of the King IV report the company will make regular annual rewards of shares based on company performance and affordability. These awards are set by reference to individual salaries, grade and performance as well as the company's retention requirements and market benchmarks.

The rules of the LTIP allow for settlement through the purchase of shares on the open market, the use of treasury shares or the issue of new shares. The maximum number of new shares permitted to be allocated under the plan at any time is 64 000 000 shares (i.e. a total potential dilution of shares in issue over the entire lifespan of the scheme of 5%) and the maximum number of shares that can be allocated to any individual is 13 000 000.

The following conditional shares have been allocated to key management. The conditional share awards vest after a predetermined period based on performance conditions set for each allocation. The following conditions apply to each tranche below:

2014 tranche

During the year the vesting period for the 2014 tranche of the scheme ended. The measurement period was based on growth between 1 April 2014 and 31 March 2017. The performance condition resulted in 36.1% of the shares offered being allocated. A total number of 3.4 million shares vested on 24 July 2017.

2015 tranche

These shares vest on 4 August 2018. Thirty percent of the shares vest if the company achieves a three-year compound growth rate in normalised headline earnings per share (HEPS) of nominal GDP (i.e. GDP plus inflation) and 100% of the shares will vest if the growth rate is nominal GDP plus 8% (eight percentage points). A pro rata proportion of shares will vest based on any growth rate between these two points. At a compound growth rate in HEPS below nominal GDP all conditional shares are forfeited.

2016 tranche

These shares vest on 24 July 2019. Thirty percent of the shares vest if the group achieves a three-year compound growth rate in normalised headline earnings per share (HEPS) of nominal GDP (i.e. GDP plus inflation) and 100% of the shares will vest if the growth rate is nominal GDP plus 8% (eight percentage points). A pro rata proportion of shares will vest based on any growth rate between these two points. At a compound growth rate in HEPS below nominal GDP all conditional shares are forfeited.

2017 tranche

These shares vest on 24 July 2020. Thirty percent of the shares vest if the group achieves a three-year compound growth rate in normalised headline earnings per share (HEPS) of nominal GDP (i.e. GDP plus inflation) and 100% of the shares will vest if the growth rate is nominal GDP plus 8% (eight percentage points). A pro rata proportion of shares will vest based on any growth rate between these two points. At a compound growth rate in HEPS below nominal GDP all conditional shares are forfeited.

43. Related party disclosure (continued)

Transactions with directors (continued)

'000	2017 tranche	2016 tranche	2015 tranche	2014 tranche (vested)	FSP shares
Number of ordinary shares					
AA Darfoor (group chief executive)	**800**	**1 350**	**–**	**–**	**200**
N Ford-Hoon (Fok) (group chief financial officer)	**444**	**–**	**–**	**–**	**111**
L Greyling* (chief executive officer: investments)	**302**	**–**	**–**	**–**	**76**
V Naicker* (group chief risk officer)	**286**	**450**	**304**	**110**	**71**
S Reddy* (chief executive officer: retail clients)	**343**	**475**	**472**	**–**	**86**
B Schluep* (chief executive officer: emerging markets)[1]	**499**	**–**	**–**	**–**	**125**
M Weiss* (group head of strategy and operations)	**399**	**–**	**–**	**–**	**100**
	3 073	**2 275**	**776**	**110**	**769**

* Prescribed officers.
[1] B Schleup resigned subsequent to year-end and will forfeit shares allocated to him.

No shares are held by key management at 31 March 2018.

Other transactions with key management

Members of key management have personal investments in AF Investments through the Alexander Forbes retirement funds amounting to R6 million (2017: R30 million). Certain members also insure their personal assets through Alexander Forbes Insurance. These transactions are all concluded at market rates on an arm's length basis.

Non-executive directors' fees and remuneration

Non-executive directors are paid by other companies in the Alexander Forbes group and independent non-executive directors are paid fees by the company and other companies within the Alexander Forbes group.

R'000		2018	2017
Independent non-executive directors			
MD Collier		**2 030**	2 000
RM Head	Appointed 01/03/2018	**226**	–
D Konar	Resigned 08/12/2017	**1 763**	2 536
RM Kgosana	Resigned 03/07/2017	**302**	1 100
HP Meyer	Resigned 31/12/2017	**753**	788
N Nyembezi (chairman)	Appointed 01/01/2018	**536**	–
BJ Memela-Khambula		**914**	900
MS Moloko (chairman)	Resigned 31/10/2017	**1 039**	4 271
M Ramplin		**1 271**	–
Total for the year		**8 834**	11 595

Directors' fees consist of a combination of standard fees plus additional fees for committee or subcommittee membership.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

44. Insurance risk

44.1 Overview

The group issues contracts that transfer insurance risk or financial risk or both. Such insurance contracts are issued by the group's insurance subsidiary companies, namely Alexander Forbes Insurance and Alexander Forbes Life, as detailed below. These insurance companies are authorised and regulated by the Financial Sector Conduct Authority (FSCA) and Prudential Authority in South Africa, the Guernsey Financial Services Commission (GFSC) and the FCA in the United Kingdom.

The group also issues contracts which are classified as investment contracts. These contracts transfer financial risk with no significant insurance risk. Financial risk is defined as the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of process or rates or credit index or other variable. The group's multi-manager investment subsidiaries operate under long-term insurance licences and they too are authorised and regulated by the FSCA and Prudential Authority in South Africa and Namibia and the FCA in the United Kingdom.

These licences are issued in order for the multi-manager to issue only linked investment policies and thus these businesses do not assume any insurance risk. For accounting purposes the contracts issued to policyholders are classified as investment contracts. The assets arising from these investment contracts are directly matched by linked obligations to the policyholders and the assets and linked obligations are separately reflected in the group statement of financial position as 'Financial assets held under multi-manager investment contracts' and 'Financial liabilities held under multi-manager investment contracts' respectively.

The remaining two insurance subsidiaries, namely Alexander Forbes Insurance and Alexander Forbes Life, transact conventional short-term and long-term insurance business under limited risk-taking mandates.

The names of the insurance subsidiaries and the nature of their respective insurance operations are detailed below.

Name of subsidiary company (and country of incorporation)	Nature of insurance operations
Alexander Forbes Insurance Company Namibia Limited (Namibia)	Personal and commercial lines short-term insurance, cell-captive and contingency short-term insurance.
Alexander Forbes Insurance Company Limited (South Africa)	Personal lines short-term insurance as well as commercial insurance.
Alexander Forbes Life Limited (South Africa)	Long-term insurance.

44.2 Assets and liabilities under insurance contracts

Rm	Notes	2018	2017
44.2.1 Insurance contract liabilities of insurance subsidiaries included in the statement of financial position (by nature of liability)			
Net unearned premium provision from short-term insurance contracts		**14**	15
Gross unearned premium provision	32.1	**41**	43
Less: Reinsurers' share of unearned premium provision	19	**(27)**	(28)
Net outstanding claims provision from short-term insurance contracts		**26**	45
Gross outstanding claims provision	32.1	**230**	220
Less: Reinsurers' share of outstanding claims provision	19	**(204)**	(175)
Net IBNR provision from short-term insurance contracts		**18**	17
Gross IBNR provision	32.1	**65**	62
Less: Reinsurers' share of IBNR provision	19	**(47)**	(45)
Policyholder liability under long-term insurance contracts (group life)		**78**	21
Gross policyholder liability	32.1	**545**	399
Less: Reinsurers' share of policyholder liability	19, 44.2.2	**(467)**	(378)
Net liabilities under insurance contracts		**136**	98

44.2.2 Reinsurance contract assets

Reinsurance assets represent the portion of policyholder liabilities under insurance contracts that are receivable from third-party reinsurers via a policy of insurance.

Rm	2018	2017
IBNR	**31**	20
Annuity claims in payment	**384**	328
Pending annuity claims	**34**	30
Notified annuity claims	**18**	–
Reinsurance assets	**467**	378

44. Insurance risk (continued)

44.3 General management of insurance risk

In addition to the management of insurance risk by each subsidiary (as detailed in the sections below) the group has the following insurance risk management controls:

Risk committee

The risk committee deals with specialised risks related to insurance business being conducted by the company. Individuals with specialised industry and product knowledge are invited to the committee and are also being co-opted on an ongoing basis. Furthermore, the committee is specifically responsible for governance, enterprise-wide risk, compliance, information technology, reinsurance market security, protection of personal information and treating customers fairly.

Audit committees

The relevant business audit committee deals with the insurance subsidiary that reports into that business operation. These committees serve to satisfy the group and operational boards of directors that adequate internal and financial controls are in place and that material risks are managed appropriately.

Statutory actuaries

The statutory actuaries of the long-term insurance subsidiaries report annually on the capital adequacy and the financial soundness at the year-end date and for the foreseeable future. All new premium rates or premium rates where changes are required are reviewed by the statutory actuaries and dividends are approved prior to payment to ensure that the insurance subsidiaries remain financially sound thereafter.

Capital adequacy requirements

Capital adequacy risk is the risk that there are insufficient capital reserves to provide for variations in actual future experience that is worse than assumed in the financial soundness valuation. The insurance subsidiary must maintain shareholders' funds that will be sufficient to meet obligations in the event of substantial deviations from the main assumptions that could affect the subsidiary's business adversely.

A minimum level of solvency is required to be held within each insurance subsidiary to meet the regulatory capital adequacy requirements (CAR). For the long-term insurance subsidiaries CAR is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of actual future experience departing from the assumptions made in calculating the policyholder liabilities and against fluctuations in the value of assets. CAR statutory returns are submitted to the Registrar of Long-Term Insurance every quarter and valuations are performed by the statutory actuary every year.

Rm	**2018**	2017
Long-term insurance		
Alexander Forbes Life Limited		
Capital adequacy requirement	**247**	229
Times cover	**2.96**	1.67

A solvency capital requirement has been established in accordance with the Act and the requirements of Board Notice 169 of 2011.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2018

44. Insurance risk (continued)

44.3 General management of insurance risk (continued)

Rm	2018	2017
Short-term insurance		
Alexander Forbes Insurance		
Solvency capital requirement	**125**	121
Net assets	**318**	229

Concentration risk
The group is not exposed to any significant concentration risk as the insurance contracts issued by the group's insurance subsidiaries are adequately spread across the major classes of insurance risks. In addition, each insurance subsidiary company is cognisant of concentration risk for their individual entity and each insurance product and takes steps to mitigate this risk, including purchasing reinsurance protection.

Reinsurance
Reinsurance is used to manage the level of underwriting risk accepted by the group. Reinsurance vetting procedures are in place and reinsurance programmes are assessed on a regular basis to ensure appropriateness of the cover obtained, including the individual cessions and accumulations per reinsurer. The financial condition of reinsurers (identified by their credit rating) is considered when placing reinsurance cover and evaluated on an ongoing basis. The individual insurance subsidiaries limit the level of reinsurance credit risk accepted by placing limits on their exposures to a single counterparty. The individual insurance subsidiaries hold catastrophe reinsurance to mitigate the risk of a single event causing multiple accumulation of claims. The group has a risk committee which evaluates, approves and monitors both insurance and reinsurance markets that the group operates in and reports back to the relevant operational boards with recommendations.

Enterprise-wide risk management
The group has implemented an enterprise-wide risk management programme aimed at entrenching risk management into the day-to-day business activities whereby the insurance subsidiary understands the risk events that may prevent it from achieving its objective; has identified the risk mitigating controls in place and has assessed their efficiency; and has formulated a plan wherever additional action is required.

Short-term insurance
Terms and conditions of insurance contracts
Personal lines insurance is provided to the general public in their individual capacities. The duration of this insurance is typically monthly, but in some cases annually. The classes of risk underwritten by AF Insurance include property, casualty, personal accident and motor.

Risks that arise from insurance contracts
This business activity is to accept the risk of loss from insured events and charge a premium commensurate to this risk. As such, the subsidiary is exposed to uncertainty surrounding the timing, severity and frequency of claims under insurance contracts. As insurance events are random, actual experience may vary from what was predicted using established statistical techniques.

The majority of the subsidiary's short-term insurance contracts are 'short-tail', meaning that any claim is settled within one year after the loss date. The subsidiary's 'long-tail' exposures are limited to personal accident, third-party motor and public liability. Claims in respect of long-tail business comprised less than 15% of the incurred claims over the past financial year and are not considered to be a major risk to the group.

Exposure to catastrophe risk is estimated by analysing the motor and property book to identify areas of concentration. The subsidiary's concentration exposure for its personal lines book is considered to be in the Johannesburg area and the event has been identified as a possible earthquake or a severe hailstorm. This assessment is done annually at renewal of the catastrophe programme and reinsurance protection is purchased on a non-proportional basis accordingly, thereby limiting the exposure to the subsidiary. The current gross exposure is R4 million (2017: R4 million). Current net exposure is R1 million (2017: R1 million). The catastrophe cover is sufficient to cover the 1-in-300-year scenario, i.e. a very extreme event that only has 0.3% probability of occurring over the next year.

Mitigation of insurance risks
Insurance risk is managed by centralised control of pricing, underwriting limits and rules, reinsurance and continual monitoring of experience in order to mitigate emerging risks. Acceptance criteria are formulated by underwriting but implementation thereof is monitored by technical underwriters within the sales teams.

Exposures to individual policyholders and groups of policyholders are monitored as part of the credit control process. The subsidiary is also protected by guarantees provided by the intermediary guarantee facility for the non-payment of premiums collected by intermediaries as provided for in the Short-Term Insurance Act in South Africa. In addition, most intermediaries are fellow subsidiaries and are not considered to be a credit risk.

44. Insurance risk (continued)

44.3 General management of insurance risk (continued)

Personal lines short-term insurance

The personal accident line of business is protected by an excess of loss reinsurance treaty where the gross exposure is capped at R2 million up to a limit of R16 million.

The personal accident insurance book is a high-volume low-risk portfolio and is protected on a stop loss basis whereby reinsurance protection is purchased to protect the subsidiary in the event of adverse claims experience. The business is written on a monthly basis.

Sensitivity analysis

A sensitivity analysis has been performed to determine how the IBNR would change if the company were to consider the 75th percentiles as opposed to the company's best estimate figures. The 75th percentile value of the reserve implies that the company only expects the reserve value to be higher than this amount 25% of the time. The 75th percentile was used in the IBNR calculation, as this was the more prudent approach.

Claims incurred but not yet reported ('IBNR')

The Chain Ladder method has been used to calculate the provision for IBNR. The methodology is based on the analysis of statistics indicating the pattern of notification of claims in respect of different underwriting periods. These patterns are applied to the claims already notified to obtain estimates of the final total of attributable claims. In order to calculate the provision a cumulative delay table is prepared. This table shows the cumulative amounts incurred up to each year of notification (development year). From this table, ratios are calculated according to the Chain Ladder method to estimate the final provision. The triangulation is based on the loss date versus the reported date. Therefore, these ratios are weighted amounts using the claim amounts as weightings.

Refer to the table below for the results of the sensitivity analysis on the outstanding gross claims liability that is measured using IBNR methodology:

	2018		2017	
Class	**IBNR % (Best estimate)**	**IBNR % (75th percentile)**	IBNR % (Best estimate)	IBNR % (75th percentile)
Motor	**Interim measures**	**Interim measures**	Interim measures	Interim measures
Property	**2.48**	**2.83**	1.81	2.51

Long-term insurance

Terms and conditions of insurance contracts

The insurance contracts consist of annually renewable group life and individual life mortality and morbidity contracts. Group business consists of insurance for retirement funds and other group schemes and covers the contingencies of death and disability. Individual life business covers death and disability. There are no surrender values or investment components inherent in any of these policies.

Risks that arise from insurance contracts

These contracts insure events associated with human life (for example, death or disability) which is repriced on an annual basis. The group insurance business is subject to mortality and morbidity risk. The risk is that future claims will exceed expectations, which could result from epidemics such as AIDS and Avian Flu, as well as unexpected changes in lifestyles and living patterns. Since the term of a group policy is typically one year and upfront costs are limited, the risk of non-recoupment of expenses as a result of withdrawals is limited.

An individual insurance product was launched during the 2006 financial year. A level premium version of the individual life product was introduced during the 2015 financial year. As at 31 March 2018 it remains a relatively immaterial part of the overall life insurance exposure. The product is subject to mortality, morbidity, withdrawal and expense risk.

There is exposure to concentration risk on the group insurance business as there is not yet a wide spread of group schemes and a single event could result in multiple claims. Catastrophe reinsurance is in place to mitigate this risk. There is no significant concentration risk on the individual insurance business owing to the current level of business transacted.

As at 31 March 2018 the group had exposure with the supporting actuarial reserves of approximately R95 million (2017: R56 million) in group insurance business. The individual life business has limited exposure and reflects a negative actuarial reserves asset of R18 million (2017: R37 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

44. Insurance risk (continued)

Long-term insurance (continued)

Mitigation of insurance risk

In respect of group risk insurance business free cover limits are set on a per-scheme basis and are formula-driven, taking into account the number of lives and average sums assured. Sums assured in excess of the free cover limit are medically tested. Policy terms and conditions allow for an annual review of premium rates to manage premiums in line with emerging claims experience. The annual premium reviews take all pertinent information from one year to the next into account.

In respect of individual insurance business the major risks are mortality, morbidity, withdrawal and expense. Premiums on this business line are differentiated by age, gender and smoker status. Stringent socio-economic qualification criteria apply. Future premium rates are also not guaranteed and may be adjusted if mortality and morbidity experience worsens. Market pressures and delays in implementing changes could, however, counter this mitigating effect. Withdrawal risk is mitigated to some extent by commission clawback clauses in contracts with intermediaries. Expense risk is mitigated through detailed analysis of costs in determining the expense assumptions in the valuation, as well as ongoing expense management.

The insurance risks are also managed through reinsurance arrangements. The appropriate reinsurance structures are assessed by conducting scenario analyses which project outcomes under different reinsurance structures. The retention limits are then set in accordance with risk appetite. The group risk insurance business has proportional reinsurance for approximately 85% of the book. There is also non-proportional reinsurance providing protection on a per-risk and catastrophe basis, capping the net exposure in the event of a single large loss or loss occurrence constituting a catastrophe.

Sensitivity analysis

The most critical assumption underlying the liabilities relating to group risk insurance is the rate of recovery from illness or disability associated with claims in payment. The sensitivity to a recovery rate 20% lower than assumed is less than R95 million (2017: R54 million). The sensitivity to assumptions on negative liabilities comprising mortality, withdrawal and renewal risks arising from the individual insurance contracts is currently insignificant.

45. Financial risk

Introduction

The group's activities expose it to various financial risks arising from its financial assets and liabilities. Financial risks comprise credit risk, liquidity risk and market risk. These risks are defined below.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation, thereby causing the group to incur a financial loss.

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet commitments associated with a financial instrument.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate, principally as a result of changes in market conditions. These market conditions include interest rates, foreign currency exchange rates and other price conditions.

Interest rate risk

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

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate in rand owing to changes in foreign exchange rates.

45. Financial risk (continued)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices (other than those arising from interest rate risk and currency risk).

The financial risks relating to the group's activities are best analysed according to the various operations of the group. These are:

(i) multi-manager investment operations through the AF Investments subsidiary companies;

(ii) insurance cell-captive facilities through the subsidiary companies, AF Investments in South Africa and Emerging Markets Namibia; and

(iii) general operations, including the corporate and employee benefits, group risk, investments, wealth and investments, retail insurance, administration only, emerging markets and corporate.

The nature of financial assets and liabilities of each operation is described below.

Nature of financial assets and liabilities

(i) Multi-manager investment operations

The financial assets held under multi-manager investment operations are policyholders' assets directly matched by linked obligations to policyholders. Both the assets and the liabilities are classified at fair value through profit or loss and are carried at fair value. No assets held under multi-manager investment operations have been pledged as collateral.

(ii) Insurance cell-captive facilities

The financial assets of insurance cell-captive facilities are assets attributable to cell owners in the group's insurance cell-captive companies and are directly matched by linked obligations to cell owners. Both the assets and the liabilities are classified at fair value through profit or loss designated as such upon initial recognition and is carried at fair value. No assets of insurance cell-captive facilities have been pledged as collateral. Subsequent to disposing of the Guardrisk group of companies the group's insurance cell-captive facilities have reduced significantly and the group considers the exposure to credit, liquidity and market risks arising from these operations are now minimal.

(iii) General operations

The financial assets and liabilities arising from general operations result from the corporate and employee benefits, group risk, investments, wealth and investments, retail insurance, administration only, emerging markets and corporate, and comprises financial assets at fair value through profit or loss and assets carried at amortised cost.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

45. Financial risk (continued)

Nature of financial assets and liabilities (continued)

The following table reflects the financial assets and financial liabilities of the group including their respective IAS 39 classification:

Financial assets and liabilities of the group

Rm	Note	2018	2017
Assets			
Financial assets held under multi-manager investment contracts			
Fair value through profit or loss – designated	11	**288 871**	271 685
Loans and receivables	11	**7 887**	9 813
Financial assets of insurance cell-captive facilities			
Fair value through profit or loss – designated	12	**178**	172
Balances relating to insurance contracts – carried at fair value	12	**168**	148
Loans and receivables	12	**6**	–
General operations			
Financial assets			
Available for sale	18	**14**	13
Fair value through profit or loss – designated	18	**264**	260
Derivative financial asset	18	**82**	–
Loans and receivables	18	**85**	84
Insurance receivables			
Balances relating to insurance contracts – carried as loans and receivables	19	**1 339**	1 137
Trade and other receivables			
Loans and receivables	20	**224**	342
Cash and cash equivalents			
Loans and receivables	21	**5 794**	6 263
Total financial assets		**304 912**	289 917
Liabilities			
Financial liabilities held under multi-manager investment contracts			
Fair value through profit or loss – designated	24	**296 825**	281 604
Financial liabilities of insurance cell-captive facilities			
Balances relating to insurance contracts – carried at fair value	25	**352**	320
General operations			
Borrowings			
Financial liabilities held at amortised cost	26	**719**	725
Insurance payables			
Financial liabilities held at amortised cost	32	**3 572**	2 960
Trade and other payables			
Financial liabilities held at amortised cost	33	**510**	651
Finance lease liability			
Financial liabilities held at amortised cost	30	**51**	75
Total financial liabilities		**302 029**	286 335

For financial assets and financial liabilities not measured at fair value, the carrying values approximate the fair value owing to the short-term nature of the instrument.

45. Financial risk (continued)

45.1 Credit risk

45.1.1 Objectives, policies and process to manage credit risk

(i) Multi-manager investment operations

All asset managers are governed by strict investment mandates, specifically set out by the group to meet the investment objectives of the respective policyholder portfolios and, where appropriate, specific minimum investment grading ratings. In addition, investment mandates are subject to restrictions imposed by Regulation 28 to the Pension Funds Act, 24 of 1956.

(ii) General operations

Financial assets

The financial assets designated as fair value through profit or loss are actively managed by multiple investment managers and placed with high credit-rated financial institutions. The group has established an investment strategy committee which reviews all investments on the basis of total asset security and minimised credit risk to the group. Industry specialists as well as the group's panel of investment managers are invited to the quarterly meetings.

Trade and other receivables

Trade and other receivables are managed through ongoing review and impaired if objective evidence is established that the group will not collect all amounts due according to the original terms of the receivable. The group has policies in place to ensure that services are provided to customers with an appropriate credit history.

Cash and cash equivalents

The group has policies that limit the amount of credit exposure to any one financial institution including the requirements by the Short-term and Long-term Insurance Act for minimum levels of asset spreading that are applicable to the insurance subsidiary companies. The financial institutions used in the current and prior financial year had ratings of between Aa2 and Baa3, as determined by external credit ratings agency Moody's.

There have been no significant changes in the way in which credit risk is managed since the prior year.

45.1.2 Exposure to credit risk

(i) Multi-manager investment operations

There is no direct significant credit risk to the group on these assets as they are directly matched to policyholders' liabilities. Therefore any credit risk in respect of policyholder assets is carried by the policyholder and not the group.

Analysis of financial assets held under multi-manager investment contracts

	Financial assets	
Institution where held	Rm	%
2018		
Between Aaa and A3*	**700**	**0.24**
Between Baa1 and B3*	**67 691**	**22.81**
Remainder includes equity securities and other assets with no specific credit risk rating	**228 367**	**76.95**
	296 758	**100.00**
2017		
Between Aaa and A3*	2 048	0.73
Between Baa1 and B3*	59 799	21.29
Remainder includes equity securities and other assets with no specific credit risk rating	219 651	77.98
	281 498	100.00

* Ratings per Moody's credit ratings agency.

(ii) General operations

Financial assets

These assets are carried at fair value with the carrying amount at each reporting date representing the group's maximum exposure to credit risk in relation to these assets. No financial assets designated as fair value through profit or loss have been pledged as collateral. These financial assets are held with reputable institutions with high credit quality.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

45. Financial risk (continued)

45.1 Credit risk (continued)

45.1.2 Exposure to credit risk (continued)

Analysis of financial assets

Rm	2018	2017
Financial assets classified as held for sale		
ASISA investment	**14**	13
Financial assets designated at fair value through profit or loss		
Money market instruments	**80**	92
Collective investment schemes	**142**	129
Bonds/debt securities	**42**	39
Financial assets classified as loans and receivables		
Equity housing loans	**29**	30
Other loans	**56**	54
Derivative financial asset		
Forward exchange contract	**82**	–
	445	357

Trade and other receivables (including insurance receivables)
The carrying amounts of these receivables reflected on the statement of financial position approximate their fair value at reporting date and represent the group's maximum exposure to credit risk in relation to these assets. At reporting date the group did not consider there to be a significant concentration of credit risk to trade and other receivables which had not been adequately provided for.

Top 20 clients
The group's top 20 clients' overall revenue represent approximately 2% (2017: 3%) of operating income net of direct expenses and the total of this amount is aged within three months. No single client contributes more than 0.2% (2017: 0.4%) of the group's operating income net of direct expenses.

Maximum exposure and age analysis of financial assets (including past due but not impaired)

Rm	Current 0 – 30 days	Past due 30 – 60 days	Past due 60 – 90 days	Past due 90+ days	Total
2018					
Insurance receivables	**1 226**	**18**	**27**	**68**	**1 339**
Trade receivables	**126**	**13**	**3**	**25**	**167**
Other receivables	**22**	**1**	**–**	**34**	**57**
	1 374	**32**	**30**	**127**	**1 563**
2017					
Insurance receivables	1 031	45	21	40	1 137
Trade receivables	111	12	2	21	146
Other receivables	71	–	–	125	196
	1 213	57	23	186	1 479

Trade receivables are reflected net of an impairment of R6.4 million (2017: R4.6 million). The majority of the trade receivables fall within 90 days.

Cash and cash equivalents
Cash and cash equivalent balances and transactions are limited to high credit quality institutions. At reporting date the group did not consider there to be a significant concentration of credit risk to cash and cash equivalent balances.

The financial institutions used in the current and prior financial year had ratings of between Aaa and Baa3, as determined by external credit rating agency Moody's.

During the current year there have been no changes to the fair values of the financial assets of general operations presented above due to changes in the credit risk associated with these assets. During the year certain credit rating agencies downgraded South Africa's foreign currency rating to sub-investment grade.

45. Financial risk (continued)

45.2 Liquidity risk

45.2.1 Objectives, policies and process to manage liquidity risk

(i) Multi-manager investment operations

The multi-manager investment operations are conducted through long-term insurance subsidiary companies that issue insurance contracts to policyholders. These long-term insurance companies are registered financial institutions and are required to hold minimum solvency capital to, inter alia, reduce policyholder exposure to the group's liquidity risk. The regulator of insurance companies in South Africa, the FSCA, regularly reviews compliance with these minimum capital requirements. Management monitors compliance with these minimum capital requirements.

In addition, liquidity risk arising from unexpected lapses and withdrawals is limited through policy terms and conditions that restrict claims to the value and timing at which the assets are realised. The maturity analysis of these policyholders' liabilities is detailed in the note to these financial statements called 'Financial liabilities held under multi-manager investment contracts' and these liabilities are mostly open-ended as per note 24.2.

(ii) General operations

Liquidity risk management implies maintaining sufficient cash and ensuring the availability of funding through an adequate amount of cash resources and credit facilities. Monitoring of budgeted and projected cash flows supports the fact that the group will generate sufficient cash flows from operations to limit the impact of liquidity risk. The group has prescribed authority mandates and borrowing limits.

The group sets limits on the minimum proportion of maturing funds available to meet claims arising from long-term insurance contracts and unexpected levels of demands. Similarly the majority of the assets held to match short-term insurance contracts are in money market instruments which are highly liquid. Net cash flows are monitored closely to ensure claim payments under long-term and short-term insurance contracts can be made when requested. Long-term and short-term insurance subsidiaries are registered financial institutions and are required to hold minimum capital and reduce policyholder exposure to the group's liquidity risk. The regulatory authority in South Africa regularly reviews compliance with these minimum capital requirements. Management monitors compliance with these minimum capital requirements. Assets linked to investments are realisable at short notice.

The group is highly cash generative; a significant portion of revenue is collected within seven days of the month in which the revenue is recognised. This collection is inherent in the insurance premiums and pension fund administrative revenue process. As a result the group is well positioned to engage in shorter-term funding matched to the cash flows in order to ensure maximum efficiency in its funding rates.

45.2.2 Exposure to liquidity risk

(i) Multi-manager investment operations

Liquidity risk arises from unexpected lapses and withdrawals by policyholders. The group is able in such cases to transfer ownership of the underlying assets within the policy to the policyholder in order to extinguish its liability.

(ii) General operations

A revolving credit facility of R800 million is in place and is renewable annually with a notice period of three months. The interest rate is JIBAR plus 1.25%, payable quarterly. The group's ability to generate cash, and the positive credit history of the company, positions the group well to negotiate annually for the best available terms.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

45. Financial risk (continued)

45.2 Liquidity risk (continued)

45.2.2 Exposure to liquidity risk (continued)

Liquidity analysis of assets and liabilities

Rm	Contractual cash flows (undiscounted)				Undated/ Linked	Total
	0 – 1 year	1 – 3 years	3 – 5 years	>5 years		
2018						
Non-derivative assets						
Financial assets held under multi-manager investment contracts	–	–	–	–	296 758	296 758
Financial assets of insurance cell-captive facilities	–	–	–	–	352	352
Financial assets	178	–	–	–	170	348
Insurance receivables	370	–	–	–	969	1 339
Trade and other receivables	225	–	–	–	–	225
Cash and cash equivalents	5 794	–	–	–	–	5 794
ASISA investment	–	–	–	–	14	14
Derivatives assets						
Forward exchange contract	82	–	–	–	–	82
Total financial assets	6 649	–	–	–	298 263	304 912
Non-derivative liabilities						
Financial liabilities held under multi-manager investment contract[1]	–	–	–	–	296 825	296 825
Financial liabilities of insurance cell-captive facilities[1]	–	–	–	–	352	352
Borrowings	719	–	–	–	–	719
Insurance payables	831	–	–	–	2 741	3 572
Trade and other payables	510	–	–	–	–	510
Finance lease liability	51	–	–	–	–	51
Total financial liabilities	2 111	–	–	–	299 918	302 029

[1] Although these financial liabilities are payable on demand they can be settled in cash or by delivery of the underlying assets.

45. Financial risk (continued)

45.2 Liquidity risk (continued)

45.2.2 Exposure to liquidity risk (continued)

Liquidity analysis of assets and liabilities

	Contractual cash flows (undiscounted)					
Rm	0 – 1 year	1 – 3 years	3 – 5 years	>5 years	Undated/ Linked	Total
2017						
Assets						
Financial assets held under multi-manager investment contracts	–	–	–	–	281 498	281 498
Financial assets of insurance cell-captive facilities	–	–	–	–	320	320
Financial assets	290	9	15	2	41	357
Insurance receivables	264	–	–	–	873	1 137
Trade and other receivables	316	15	2	–	9	342
Cash and cash equivalents	6 263	–	–	–	–	6 263
ASISA investment	–	–	–	–	13	13
Total financial assets	7 133	24	17	2	282 754	289 930
Liabilities						
Financial liabilities held under multi-manager investment contract[1]	–	–	–	–	281 604	281 604
Financial liabilities of insurance cell-captive facilities[1]	–	–	–	–	320	320
Borrowings	725	–	–	–	–	725
Insurance payables	–	–	–	–	2 960	2 960
Trade and other payables	650	1	–	–	–	651
Finance lease liability	9	31	12	33	–	85
Total financial liabilities	1 384	32	12	33	284 884	286 345

[1] Although these financial liabilities are payable on demand they can be settled in cash or by delivery of the underlying assets.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

45. Financial risk (continued)

45.3 Market risk

45.3.1 Objectives, policies and processes to manage market risk

(i) Multi-manager investment operations

The group has established an investment committee which, in conjunction with the board of directors of the multi-manager investment subsidiary companies, is responsible for setting investment strategies for the various investment portfolios and monitoring compliance therewith.

AF Investments employs a multi-manager investment approach, focusing on reducing risk through optimal and multiple layer diversifications. The structure of investment portfolios is based on the contracts entered into and the risk profile selected by the client. Within these parameters investments are managed with the aim of delivering superior returns, while limiting risk to acceptable levels, within the framework of statutory requirements. Although AF Investments does not make use of derivatives directly, the underlying managers may do so within strict mandate controls, to achieve a particular portfolio's investment objective in the most effective manner or to smooth or protect portfolio returns.

(ii) General operations

Interest rate risk

The group does not hedge against the interest rate exposure of fee income derived by it and the board has accepted that changes in interest rates can result in volatility in the group's earnings. An increase or decrease in interest rates impacts the value of debt securities included in assets from multi-manager investment contracts.

A revolving credit facility of R800 million (2017: R1 billion) is in place and is subject to interest at JIBAR plus 1.25%, payable quarterly.

Currency risk

The group does not hedge against this currency exposure to earnings and the board has accepted that changes in exchange rates can result in volatility in the group's earnings when reported in rand.

The group does not hedge against the currency exposure to US dollar policy-linked commission and fee income earned by insurance broking activities and the board has accepted that changes in exchange rates can result in volatility in the group's earnings when reported in rand. Changes in currency will impact profit before tax as a result of commission and fee earnings linked to US dollar policies.

The group does hedge against currency risk relating to the IT modernisation project with the use of forward exchange contracts.

Other price risk

The group monitors the risk associated with the fee income attributable to the equity assets under management in the multi-manager investment operations. The exposure to equity markets is monitored and specific advice is taken on the economic outlook with regard to this fee income. The group does consider various derivative instruments to protect this income stream.

There have been no significant changes in the way in which market risk is managed since the prior year.

45.3.2 Exposure to market risk

(i) Multi-manager investment operations

Policyholders' liabilities are linked to investments in equity securities, preference shares, debt securities, collective investment schemes, mutual funds, cash and other assets. These are valued at ruling market values and are therefore susceptible to daily market fluctuations.

There is no direct significant market risk, either by interest rate, currency or other price risk, to the group on financial assets held in respect of multi-manager investment contracts as the effect of any changes in these market risks is directly attributable to policyholder assets and policyholder assets are directly matched by policyholder liabilities. There are assets held within the policyholder assets which are exposed to currency risk arising from various currency exposures primarily with respect to sterling, euro and the US dollar, but these are matched by policyholder liabilities.

Fee income earned by the group on assets from multi-manager investment operations is based on assets which are exposed to fluctuations in interest rates, foreign currencies and equity prices. The group does not hedge against the interest rate and currency exposures and the board has accepted that changes in interest and exchange rates can result in volatility in the group's earnings.

45. Financial risk (continued)

45.3 Market risk (continued)

45.3.2 Exposure to market risk (continued)

(ii) General operations

Interest rate risk
The group's income and operating cash flows are substantially independent of changes in market interest rates, except for interest costs on provisions for client settlements which are sensitive to short-term interest rates. This impact is offset by the effect of short-term interest rate movements on interest earned on cash balances. The interest rate on borrowings relates to the revolving credit facility, with interest at JIBAR plus 1.25%. A 1% increase/decrease in JIBAR results in a pre-tax interest charge/saving of R7.1 million (2017: R7.7 million).

As detailed above, fee income derived by the group on assets from multi-manager investment contracts will be impacted by any changes in value of such assets arising from fluctuations in interest rates.

In addition, a portion of fee income earned in the retail business in the Financial Services operations in South Africa is impacted by changes in interest rates as this income is linked to assets managed by this business.

Currency risk
The group operates primarily in South Africa and has certain operations in other African countries. Approximately 7% (2017: 7%) of the group's operating income net of direct expenses is derived from its operations in Africa outside South Africa.

Fee income derived by the group on assets from multi-manager investment operations will also be impacted by any changes in value of such assets arising from fluctuations in foreign currency exchange rates.

In addition, a portion of fee income earned in the retail business in the Financial Services operations in South Africa is impacted by changes in foreign currencies as this income is linked to assets managed by this business.

Except for earnings, the group companies are required to hedge their foreign exchange risk exposure using forward contracts transacted with group treasury.

The group's exposure to foreign currency risk at the end of the reporting period expressed was as follows:

	31 March 2018		31 March 2017	
Million	**USD**	**GBP**	USD	GBP
Cash flow hedges	**33**	**–**	–	–
Cash and cash equivalents	**–**	**29**	–	24
Trade and other payables	**–**	**1**	–	1

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2018

45. Financial risk (continued)

45.3 Market risk (continued)

45.3.2 Exposure to market risk (continued)

(ii) *General operations* (continued)

Amounts recognised in profit or loss and other comprehensive income

During the year, the following foreign-exchange related amounts were recognised in profit or loss and other comprehensive income:

Million	2018	2017
Amounts recognised in profit or loss		
Net foreign exchange loss included in other income/other expenses	**–**	(1)
Net loss on foreign currency due to movements in forward points included in finance costs[1]	**(17)**	–
Net gains/(losses) recognised in other comprehensive income		
Cash flow hedges	**(37)**	–
Foreign currency translation differences of foreign operations[2]	**(9)**	(329)
Foreign currency translation reserve of disposed operations recycled to profit or loss	**–**	(209)

[1] Relates to foreign currency risk.
[2] Relates to currency translation risk.

Sensitivity

As shown in the table on page 95, the group is primarily exposed to changes in USD/GBP exchange rates. The sensitivity of other comprehensive income to changes in the exchange rates arises mainly from GBP denominated financial instruments and the impact on other components of equity arises from foreign forward exchange contracts designated as cash flow hedges denominated in USD:

	31 March 2018		31 March 2017	
Rm	USD	GBP	USD	GBP
ZAR:US/GBP exchange rate – increase 10%*	**39.10**	**47.60**	–	50.80
ZAR:US/GBP exchange rate – decrease 10%*	**(39.10)**	**(47.60)**	–	(50.80)

* Holding all other variables constant.

Concentration risk

The group is not exposed to any significant concentration risk, however, from a regulatory perspective, AF Life maintains a concentration risk capital charge against exposure to a South African bank. The exposure arises from maintaining the majority of Umbrella Fund transactional bank accounts with this bank for operational efficiency reasons.

Other price risk

As detailed above, fee income derived by the group on assets from multi-manager investment operations will be impacted by any changes in the value of such assets arising from fluctuations in equity markets.

In addition, a portion of fee income earned in the retail business in the Financial Services operations in South Africa is impacted by changes in equity markets as this income is linked to assets managed by this business.

There have been no significant changes in market risk exposures since the prior year.

45. Financial risk (continued)

45.4 Fair value hierarchy

A number of the group's accounting policies and disclosures for financial assets and liabilities require the determination of fair value. Fair value measurement is influenced by current market conditions and is subject to the financial risks noted above.

45.4.1 Valuation methods and assumptions for valuation techniques

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 level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' also requires significant judgement. The group considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Level 1
Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturities, equity securities and derivative contracts.

Level 2
Level 2 financial assets primarily include government and agency securities and certain corporate debt securities, such as private fixed maturities. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined using relevant information generated by market transactions involving comparable securities. They are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security's duration, also taking into consideration issuer-specific credit quality and liquidity. These valuation methodologies have been studied and evaluated by the group and the resulting prices determined to be representative of exit values.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, reported secondary trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. Additional observable inputs are used when available, and as may be appropriate.

Derivatives
Derivative contracts are traded in the over-the-counter (OTC) derivative market and are classified in Level 2. The fair values of derivative assets and liabilities traded in the OTC market are determined using quantitative models that require use of the contractual terms of the derivative instruments and multiple market inputs, including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors, which are then applied to value the positions. The predominance of market inputs is actively quoted and can be validated through external sources or reliably interpolated if less observable.

The credit risk of the counterparty and of the group is considered in determining the fair values of all OTC derivative asset and liability positions, respectively, after taking into account the effects of master netting agreements and collateral arrangements. In each reporting period the group values its derivative positions using the standard swap curve and evaluates whether to adjust the embedded credit spread to reflect change in counterparty or its own credit standing.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

45. Financial risk (continued)

45.4 Fair value hierarchy (continued)

45.4.1 Valuation methods and assumptions for valuation techniques (continued)

Level 3

Level 3 investments primarily include unlisted equity securities whose traded prices are not considered liquid enough to justify Level 2 observation. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement. The group applies various due-diligence procedures, as considered appropriate, to validate these non-binding broker quotes for reasonableness, based on its understanding of the markets, including use of internally developed assumptions about inputs a market participant would use to price the security.

The group issues a significant number of investment contracts that are designated at fair value through profit or loss. These investment contracts are not quoted in active markets and their fair values are determined by using valuation techniques. A variety of factors are considered in the group's valuation techniques, including time value, credit risk (both own and counterparty), embedded derivatives (such as unit-linking features), volatility factors (including contract holder behaviour), servicing costs and activity in similar instruments. Since significant inputs are based on unobservable inputs, these investment contract liabilities are classified as Level 3 instruments in the fair value hierarchy.

At 31 March 2018 investments classified at Level 3 comprise approximately 2% (2017: 1%) of total 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 trade price	Last exchange traded price
Community property company assets	Discounted cash flow model	Capitalisation rates and discount rates
Infrastructure and development assets	Equity	Equity
	Distribution discount model, cost, mark to market, price earnings multiple and liquidation value	Interest rates and exchange traded prices
	Debt	Debt
	Discounted cash flow model	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. All Level 3 instruments are linked.

45. Financial risk (continued)

45.4 Fair value hierarchy (continued)

45.4.2 Financial assets and liabilities at fair value

Financial assets measured at fair value according to the fair value hierarchy

Rm	Fair value levels			Total fair value
	Level 1	Level 2	Level 3	
2018				
Financial assets held under multi-manager investment contracts				
Equity securities – listed	106 547	–	–	106 547
– unlisted	–	–	84	84
Preference shares – listed	332	–	–	332
Collective investment schemes	66 865	21 075	–	87 940
Debt securities – listed	196	20 308	6	20 510
– government stock	–	20 734	–	20 734
Debentures – listed	3 053	–	–	3 053
Policy of insurance	–	21 843	4 774	26 617
Money market instruments – listed	–	23 054	–	23 054
	176 993	107 014	4 864	288 871
Financial assets of insurance cell-captive facilities				
Money market instruments – listed	178	–	–	178
Balances relating to insurance contracts	–	168	–	168
	178	168	–	346
General operations				
Financial assets:				
Bonds	–	42	–	42
Money market instruments	–	80	–	80
Collective investment schemes	–	142	–	142
Derivative – forward exchange contract	–	82	–	82
ASISA investment	–	–	14	14
	–	346	14	360
Total financial assets measured at fair value	177 171	107 528	4 878	289 577
Expressed as a percentage (%)	61	37	2	100
Cash held under multi-manager investment contracts	–	7 887	–	7 887
Cash held under insurance cell-captive contracts	–	6	–	6
	–	7 893	–	7 893

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

45. Financial risk (continued)

45.4 Fair value hierarchy (continued)

45.4.2 Financial assets and liabilities at fair value (continued)

Financial assets measured at fair value according to the fair value hierarchy (continued)

	Fair value levels			Total
Rm	Level 1	Level 2	Level 3	fair value
2017				
Financial assets held under multi-manager investment contracts				
Equity securities – listed	112 582	2 301	–	114 883
– unlisted	–	24	389	413
Preference shares – listed	437	–	–	437
Collective investment schemes	68 832	2 914	–	71 746
Debt securities – listed	31	22 895	–	22 926
– government stock	358	13 378	–	13 736
Debentures – listed	3 363	–	–	3 363
– unlisted	–	3	–	3
Policy of insurance		22 492	2 382	24 874
Derivative financial instruments	–	1	–	1
Money market instruments – listed	–	19 303	–	19 303
	185 603	83 311	2 771	271 685
Financial assets of insurance cell-captive facilities				
Money market instruments – listed	172	–	–	172
Balances relating to insurance contracts	–	148	–	148
	172	148	–	320
General operations				
Financial assets:				
Bonds	–	39	–	39
Money market instruments	–	92	–	92
Collective investment schemes	–	129	–	129
ASISA investment	–	–	13	13
	–	260	13	273
Total financial assets measured at fair value	185 775	83 719	2 784	272 278
Amortised cost approximating fair value				
Expressed as a percentage (%)	68	31	1	100
Cash held under multi-manager investment contracts	–	9 813	–	9 813
	–	9 813	–	9 813

45. Financial risk (continued)

45.4 Fair value hierarchy (continued)

45.4.2 Financial assets and liabilities at fair value (continued)

Financial liabilities measured at fair value according to the fair value hierarchy (continued)

Rm	Fair value levels Level 1	Level 2	Level 3	Total fair value
2018				
Financial liabilities measured at fair value				
Financial liabilities held under multi-manager investment contracts	**–**	**291 937**	**4 888**	**296 825**
Financial liabilities of insurance cell-captive facilities	**–**	**352**	**–**	**352**
Total financial liabilities measured at fair value	**–**	**292 289**	**4 888**	**297 177**
2017				
Financial liabilities measured at fair value				
Financial liabilities held under multi-manager investment contracts	–	278 833	2 771	281 604
Financial liabilities of insurance cell-captive facilities	–	320	–	320
Total financial liabilities measured at fair value	–	279 153	2 771	281 924

45.4.3 Changes in Level 3 instruments

Summary of changes in group Level 3 instruments

Rm	Financial assets under multi-manager assets	Financial assets of cell insurance facilities	Total
Financial assets			
Opening balance at 1 April 2017	**2 771**	**–**	**2 771**
Total gains and losses recognised in profit or loss	**360**	**–**	**360**
Transfer from loans and receivables	**(118)**	**–**	**(118)**
Purchases	**2 115**	**–**	**2 115**
Sales	**(264)**	**–**	**(264)**
Closing balance at 31 March 2018	**4 864**	**–**	**4 864**
Opening balance at 1 April 2016	1 593	–	1 593
Total gains and losses recognised in profit or loss	303	–	303
Transfer from loans and receivables	338	–	338
Purchases	770	–	770
Sales	(233)	–	(233)
Closing balance at 31 March 2017	2 771	–	2 771

The financial assets and liabilities of multi-manager investment contracts are linked and all movements in these assets will be met with a converse movement in the liabilities associated. Similarly the cell-owner insurance assets and liabilities are also linked.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

46. Risk and capital management

46.1 Capital management

46.1.1 Capital management strategy

Alexander Forbes employs a disciplined capital management framework in order to maximise shareholder value through a process of planning, allocating and managing capital throughout the group. Capital planning is conducted with the aim of ensuring that the return on investment is higher than the cost of capital, as well as to balance the objectives of achieving stated growth, risk and return expectations in line with the interests of the shareholder.

The group maintains a capital buffer in line with its board-approved risk appetite, indicating the amount of excess assets above liabilities on a statutory basis. The group manages these capital buffers for the group, including its regulated entities.

While the group takes particular care in ensuring the capital adequacy of its regulated entities, both at solo and a group level, the group targets shareholder return through:

- dividend declarations in line with its dividend policy;
- share repurchase initiatives;
- investment into business and technology; and
- inorganic growth through mergers and acquisitions.

The group manages its capital planning through its board-approved capital management policy.

46.1.2 Available capital resources

The group's available capital and quality thereof is determined on a SAM basis in alignment to its tiering requirements. The group's capital supply (also known as Own Funds) is almost entirely funded by ordinary share capital offering the highest quality of capital to the group. The Group Own Funds is allocated to various tiers detailed below, of which Tier 3 consists of largely net deferred tax assets and the admissible portion of intangible assets.

Tier 1	Tier 2	Tier 3	Eligibility adjustment	Adjustment to Own Funds for pro rata interest	Eligible Own Funds to meet the SCR
2 684	–	270	(30)	(70)	2 854

While the group does not have any qualifying Tier 2 debt at the reporting date, it does have a revolving credit facility of R800 million of which R719 million is utilised at the reporting date.

46.1.3 Statutory capital basis

The South African insurance environment is in the process of transition into a new regulatory environment. As such insurers are required to calculate and report its solvency off two bases, namely the current statutory basis and the Solvency Assessment and Management (SAM) basis. SAM forms part of the newly developed Insurance Act, replacing the current Long-term Insurance Act and Short-term Insurance Act. The Group continues to monitor both bases to ensure continued compliance with each until SAM becomes effective, expected July 2018.

Entities regulated under other insurance regulations and/or in foreign jurisdictions are similarly monitored for ongoing compliance under their respective regulatory requirements.

Current statutory supervision

Long-term insurance

The calculation of capital adequacy requirement (CAR) is as required by the Long-term Insurance Act, 1998, in South Africa and calculated in terms of the guidance notes issued by the Actuarial Society of South Africa (ASSA).

The CAR is determined with reference to the guidance issued by ASSA but is subject to a minimum of R10 million or 13 weeks' operating expenses in terms of directive 140.A.i(LT) of the FSCA or 0.3% of gross policyholder liabilities. The subsidiary companies are required to hold sufficient equity and reserves to meet its CAR and can only distribute accumulated profits in excess of CAR.

For AF Investments all liabilities are linked values and no underwriting risks are assumed. The only risk to be considered is operational risk. The CAR held at reporting date was R577 million (2017: R554 million), representing an excess of assets over liabilities of 1.73 times (2017: 1.70 times).

The CAR held by Alexander Forbes Life at reporting date was R247 million (2017: R229 million), representing an excess of assets over liabilities of 2.96 times (2017: 1.67 times).

46. Risk and capital management (continued)

46.1.3 *Statutory capital basis* (continued)

Short-term insurance

The calculation of capital adequacy requirement (CAR) is as required by the Short-term Insurance Act, 1998. The CAR is subject to a minimum of R10 million. The subsidiary companies are required to hold sufficient equity and reserves to meet its CAR and can only distribute accumulated profits in excess of CAR.

The CAR held by AF Insurance at the reporting date was R125 million (2017: R121 million), representing an excess of assets over liabilities of 2.54 times (2017: 1.88 times).

SAM basis

SAM is considered principle-based regulation and is akin to Solvency II Directive that was agreed by the European Parliament in 2009. As part of the implementation process of SAM, the group has taken part in the parallel run of SAM since 2014, whereby the impact of the newly developed supervision was tested amongst insurers in South Africa. The group has therefore, in so doing, become intimately familiar with the regulations and is ready for the implementation of SAM. The group is comfortable that it is adequately capitalised to maintain solvency when SAM becomes effective during the 2018/19 financial year.

Solo supervision

The solo insurance entity solvency on a SAM basis is shown below (31 March 2017 included for comparative purposes):

	31 March 2018			31 March 2017		
Regulated entity	**Own Funds**	**SCR**	**Cover ratio**	Own Funds	SCR	Cover ratio
Alexander Forbes Insurance Company Limited	**264**	**155**	**1.70**	236	120	1.97
Alexander Forbes Investments Limited	**980**	**450**	**2.18**	953	547	1.74
Alexander Forbes Life Limited	**711**	**619**	**1.15**	419	266	1.58

AF Life's regulatory surplus has decreased during the year due to the inclusion of an asset that was previously excluded from the current statutory basis due to a dispensation granted by the FSCA. The dispensation was granted based on the transactional nature of the asset and therefore had no capital impact. However, such dispensation is not available under SAM, leading to an increase in the insurers' required capital.

Group supervision

The group is classified as an insurance group under SAM by virtue of its multiple insurance licences. As such the group applies the principles as set out under SAM for its various entities to derive the group's regulatory solvency and surplus. The following methodology is applied for various regulated and non-regulated entities:

Capital classification	**Entity type**
Insurance entities	• SA regulated insurance (short and long term) • Non-SA regulated insurance (non-equivalent jurisdictions)
Other regulated entities	• SA regulated financial entities • Non-SA regulated financial entity • Non-SA regulated insurance (equivalent jurisdictions)
13B and FAIS licensed entities	• FAIS entities (financial services providers)
Unregulated entities	• Non-regulated entities • Holding companies

The group maintains a regulatory surplus of R1.211 billion and SCR cover ratio (Own Funds/SCR) of 1.74 as at 31 March 2018, compared to R2.353 billion and 3.22 respectively as at 31 March 2017.

Other regulatory bases

Mannequin Insurance PPC Limited is a cell-captive insurance company registered in Guernsey and regulated under the Guernsey Financial Services Commission. The CAR held by Mannequin Insurance PCC Limited at reporting date was R29.2 million (2017: R35.3 million), representing an excess of assets over liabilities of 4.19 times (2017: 4.18 times).

AF Insurance Namibia is registered as an insurance entity in Namibia and is regulated by NAMFISA. The CAR held by AF Insurance Namibia at reporting date was R16.6 million (2017: R12.5 million), representing an excess of assets over liabilities of 1.84 times (2017: 2.12 times).

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

46. Risk and capital management (continued)

46.2 Enterprise-wide risk management (EWRM)

Sound risk management is an important enabler of our strategic intent, enhancing our ability to perform against our stated objectives. For us risk management is about protecting our ability to create value, and ensuring we preserve that value for our stakeholders. Our risk/return framework informs our disciplined, structured approach and processes towards strengthening the link between strategy, risk, capital and return in our aim to remain sustainable as well as a responsible corporate citizen.

Role of EWRM

The role of risk management is to help the group evaluate, monitor, oversee and manage risks across the organisation, to support overall confidence in organisational processes, systems and reporting, and to more reliably meet group objectives. In other words, risk management aims to help stakeholders take risks more intelligently, and make agile, informed, risk-based decisions towards improving business performance, building organisational resilience and growing stakeholder value.

46.2.1 Risk governance

Our risk direction, control and accountability sit with our board which holds ultimate accountability for responsible risk-taking and conduct. Senior management is responsible for developing and implementing the risk strategy by (amongst other criteria) putting in place the necessary risk architecture. Risk management is built into decision-making structures and processes at both top management and operational levels. Decisions around risk mitigation strategies within our risk appetite measures are regularly reviewed by management and also subject to review by independent parties – techniques used include stress tests to key variables and systemic shocks. We also have contingency plans in place for unexpected or worst-case scenarios.

46.2.2 Risk accountability

The group manages risk along three lines of defence:

First – Accountability for risk management

Management holds responsibility and accountability for managing risks on a day-to-day basis. Through various operational committees, management provides oversight on strategy implementation, performance measurement, risk management, company controls and governance processes. It is management's responsibility to ensure that business is conducted in line with approved strategies and business plans and that risk-taking remains within the firm's risk appetite. Management is also responsible for promoting a strong risk culture within the organisation and ensuring that decision-making considers corporate sustainability and organisational resilience.

Second – Accountability for oversight and control

Our enterprise risk management (ERM) framework, including policies and minimum standards, provides the oversight framework for risk-taking across the group. Risk and independent audit committees provide objective oversight. Risks are rigorously evaluated to ensure appropriate mitigation through frequent risk assessment and report-back, continuing engagement, monitoring of the environment and challenging of management's approach.

Third – Independent assurance

Oversight and assurance are provided by internal audit and external audit on the adequacy and effectiveness of risk management, governance and internal control within the group.

46. Risk and capital management (continued)

46.2.3 Board committee structure

The board committee structure is designed to assist the board of the company in performing its duties and responsibilities, including those for risk, governance and control. Although the board delegates certain functions to these committees, it retains ultimate responsibility for their activities.

The board has seven standing committees:

Committee	Role of the committee
Group nominations committee	The nominations committee makes recommendations to the board on the appointment of new executive, non-executive and independent directors, including making recommendations on the composition of boards in the group generally and on the balance between executive, non-executive and independent directors appointed to the boards.
Group remuneration committee	The role of the remuneration committee is to assist the board to ensure that: • the company has a remuneration policy and philosophy that is aligned with its long-term business strategy, its business objectives, its risk appetite and values; • the remuneration policy and philosophy is appropriately applied throughout the company and its subsidiaries; • the company remunerates directors and members of the group executive committees fairly and responsibly; and • the disclosure of remuneration is accurate, complete and transparent.
Group capital oversight committee	The group capital oversight committee's role is to monitor and oversee the capital management of the Alexander Forbes group, and risk-mitigation strategies, so as to assist the board in discharging its fiduciary duty to clients, investors, creditors and to the regulator.
Group acquisitions committee	The acquisitions committee was established on 19 January 2017. The objective of the committee is to review and, if appropriate, recommend acquisitions and disposals to the board.
Group risk and audit committee	The group risk and audit committee's primary objective is to assist the board with its responsibilities for the management of risk, safeguarding of assets, oversight over financial control and reporting internal controls, shareholder reporting and corporate governance, particularly relating to legislative and regulatory compliance. The audit committee's roles and responsibilities include statutory and regulatory duties as per the Companies Act, 2008 and according to the King IV Report on Corporate Governance for South Africa, 2016.
Group social, ethics and transformation committee	This committee fulfils the functions assigned to it under the Companies Act Regulations, as well as other functions that the board assigns it, including the fulfilment of the key objectives of transformation and strategies aligned therewith, as well as overseeing and monitoring activities in relation to social and economic development, good corporate citizenship, corporate social responsibility, ethical behaviour and managing environmental impact, consumer relations, and labour and employment development.
Technology modernisation committee	This committee was constituted in November 2017 and supports the group's ambition to strive for excellence across service, operational and technology enablement. This committee also monitors the group's investment in technology to ensure that the group derives the maximum value out of technology investments.

Each board committee is governed by formal written terms of reference that are reviewed annually and, at a minimum, effectively delegate certain of the board's responsibilities. The full terms of reference for each committee are available on our website.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2018

46. Risk and capital management (continued)
46.2.4 Risk appetite

Definition
Alexander Forbes's risk appetite – the amount of risk we are willing to accept in pursuit of our objectives – defines the parameters within which we can operate. Our risk appetite stipulates the aggregate levels and types of risk our firm is willing to take within its risk capacity. Our risk appetite therefore serves as a valuable reference point for important business decisions. The group seeks strategic risk and recognises that this may result in losses. The group does not seek strategic risk in excess of the stated tolerances.

Risk appetite statements and measures
The definition of our risk appetite statements and measures has recently evolved. Whereas the group previously had four core measures (capital, earnings, operational and liquidity), our risk appetite is now defined by measures for the most significant types of risk that the group confronts as a consequence of its trade.

There is now more clarity on the risks that the organisation actively seeks, avoids or accepts as well as on the balance between risk and reward.

The new definitions allow us to flag material deviations and identify and mitigate emerging risks timeously. We also have greater flexibility in setting tolerance levels as circumstances and objectives change.

Each risk appetite statement has a set of key metrics that are monitored against set thresholds on a quarterly basis. Additionally, qualitative principles regarding our appetite and expected risk behaviour have been set for each of the risk statements.

In the regulatory risk space, we have made progress in implementing a risk appetite framework for market conduct and financial crime.

Risk type	Risk appetite statements and measures
Strategic risk	The group seeks strategic risk and is willing to accept reasonable losses in pursuit of higher returns. We do not seek strategic risk in excess of our risk-bearing capacity. *Key risk indicators:* • Normalised return on equity over a five-year period • Growth in revenue • Return on capital employed • Earnings at risk (deviation from budget) • Profit margin • Cost to income ratio • Operating leverage
Operational risk	The group has limited appetite for the failure of people, processes, systems and for the impact of external events. The impacts of operational risk span across the business and will be managed by implementation of the appropriate controls. The group has zero appetite for reputational risk. *Key risk indicators:* • Staff turnover • System downtime (occurrences on key systems) • Errors and omissions • Process failures (number of erroneous transactions) • Internal fraud • External fraud • Customer complaints
Regulatory risk	We will avoid situations arising in non-compliance with laws, regulatory requirements, and codes of conduct applicable to the industries within which we operate that will result in our business model, objectives, reputation and financial soundness being compromised. The group will specifically focus on minimising its market conduct, financial crime and privacy risks. *Key risk indicators:* • Group solvency capital requirement • Market conduct • Financial crime

Discussion on credit risk, market risk and liquidity risk can be found under note 45, Financial risk management. Further, a discussion on insurance-related risks can be found under note 44, Insurance risk.

46. Risk and capital management (continued)

46.2.5 EWRM processes

Our EWRM processes are continual and comprise of the following phases that are ongoing: risk identification, measurement, prioritisation, treatment and monitoring. Established risk categories consider what the organisation wants to include in its discussion of risk and how they are defined. Risk categorisation assists in grouping risks in a structured risk management process that then allows the group to more intelligently address different risk categories. This includes the building of strategies to avoid or minimise impact. Risk category examples include business, market, credit, liquidity, operational, underwriting, etc.

46.2.6 Risk taxonomy

In this section we highlight how the group exercises oversight and manages each Level 1 risk category.

Operational risk
Operational risk is the risk of loss owing to factors such as inadequate systems, management failure, inadequate internal controls, fraud or human error. The group mitigates these risks through a sound risk management framework, systems of internal controls, internal audit and compliance functions, and other measures such as backup procedures, contingency planning and insurance.

Managing and mitigating operational risk
Operational risks are managed through the business processes by business unit management, and maintained within limits deemed appropriate for the business. Line management are the primary assurance providers on operational risk, with second-line defence consisting of a group operational risk oversight and third-line defence comprising assurance by internal and external audit.

Operational risks are typically mitigated through the implementation of appropriate controls. The group's common risk language is set out in the group-wide risk taxonomy, including the various operational risk subtypes. Formal processes have been established to facilitate the identification of operational risk which is inherent within all key processes in the group, across all geographical areas. Risk assessments are produced by business line management for key processes with key risks and associated controls. These risks and controls as identified are classified, evaluated and periodically monitored. Where specified tolerance levels are breached, remedial actions are implemented, tracked and reported on.

Internal and external audit evaluate the assessment of key operational controls cyclically and provide formal opinions on the management of key controls. These opinions are expressed in formal reports to the relevant executive and board committees. Operational risk events are also reported and managed by business areas. Appropriate key indicators are monitored across the group to ensure trends are identified and acted upon in good time. Periodic assessments are also conducted by risk specialists to obtain a group view by sub-risk types. Remedial actions are implemented, tracked and reported on to various risk committees and sub-committees of the board. Results of regular stress testing and scenario analyses are reported to senior management, control functions and the board.

Business risk
Business risk relates to the potential revenue shortfall compared to the cost base due to strategic and/or reputational reasons. From an economic capital perspective, business risk capital requirements are calculated as the potential loss arising over a one-year time frame, within a certain level of confidence, as implied by the group's chosen target rating. The group's ability to generate revenue is impacted by, among others, the external macroeconomic environment, its chosen strategy and its reputation in the markets in which it operates.

Managing and mitigation business risk
Business risks are managed during the strategic and financial planning processes where the board and executive management continuously predict the likely changes to the macroeconomic and socio-political environment, together with the industry outlook and the impact it will have on returns to shareholders.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

46. Risk and capital management (continued)

46.2.6 *Risk taxonomy* (continued)

The following actions are undertaken consistently to mitigate against business risk:

- The key response is the wider AF group strategy to diversify its source of revenue by growing its retail, institutional and emerging markets business lines.
- Investment performance controls to reduce risk of underperformance include:
- clearly defined and implemented investment philosophy and process';
- investment committee in place to oversee investment decision-making process; and
- well-resourced and experienced investment team with succession planning in place.
- Controls to reduce possible loss of new and existing business include:
- treating customers fairly initiatives;
- strong new business team;
- development of new products;
- running plausible scenario analysis;
- client retention strategies; and
- strategies to cross-sell to clients.

Strategic risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organisation's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

Managing and mitigating strategic risk

The management team in the various businesses and the group exco and group board continue to monitor these risks and seek to respond appropriately and manage them against predetermined strategic outcomes. A strategic risk profile is determined, monitored and reported upon at business unit level.

Continuous assessments are conducted by the group exco and the board on the group strategy assess how well it is tracking against plan. Strategic risks deemed to be outside the predetermined limits are either mitigated or escalated to the board for consideration. The implementation of mitigating actions is informed by an early-warning system consisting of key risk indicators which are used to understand the levels at which concern is raised to ensure management actions are implemented in a timely manner.

Legal and regulatory risk

The group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations, in the conduct of its ordinary course of business.
The directors are satisfied, based on present information and the assessed probability of claims eventually, that the group has adequate insurance programmes and provisions in place to meet such claims. However, like all businesses of our type, the risk exists that significant adverse developments in past claims, or a significant increase in the frequency of severity of future claims for errors and omissions, could have a material effect on the group's reported results. Details of the structure of the group's errors and omissions insurance programme are provided in note 29.3 to these financial statements.

46. Risk and capital management (continued)

46.2.7 Own risk and solvency assessment (ORSA)

The Prudential Authority requires all insurance companies to complete an ORSA annually as part of the Solvency Assessment and Management (SAM) regime, which will be implemented on 1 July 2018. The ORSA aims to investigate the adequacy of insurers and insurance groups' risk management and assess the group's current and future solvency under normal and severe stress scenarios.

Key results

We conducted our most recent group-level ORSA and submitted results to the Financial Sector Conduct Authority (FSCA) in November 2017. The key findings are summarised below:

- Solvency capital requirements and technical provisions during the reporting period have continuously been met, with solvency remaining within the target ranges on both the current and future capital regimes.
- The group's point-in-time capital and solvency position was strong and illustrates that the firm will continue as a going concern for the foreseeable future.
- Capital plans to meet the solvency position projected over the required planning period were assessed as appropriate including under stressed conditions. Capital planning also considered the impact of different stress events including the event of a sovereign downgrade.

The ORSA revealed the following focus areas to be targeted in the foreseeable future:

- Continuous enhancement of the efficiency and consistency in the ORSA process through strengthening the centralised risk, compliance, capital and actuarial functions
- Continuous review, implementation and embedding of risk appetite across the group and insurance entities under an ever-changing regulatory and economic environment
- Continuous strengthening of the group's control framework across the group

46.2.8 EWRM outlook

Looking forward we will continue to evolve our approach to determining appropriate risk and reward to allow for enhanced decision-making. The focus will be on strengthening and embedding risk management further into the first line, paying particular attention to the changing targeted strategic ambition, the evolving regulatory environment and growing regulatory expectations and placing focus on both quantitative and qualitative aspects of risk, governance and control. In doing so we will also look to improve our risk-monitoring tools, and grow and deepen the frequency and quality of reporting to the various governance structures within the group.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

47. Consolidated and unconsolidated entities

47.1 Consolidated entities

Material subsidiaries and associates in which the group has a financial interest.

	Entity	Nature of business	Year-end date	Economic interest 2018 %	Economic interest 2017 %
1.	**Holding companies above the operational Alexander Forbes Limited Group**				
	Alexander Forbes Acquisition Proprietary Limited	Holding company	31 March	**100**	100
	Alexander Forbes International Limited	Ultimate holding company for international group	31 March	**100**	100
2.	**Holding companies within the Alexander Forbes Limited**				
	Alexander Forbes Limited	Holding company	31 March	**90**	90
	Alexander Forbes Emerging Markets Proprietary Limited	Holding company for African operations	31 March	**100**	100
3.	**Operational companies within the Alexander Forbes Limited Group**				
	Alexander Forbes Administration Services Proprietary Limited	Administration functions and risk-related services	31 March	**100**	100
	Alexander Forbes Direct Proprietary Limited	Direct marketing	31 March	**100**	100
	Alexander Forbes Financial Planning Consultants Proprietary Limited	Financial planning	31 March	**100**	100
	Alexander Forbes Financial Services Holdings Proprietary Limited	Provision of financial services	31 March	**100**	100
	Alexander Forbes Group & Technology Services Proprietary Limited[1]	Technology services	31 March	**100**	100
	Alexander Forbes Group Services Proprietary Limited	Administration and support services	31 March	**100**	100
	Alexander Forbes Health Proprietary Limited	Healthcare, wellness and related consulting, broking and actuarial services	31 March	**100**	100
	Alexander Forbes Individual Client Administration Services Proprietary Limited	Financial services administration	31 March	**100**	100
	Alexander Forbes Insurance Company Limited	Short-term personal lines insurer	31 March	**100**	100
	Alexander Forbes Life Limited	Long-term insurer	31 March	**100**	100
	Alexander Forbes Retail Client Administration Services Proprietary Limited	General trading and investment	31 March	**100**	100
	Alexander Forbes Retail Holdings Proprietary Limited	Holding company for retail business	31 March	**100**	100
	Caveo Fund Solutions Proprietary Limited	Hedge fund management company	31 March	**100**	100
	Faranani Risks Solutions Proprietary Limited	Insurance broking and related services	31 March	**100**	100
	Alexander Forbes Investments Holdings Limited	Multi-manager investment	31 March	**100**	100
	Alexander Forbes Investments Administration Proprietary Limited	Investment administrative services provider	31 March	**100**	100
	Alexander Forbes Investments Unit Trusts Limited	Unit trust management	31 March	**100**	100
	Seniors Finance Proprietary Limited	Equity housing finance	31 March	**86.7**	86.7

47. Consolidated and unconsolidated entities (continued)

47.1 Consolidated entities (continued)

Entity	Nature of business	Year-end date	Economic interest 2018 %	Economic interest 2017 %
Emerging markets				
Alexander Forbes Financial Services (Botswana) Proprietary Limited	Financial services (Botswana)	31 March	**67**	67
Alexander Forbes Asset Consultants Proprietary Limited	Financial services (Botswana)	31 March	**74**	74
Alexander Forbes Financial Services (U) Limited	Financial services (Uganda)	31 December	**51**	51
Alexander Forbes Financial Services (East Africa) Limited[2]	Financial services (Kenya)	31 March	**–**	40
Alexander Forbes Insurance Company Namibia Proprietary Limited	Financial services and risk services (Namibia)	31 March	**75**	75
Alexander Forbes Investments Namibia Limited	Multi-manager investment (Namibia)	31 March	**75**	75
Alexander Forbes Consulting Actuaries Nigeria Limited	Financial services (Nigeria)	31 March	**100**	100
Zamara Actuaries, Administrators and Consultants Limited	Financial services (Kenya)	31 March	**40**	40
United Kingdom/Europe				
Alexander Forbes Channel Islands Limited	Financial services	31 March	**100**	100
Alexander Forbes Group Jersey Limited	Holding company in Jersey	31 March	**100**	100
Alexander Forbes Investments Jersey Limited	Multi-manager investment	31 March	**100**	100
Associates				
Zamara Risk and Insurance Brokers Limited[1]	Risk services (Kenya)	31 December[3]	**40**	40
Alexander Forbes Financial Services Zambia	Financial services (Zambia)	31 December[3]	**49**	49

[1] Dormant.
[2] Entity held for sale.
[3] Entity has differing year-end, however is immaterial to the group, thus no material impact upon consolidation.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2018

47. Consolidated and unconsolidated entities (continued)

47.2 Unconsolidated structured entities

While the group consolidates certain structured entities other structured entities are not consolidated owing to the group not having an exposure to variability in returns and the power to govern the activities that affect this exposure.

The unconsolidated structured entities in which the group has an interest are:

- Alexander Forbes Staff Share Trust
- Certain collective investment schemes of which the group is the fund manager and has an investment
- The Alexander Forbes Community Trust

Alexander Forbes Staff Share Trust (the staff share trust)

The Staff Share Trust was formed to provide a vehicle for employee investment in the ordinary shares of AFGH. While the trust is not consolidated, the group had historically invested in preference shares of R34 million issued by the trust, which were redeemed in a prior financial year. The group provides no financial assistance to the trust nor are there any contractual obligations to provide assistance to the trust. The trust is finalising settlements to beneficiaries and will be deregistered on completion of this exercise.

Unconsolidated collective investment schemes

The group manages seven collective investment schemes as fund manager which are not consolidated. It also invests certain policyholder assets with these trusts. The value of these investments at 31 March 2018 is R158 million (2017: R162 million) (1.97% of the total assets in the schemes (2017: 1.75%)), included in financial assets of multi-manager investment contracts on the statement of financial position. The group provides no financial assistance to the schemes nor is there any contractual obligation to provide assistance to the scheme.

***Alexander* Forbes Community Trust**

The trust was established on 26 May 2003 as part of a black economic empowerment partnership between Alexander Forbes Limited and Shanduka Proprietary Limited. The board of trustees constitutes mainly independent trustees who direct the relevant activities of the trust.

The objective of the trust is to empower and assist black people in areas aligned with the objectives of Alexander Forbes, namely:

- the aged;
- the disabled;
- persons infected or affected by HIV/AIDS;
- women; and
- education.

47.3 Consolidated structured entities

The group consolidates certain structured entities due to having an exposure to variability in returns and the power to govern the activities that affect this exposure.

The consolidated structured entities in which the group has an interest are:

- Alexander Forbes Forfeitable Share Plan Trust; and
- Alexander Forbes Isilulu Trust.

Alexander Forbes Forfeitable Share Plan Trust

The Alexander Forbes Forfeitable Share Plan Trust (FSP Trust) was established to promote an equitable and diversity-friendly workplace that encourages share ownership by employees at all levels of the business across the Alexander Forbes Group. In addition, the establishment of the FSP Trust was intended to help entrench a culture of share ownership amongst the employees within the Alexander Forbes Group. It is believed that employee share ownership will incentivise employees to align their interests with those of the Alexander Forbes Group's shareholders and to attract and retain employees. Thus, the object of the FSP Trust is to facilitate ownership by each participant of restricted forfeitable shares on the terms of the Trust Deed (as read with the Rules).

Alexander Forbes Isilulu Trust

In order to address certain broad-based black economic empowerment objectives, Alexander Forbes Group Holdings Limited (Alexander Forbes) has established the Alexander Forbes Isilulu Trust (Isilulu Trust) for the benefit of its qualifying employees, particularly qualifying black female employees. The establishment of the Isilulu Trust was intended to help entrench a culture of share ownership amongst the employees within the Alexander Forbes Group. It is believed that employee share ownership will incentivise employees to align their interests with those of the Alexander Forbes Group's shareholders and to attract and retain employees.

48. Subsidiaries with material non-controlling interest

The group consolidates certain entities with material subsidiaries. The summarised financial information of these entities is disclosed below.

The information represents 100% of the entity's results and has not been adjusted for the non-controlling interest share. Intercompany transactions and balances have not been eliminated.

	Alexander Forbes Insurance Company Namibia Limited		Alexander Forbes Investment Solutions Namibia Limited		Alexander Forbes Financial Services (East Africa)* Proprietary Limited		Alexander Forbes Limited	
Rm	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Balance sheet information								
Total assets	**809**	699	**3 745**	3 623	**63**	67	**7 520**	7 187
Total liabilities	**(769)**	(672)	**(3 728)**	(3 608)	**(12)**	(11)	**(1 239)**	(1 411)
Total net assets	**40**	27	**17**	15	**51**	56	**6 281**	5 776
Summarised income statement								
Revenue	**61**	54	**20**	18	**81**	84	**467**	495
Profit/(loss) before tax	**21**	17	**12**	11	**19**	(63)	**522**	307
Tax (expense)/credit	**(7)**	(5)	**–**	–	**(3)**	20	**(21)**	(8)
Profit after tax	**14**	12	**12**	11	**16**	(43)	**501**	299
Other comprehensive income	**–**	–	**–**	–	**–**	–	**4**	(1)
Total comprehensive income	**14**	12	**12**	11	**16**	(43)	**505**	298
Dividends paid to non-controlling interest	**8**	10	**–**	–	**4**	–	**–**	75
Summarised cash flows								
Cash from operating activities	**37**	28	**2**	4	**4**	15	**120**	(943)
Cash from investing activities	**(1)**	(2)	**–**	(3)	**–**	(1)	**18**	(1)
Cash from financing activities	**9**	–	**(1)**	–	**–**	(3)	**(97)**	940
Net increase/(decrease) in cash and cash equivalents	**45**	26	**1**	1	**4**	11	**41**	(4)
Cash and cash equivalents at the beginning of the year	**27**	172	**14**	13	**11**	4	**131**	135
Exchange losses on cash and cash equivalents	**–**	–	**–**	–	**–**	(4)	**–**	–
Cash and cash equivalents at year-end	**72**	198	**15**	14	**15**	11	**172**	131

* Alexander Forbes Financial Services (East Africa) is included in discontinued operations in both the current year and the prior year.

49. Events after reporting period

Settlement of finance lease liability

During March 2018 the group successfully negotiated a settlement of the future minimum lease payments. This payment was made during April 2018, refer to note 30: Finance lease liability.

COMPANY INCOME STATEMENT

for the year ended 31 March 2018

Rm	Notes	2018	2017
Revenue	1	**733**	531
Operating expenses		**(9)**	(16)
Operating profit		**724**	515
Non-trading and capital items	2	**5**	–
Profit before taxation		**729**	515
Income tax expense		**–**	–
Profit for the year		**729**	515

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2018

Rm	2018	2017
Profit for the year	**729**	515
Other comprehensive profit for the year	**–**	–
Total comprehensive profit for the year	**729**	515

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2018

Rm	Share capital	Non-distributable reserves	Accumulated profit/(loss)	Total equity
At 1 April 2016	6 192	(143)	(1)	6 048
Dividends paid	–	–	(512)	(512)
Share-based payment	–	12	–	12
Profit for the year	–	–	515	515
At 31 March 2017	**6 192**	**(131)**	**2**	**6 063**
Dividends paid	**–**	**–**	**(841)**	**(841)**
Share-based payment	**–**	**8**	**–**	**8**
Settlement of share-based payment reserve	**–**	**(39)**	**–**	**(39)**
Transfer to accumulated profits[1]	**–**	**178**	**(178)**	**–**
Profit for the year	**–**	**–**	**729**	**729**
At 31 March 2018	**6 192**	**16**	**(288)**	**5 920**

[1] During the year the entity transferred the redemption reserve amounting to R178 million into accumulated loss. This reserve arose in prior years on the redemption of preference shares. The transfer has a nil impact on total equity; however, results in a reduction in accumulated profits.

COMPANY STATEMENT OF FINANCIAL POSITION

at 31 March 2018

Rm	Notes	2018	2017
ASSETS			
Investment in subsidiary	3	**5 748**	5 748
Receivables from group companies		**114**	316
Cash and cash equivalents		**59**	7
Total assets		**5 921**	6 071
EQUITY AND LIABILITIES			
Share capital	4	**6 192**	6 192
Non-distributable reserves		**16**	(131)
Accumulated (loss)/profit		**(288)**	2
Total equity		**5 920**	6 063
Other payables		**1**	8
Total liabilities		**1**	8
Total equity and liabilities		**5 921**	6 071

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2018

Rm	Notes	2018	2017
Cash flows from operating activities			
Cash utilised in operations	5	**(11)**	(14)
Interest received	1	**1**	1
Dividend received	1	**719**	530
Dividends paid		**(841)**	(512)
Net cash (outflow)/inflow from operating activities		**(132)**	5
Cash flows from investing activities			
Cash inflow/(outflows) to group companies	6.2	**210**	(2)
Settlement of share incentive schemes		**(26)**	–
Net cash inflow/(outflow) from financing activities		**184**	(2)
Increase in cash and cash equivalents		**52**	3
Cash and cash equivalents at the beginning of the year		**7**	4
Cash and cash equivalents at the end of the year		**59**	7

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2018

Rm	2018	2017
1. Revenue		
Interest income	**1**	1
Dividends received from subsidiary	**719**	530
Dividend in specie	**13**	–
	733	531
2. Non-trading and capital items		
Corporate transaction	**5**	–
	5	–
3. Investment in subsidiary		
Carrying value	**5 748**	5 748

The investment in subsidiary relates to Alexander Forbes Acquisition Proprietary Limited and is carried at cost.

Rm	2018	2017
4. Share capital		
Share capital at no par value	**6 192**	6 192

	2018		2017	
	Number of shares '000	**Share capital at no par value Rm**	Number of shares '000	Share capital at no par value Rm
4.1 Share capital				
Authorised				
Ordinary shares no par value	**2 500 000**	**–**	2 500 000	–
Non-convertible redeemable B preference shares	**45 000**	**–**	45 000	–
Issued				
Ordinary shares no par value	**1 341 427**	**6 192**	1 341 427	6 192
	1 341 427	**6 192**	1 341 427	6 192
4.2 Movement in share capital				
Opening balance	**1 341 427**	**6 192**	1 341 427	6 192
Shares issued to the Employee Share Option Plan*	**–**	**–**	–	–
Closing balance	**1 341 427**	**6 192**	1 341 427	6 192

* Refer to note 4.3 below.

4.3 BEE Employee Share Option Plan (ESOP)

In order to address certain broad-based black economic empowerment imperatives the group has established a BEE Employee Share Option Plan for the benefit of its qualifying employees, and particularly qualifying black female employees. The establishment of the ESOP is intended to help entrench a culture of share ownership amongst the employees within the group. It is believed that employee share ownership will incentivise employees to align their interests with those of the group's shareholders, and to attract and retain talented employees and managers.

The Isilulu Trust (trust) was set up as the vehicle through which the ESOP will operate. Alexander Forbes issued 39 070 700 ordinary shares to the trust at one cent per share and rank pari passu with other ordinary shares, with the exception of dividend rights for these shares.

There are two types of beneficiaries, Pool A beneficiaries and Pool B beneficiaries. Pool A beneficiaries are black women and are entitled to 70% of the trust income available for distribution. Pool B beneficiaries are all beneficiaries not in pool A and are entitled to 30% of the trust income available for distribution.

The shares are entitled to 30% of the dividends distributed to ordinary shareholders. The trust is restricted from disposing of or encumbering these shares during the term of the trust. Dividends distributed by the trust are treated as employee benefits. Dividend income earned by the trust and subsequently distributed to qualifying employees was R6 million (2017: R3.9 million) during the current financial year.

The trust is restricted from disposing or encumbering the shares held. AFGH has a call option in terms of which the shares may be repurchased under specific criteria relating to change in control, change in BEE rating and various other provisions. The repurchase price will be calculated in terms of a repurchase formula specifically defined in the agreements. The group does not currently anticipate executing the repurchase for the next 10 years.

4.4 Non-distributable reserve

Rm	Note	2018	2017
Redemption reserve[1]		–	178
Share-based payment reserve	4.4.1	**16**	47
Non-distributable reserves		**16**	225

4.4.1 Share-based payment reserve

Rm	Note	2018	2017
Opening balance		**47**	35
Charged to group entities		**8**	12
Settlement of share incentive schemes[2]		**(39)**	–
Cash settlement		**(26)**	–
Settlement in shares received in specie	1	**(13)**	–
Closing balance		**16**	47

1. During the year the group transferred the redemption reserve amounting to R178 million into accumulated profits. This reserve arose in prior years on the redemption of historic preference shares. The transfer has nil impact on total equity, however, results in a reduction in accumulated profits.
2. During the year R26 million of the conditional share incentive scheme was settled in cash and R13 million of the forfeitable share scheme was settled with the financial asset dividend received in specie as detailed in note 1. Both amounts related to the 2014 tranche.

5. Cash utilised in operations

Rm	2018	2017
Profit before taxation	**729**	515
Items disclosed separately:		
Investment income	**(733)**	(531)
Movement in working capital balances		
Payables	**(7)**	2
	(11)	(14)

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2018

Rm	2018	2017

6. Related party disclosure

List of related party relationships
Major shareholders
The owners of the company are detailed in Annexure A.

Mercer Africa Limited, a subsidiary of the US-listed Marsh & McLennan Companies Inc., holds a 33% interest in the company.

Subsidiaries
The company has a 100% interest in Alexander Forbes Acquisition Proprietary Limited.

Consolidated structured entities
The company consolidates certain structured entities due to having an exposure to variability in returns and the power to govern the activities that affect this exposure.

The consolidated structured entities in which the company has an interest are:

- Alexander Forbes Forfeitable Share Plan Trust; and
- Alexander Forbes Isilulu Trust.

Key management personnel
Details of key management personnel are included in the group financial statements.

6.1 Summary of related party transactions

Transactions between related parties comprise non-interest-bearing loans.

6.2 Transactions with subsidiaries

Rm	2018	2017
Loan balances classified as intercompany loans		
Opening balance	**316**	302
Cash (inflow)/outflow to group companies	**(210)**	2
Cash transferred (from)/to group companies	**(276)**	2
Loan advanced to group companies	**88**	–
Share-based payments settlement	**(22)**	–
Share-based payments	**8**	12
Closing balance	**114**	316

7. Events after reporting period

No matter which is material to the financial affairs of the company has occurred between the balance sheet date and the date of approval of the financial statements.

ANNEXURE A – SHAREHOLDING INFORMATION

Below is an analysis of the shareholding at 31 March 2018:

	2018	
	Analysis of shareholders	Number of shares as a % of total
Beneficial shareholders holding 5% or more of the company's listed ordinary share capital		
Mercer Africa Limited	442 801 129	33.01
African Rainbow Capital	119 357 139	8.90
Government Employees Pension Fund	81 675 139	6.09
	643 833 407	48.00
Investment management interests above 3% of the company's listed ordinary share capital		
Public Investment Corporation Limited	74 422 014	5.55
Allan Gray Proprietary Limited	73 390 678	5.47
GIC Private Limited	69 726 731	5.20
Abax Investments Proprietary Limited	65 485 372	4.88
STANLIB Asset Management Limited	64 151 999	4.78
Visio Capital Management Proprietary Limited	43 198 650	3.22
Kagiso Asset Management Proprietary Limited	40 757 181	3.04
	431 132 625	32.14

Shareholding spread at 31 March 2018

Size of holding	Number of shareholders	% of total	Number of shares	% of total
1 – 1 000	1 576	52.43	432 767	0.03
1 001 – 10 000	717	23.85	2 629 247	0.20
10 001 – 100 000	368	12.24	13 590 247	1.01
100 001 – 1 000 000	247	8.22	82 377 314	6.14
1 000 001 +	98	3.26	1 242 397 388	92.62
	3 006	100.00	1 341 426 963	100.00

Shareholder type at 31 March 2018

	Shareholders and percentage of issued share capital		
	Number of shareholders	Number of shares	% of total
Public	3 001	808 756 783	60.29
Non-public	5	532 670 180	39.71
Mercer Africa Limited	1	442 801 129	33.01
Alexander Forbes Isilulu Trust	1	39 070 700	2.91
Alexander Forbes Acquisition Proprietary Limited	1	40 073 351	2.99
Alexander Forbes FSP Trust	1	6 273 874	0.47
Alexander Forbes Community Trust	1	4 451 126	0.33
Total	3 006	1 341 426 963	100.00

ANNEXURE A – SHAREHOLDING INFORMATION (CONTINUED)

Below is an analysis of the shareholding at 31 March 2017:

	2017	
	Analysis of shareholders	Number of shares as a % of total
Beneficial shareholders holding 5% or more of the company's listed ordinary share capital		
Mercer Africa Limited	442 801 129	33.01
Liberty Life Association of Africa Limited	105 131 776	7.84
Government Employees Pension Fund	83 130 604	6.19
	631 063 509	47.04
Investment management interests above 3% of the company's listed ordinary share capital		
Stanlib Asset Management Limited	150 934 006	11.25
Allan Gray Proprietary Limited	112 131 557	8.36
Public Investment Corporation Limited	74 562 928	5.56
GIC Private Limited	68 665 238	5.12
Abax Investments Proprietary Limited	67 969 131	5.07
	474 262 860	35.36

Shareholding spread at 31 March 2017

Size of holding	Number of shareholders	% of total	Number of shares	% of total
1 – 1 000	1 471	46.69	408 088	0.03
1 001 – 10 000	889	28.21	3 183 291	0.24
10 001 – 100 000	399	12.66	14 628 211	1.09
100 001 – 1 000 000	282	8.95	97 461 940	7.26
1 000 001 +	110	3.49	1 225 745 433	91.38
	3 151	100.00	1 341 426 963	100.00

Shareholder type at 31 March 2017

	Shareholders and percentage of issued share capital		
	Number of shareholders	Number of shares	% of total
Public	3 141	849 187 899	63.31
Non-public	10	492 239 064	36.69
Mercer Africa Limited	1	442 801 129	33.01
Alexander Forbes Isilulu Trust	1	39 070 700	2.91
Alexander Forbes FSP Trust	1	3 352 723	0.25
Alexander Forbes Community Trust	1	4 451 126	0.33
Executive directors and officers	6	2 563 386	0.19
Total	3 151	1 341 426 963	100.0

GLOSSARY

Operating income net of direct expenses (operating income)	This 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 long-term and short-term insurance operations.
Consulting	Includes actuarial consulting, healthcare actuarial and consulting, as well as fund administration and consulting to standalone retirement funds.
Cost-to-income ratio	The cost-to-income ratio is measured as the operating expense (which may be calculated as the difference between operating income and operating profit before non-trading items) divided by the operating income net of direct expenses.
Dividend cover	The dividend cover reflects the number of times that the earnings of the group will cover the final declared dividend for the period. The cover ratio may be calculated by dividing the normalised headline earnings per share by the interim and final dividend declared for the period.
EBITDA	The group calculates EBITDA by taking operating profit, adding back the depreciation and amortisation of tangible and intangible assets (including the impairment of goodwill and software intangible assets).
JIBAR	Johannesburg Interbank Average Rate
Retirements	Includes fund administration and consulting to umbrella retirement funds and beneficiary funds.
Group risk	Group risk and disability insurance through Alexander Forbes Life provided to corporates and retirement funds.
Wealth and investments	The Wealth and investments segment of the retail business is focused on generating revenue through the offering of financial advice, and the administration and management of investments. This segment incorporates financial planning consultants (FPCs), AF Individual Client Administration (AFICA), AF Preservation Fund and the retail assets under management in Investments.
Retail insurance	The Retail insurance businesses comprise AF Insurance, which provides short-term insurance solutions to individuals, and the AF Life individual insurance business.
Total shareholder return	The principle of total shareholder return is to measure the return that would be achieved by a shareholder who invests in the group on the first day of the financial year and disinvests on the last date of the year. The return includes any cash flows received by the shareholder during this period.
Profit from operations	Profit from operations before share scheme costs, property lease adjustments and non-trading and capital items.
Normalised segmental results	The group's segmental results are reflected to include the normalised results which is the basis upon which management manages the group and reflects the economic substance of the group's performance. The adjustments between the IFRS summary consolidated income statement and the normalised results are as follows: ■ Accounting for property lease ■ Amortisation of intangible assets arising from business combination ■ Reported loss arising from accounting for policyholder investment in treasury shares ■ Professional indemnity insurance cell-captive results ■ Investment income and taxation payable on behalf of policyholders

ADMINISTRATION

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