Alexander Forbes Group Holdings Limited

Unaudited interim results and cash dividend announcement for the six months ended 30 September 2018

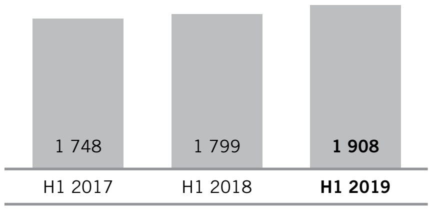
ALEXANDERFORBES
Securing your financial well-being

Operating income

R'million

1 908

+6%

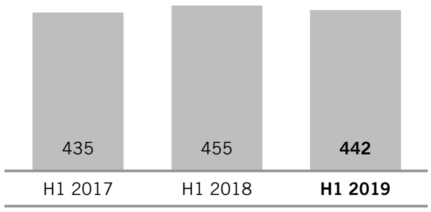


Profit from operations

R'million

442

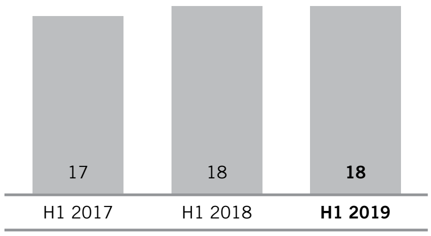
-3%



Interim dividend

Cents per share

18c



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Johannesburg (South Africa), 11 December 2018: Alexander Forbes Group Holdings Limited (JSE share code: AFH) today announced interim results and cash dividend declaration for the six months ended 30 September 2018.

Executive overview

Alexander Forbes is dedicated to delivering outstanding employee benefits solutions, administrative services and investment management solutions for institutional clients and to securing the financial well-being of individual members. We do this by offering a broad range of retirement, consulting, asset management, insurance and wealth management solutions.

The operating environment has been difficult over the reporting period, with the domestic economy having entered a technical recession. Underlying economic activity remains weak due to low business and consumer confidence combined with sustained levels of high formal unemployment. Broad-based job shedding in all sectors has resulted in fewer members added for retirement benefits in formal employment.

In an increasingly competitive and low growth environment, Alexander Forbes continues to be a trusted advisor to our customers by leveraging our core strengths in employee benefits, administrative services and investment management solutions. These core strengths are complemented with innovative product offerings, member education, enhanced member interaction tools and improved customer service levels.

Under the leadership of Dawie de Villiers, Alexander Forbes' newly appointed group chief executive, the group is reviewing its market positioning and business model to unlock the inherent value potential within the group. The review will focus on strengthening our competitive position in the employee benefits, savings and retirement markets and position the business appropriately for profitable growth together with commensurate returns on capital invested.

Highlights

- Operating income increased by 6% to R1 908 million with resilient performance across key business areas, largely attributable to:
  - Consulting and retirements up 7%
  - Investments up 16%
  - Emerging markets up 10%.
- The group concluded a review of the strategic roadmap and related projects within the IT programme which resulted in:
  - the termination of the contract with the primary implementation partner
  - R287 million impairment of capitalised software development assets
  - R52 million one-off operating expenses relating to the termination of the contract.
- Profit from operations before non-trading and capital items is down 3% to R442 million:
  - excluding the one-off operating expense of R52 million, the profit from operations of the group would be 9% higher than the comparable prior-year period.
- Profit from continuing operations for the period was down 115%, reflecting a loss of R45 million.
- The business continues to generate strong cash flows, reporting a 5% year-on-year increase in cash generated from operations to R492 million.
- An interim dividend of 18 cents per share has been declared reflecting the group's optimism with regards to the sustainability of cash flows.

OVERVIEW OF FINANCIAL RESULTS

Financial highlights

In millions of South African rands (Rm)	2018/2017 % change	Unaudited Six months ended 30 September 2018	2017	2016
Operating income[1] (from continuing operations)	6	**1 908**	1 799	1 748
Profit from operations (before non-trading and capital items)	(3)	**442**	455	435
Trading margin	(210 bps)	**23.2%**	25.3%	24.9%
Operating leverage[2]	(360 bps)	**(3.0%)**	0.6%	0.1%
(Loss)/profit from continuing operations	(115)	**(45)**	309	306
Headline earnings per share[3] (cents)	(23)	**16.7**	21.7	27.0
Normalised headline earnings per share (cents)	(24)	**19.2**	25.1	30.8
Interim dividend (cents)	–	**18**	18	17
Cash generated (from continuing operations)	5	**492**	470	490
Closing AuA and AuM (in billions of South African rands)	2	**371**	363	342

1. Operating income represents revenue net of direct expenses.
2. Operating leverage is defined as the difference in growth of operating income against growth of operating expenses.
3. The weighted average number of shares in issue (net of treasury shares) decreased to 1 245 million (2017: 1 279 million) due to the share buy-back programme implemented over the last 12 months.

Financial review

Operating income

The 6% year-on-year increase in operating income from continuing operations to R1 908 million reflects the resilience of Alexander Forbes in the current economic climate. A number of business initiatives are showing results including:

- 8% increase in operating income in healthcare consulting due to an increase in the regulated cap commission income and new business wins;
- Improved product mix as well as closer collaboration with Mercer in our Investments business resulting in a 16% growth in operating income;
- 4% growth in gross written premiums and improvements in the loss ratio in the short-term insurance segment resulting in an 8% increase in operating income; and
- 10% growth in the Emerging markets business led by the Retirements segment in Botswana.

Despite a 16% increase in annualised premium income in the Group risk segment, the operating income was impacted by higher reserves related to the increase in disability claims experience.

Operating expenses

The increase in operating expenses of 9% is largely attributable to the costs incurred for the termination of the IT contract with the primary implementation partner. The corresponding operating expense of R52 million is due to the ramping down of resources assigned to the project as well as the settlement agreed for the termination of the contract. Excluding this expense, the group's operating expenses would have been contained to 5% on the comparable period in the prior year. The cost-to-income ratio for the period of 76.8% has deteriorated from 74.7% in the comparable prior-year period. Excluding the costs associated with the termination of the IT contract the cost-to-income ratio would have decreased to 74.1%.

Profit from operations (before non-trading and capital items)

Profit from operations before non-trading and capital items has decreased by 3% to R442 million compared to the first six months of last year. Excluding the above-mentioned R52 million operating expenses corresponding to the termination of the IT contract, profit from operations would be R494 million, representing an increase of 9% over the comparable prior-year period.

Non-trading and capital items

Non-trading and capital items increased substantially to R385 million (2017: R73 million), as a result of the impairment of capitalised software development assets of R287 million. The impairment of the software development assets follows the group's review of the IT programme and includes the impairment of all development associated with the primary implementation partner. The non-trading and capital items also include the ongoing accounting for amortisation of intangible assets amounting to R34 million (2017: R46 million) as well as the results of the insurance cell-captive facility which are consolidated into the group's results. The accounting for the amortisation and impairment has no impact on the cash flows of the group during the period.

Investment income

Investment income, which is earned from the regulatory capital and surplus cash position of the group, declined by

OVERVIEW OF FINANCIAL RESULTS (CONTINUED)

R43 million, down 30% to R100 million from the comparable prior-year period due to lower surplus cash, largely as a result of the distribution of this cash to shareholders. In addition, investment income of R13 million (2017: R14 million) related to individual policyholder investments is recorded in the group's income statement due to the fund level taxes and for which an equal tax liability is raised. This policyholder income (and related tax liability) is excluded from our normalised earnings when assessing the group's own investment income.

Finance costs

The finance costs of R36 million (2017: R48 million) are largely due to costs associated with the group's revolving credit facility. The facility is linked to the JIBAR interest rate and the borrowings against this facility remain unchanged from the year-end at R719 million. The decline in finance costs is due to the decrease in the hedge cost associated with the IT systems development.

Reported profit arising from accounting for policyholder investments in treasury shares

The reported profit of R20 million (2017: loss of R11 million) arising from the accounting for policyholder investments as treasury shares for the period is separately disclosed on the face of the income statement. In terms of International Financial Reporting Standards (IFRS), any Alexander Forbes shares acquired by underlying asset managers and held by the group's multi-manager investment subsidiary for policyholders (the shares) are required to be accounted for in the group's consolidated financial statements as treasury shares and results in the elimination of any fair value gains or losses made on the shares. Refer to note 14. This accounting treatment has the effect that fair value movements in respect of linked investment policy assets and liabilities that would normally be off-set (and economically should be off-set) are not being matched in the income statement. The resultant mismatch between the asset and liability movement does not reflect the economic substance of the transactions. The impact of this mismatch results in an accounting profit or loss that is reported in the group's consolidated income statement, whereas no actual economic profit or loss will ever be realised by the group.

Profit before taxation

After non-trading and capital items, finance charges and the effect of the policyholder investments explained above, the group's profit before taxation from continuing operations of R141 million is 70% lower than the comparable prior-year period. The effective tax rate excluding the policyholder tax is 135% largely due to the non-deductible impairment of capitalised software development assets.

This resulted in a loss from continuing operations of R45 million (2017: profit of R309 million).

Headline earnings

Excluding the impairment of software development assets, the group reported headline earnings of R208 million, representing a 25% decline on the comparable prior-year period. The weighted average number of shares decreased 3% to 1 245 million (2017: 1 279 million) as a result of the share buy-back programme which was approved by shareholders and implemented over the last 12 months. Headline earnings per share decreased by 23% to 16.7 cents per share (2017: 21.7 cents per share).

Cash flow and capital resources

The group's cash flows continue to be predictably strong with cash generated from operations of R492 million up 5% against the comparable period last year. The group maintains a surplus cash balance of R1.2 billion after the annual dividend of R307 million paid to shareholders during the period.

The financial position of the group remains strong and all regulated entities within the group comply with current solvency, liquidity and regulatory capital adequacy requirements. As at 30 September 2018 the consolidated regulatory capital requirement of the group was R1.6 billion which is in line with the balance at 31 March 2018. Using the measures and interpretations under the Solvency Assessment and Management (SAM) standard, the group has a surplus of R1.1 billion (before the proposed interim dividend distribution).

Interim dividend

Taking into account the group's current and projected regulatory position, the available cash in the group as well as the highly cash-generative nature of the group, a dividend declaration has been considered.

The board of directors have declared an interim gross cash dividend of 18 cents (14.4 cents net of dividend withholding tax) per ordinary share for the six months ended 30 September 2018, unchanged from the comparable prior-year period.

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, 8 January 2019
- Shares commence trading 'ex' dividend: Wednesday, 9 January 2019
- Record date: Friday, 11 January 2019
- Payment date: Monday, 14 January 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 9 January 2019 and Friday, 11 January 2019, both days inclusive.

DIVISIONAL REVIEW OF OPERATIONS

Divisional review of operations

During the financial year ended 31 March 2018 the group decided to align its financial reporting with the way it operates and to reflect its operational focus, performance management and support structures within the business. The group reports its internal segmental reporting as follows:

Institutional:
- Corporate & employee benefits
- Investments

Retail:
- Wealth and investments
- Retail insurance

Emerging markets

Administration only

Corporate

To allow for year-on-year segment report comparison, the 2017 interim information has been adjusted to reflect these changes retrospectively.

Institutional clients

Corporate & employee benefits

Corporate & employee benefits provides retirements administration, asset and actuarial consulting, healthcare consulting and administration, as well as group risk solutions to our institutional clients.

	Operating income net of direct expenses			Profit from operations before non-trading and capital items		
Rm	Sept 2018	%	Sept 2017	Sept 2018	%	Sept 2017
Consulting and retirements	**585**	7	545	**81**	(11)	91
Group risk	**27**	(29)	38	**(3)**	<(100)	15
Corporate & employee benefits	**612**	5	583	**78**	(26)	106

Corporate & employee benefits delivered a 5% growth in operating income to R612 million. The operating income of this division was negatively impacted by the South African macroeconomic environment and a further decline of the formal workforce. Profit from operations before non-trading and capital items declined 26% to R78 million.

DIVISIONAL REVIEW OF OPERATIONS (CONTINUED)

Consulting and retirements

This segment includes consulting and actuarial, healthcare consulting and retirements.

Our consulting teams provide advice to our clients with comprehensive employee benefits solutions which assist in embedding sustainable long-term relationships and trust. Greater success can be attributed to closer collaboration with Mercer to deliver a global benefits management proposition to both Alexander Forbes and Mercer global clients.

The operating income from consulting and actuarial increased 5% when compared to the comparable prior-year period, largely attributable to the renewed focus on multicarrier consulting and the full year financial impact of client wins from the previous financial year.

Operating income from the healthcare consulting business increased 8% when compared to the comparable prior-year period, resulting from an increase in the regulated cap for commission income for broking services and annualised value of new business wins in the previous financial year. Strategic partnerships with external parties that were concluded in the previous financial year are making a positive contribution, particularly in our health risk management business where we focus on managing absenteeism and incapacity in the workplace.

Alexander Forbes Retirement Funds (AFRF), which is reported under our Retirements segment, remains a market leader in the umbrella funds industry providing relevant and cost-effective solutions to the South African market. Operating income from Retirements increased by 9% year-on-year, largely driven by conversions from Administration only clients. This growth has resulted in the increase in the number of active member records up 1% year-on-year and the growth in the number of umbrella funds clients (participating employers), up 5% year-on-year.

Closing assets under management (AuM) for the umbrella funds increased by 9% to R79.8 billion at 30 September 2018. This can be attributed to a combination of market performance and asset inflows.

In line with default regulations, we launched our enhanced Alexander Forbes Retirement Income Solutions (AFRIS) in February 2018 to complement our Retirements service offering, which has retained assets of R1.4 billion at 30 September 2018.

AF Empower has partnered with an online learning platform – Degreed and secured sole rights for Africa to deliver innovative learning solutions to our corporate clients, thereby extending our business-to-business value proposition. The platform aims to foster a continuous learning culture and improved career development.

The Consulting and retirements costs increased 11% to R504 million (2017: R454 million) during the period largely attributable to an increase in various client service and marketing initiatives undertaken in the period. This increase in costs has resulted in a decrease of 11% in profit from operations before non-trading and capital items for the period to R81 million (2017: R91 million).

Group risk

Group risk grew annualised premium income by 16% to R621 million at 30 September 2018. As previously reported the business went through a process of enhancing actuarial data associated with the reserving for claims, providing additional margin for claims incurred but not yet notified and for pending claims. In addition, a decision to strengthen the balance sheet has resulted in higher reserves impacting the underwriting results. An industry-wide increase of 22% in disability claims has further impacted our assumptions, therefore requiring additional reserving. Operating income for the Group risk business has declined 29% to R27 million as a result of these adjustments.

The operating expenses within this division have increased 30% (R7 million) from the comparable prior-year period. This increase is as a result of the decision to discontinue providing retail life policies and the related shared costs being absorbed in Group risk.

DIVISIONAL REVIEW OF OPERATIONS (CONTINUED)

Investments

AF Investments is a multi-manager investment provider that manages investments to achieve client-specific outcomes with a greater degree of certainty. AF Investments manage investments through asset allocation, strategic allocation and manager selection and further leverages its research, investment skills and capability through partnerships and strategic alliances with Mercer to provide effective management of risk within portfolios.

Operating income grew by 16% for the six months to 30 September 2018, supported by strong market performance, delivery on investment strategies and an improvement in the net blended margin.

	Operating income net of direct expenses			Profit from operations before non-trading and capital items		
Rm	Sept 2018	%	Sept 2017	Sept 2018	%	Sept 2017
Investments	**388**	16	335	**217**	17	186

The reported total Assets under Administration and Management (AuA and AuM) was R371.1 billion at 30 September 2018. The assets are segregated as follows:

	30 September 2018			30 September 2017		
Rbn	Institutional	Retail	Total	Institutional	Retail	Total
Assets under Management	**255.0**	**60.1**	**315.1**	248.2	56.7	304.9
Assets under Administration	**50.7**	**5.3**	**56.0**	51.1	7.0	58.1
Total AuA and AuM	**305.7**	**65.4**	**371.1**	299.3	63.7	363.0

AuM grew by 3% year-on-year while total AuA and AuM grew by 2% year-on-year. For the six months ended 30 September 2018 the blended market return was 7.4%, underpinned by positive equity market performance in the initial months of the financial year. Our flagship portfolio, Performer, grew by 15% year-on-year to R118.4 billion as at 30 September 2018.

The blended net margin improved to 25.2 bps, a 2.5 bps increase from 30 September 2017 and 1.7 bps increase from 31 March 2018. Margin enhancement was achieved by offering additional services, lowering direct product costs and developing new initiatives including alternative asset classes, fund of hedge funds as well as private market funds. AF Investments has also enhanced the offshore offering in conjunction with strategic alliance partner Mercer and has brought the smart beta capabilities in-house.

A summary of the cash flows for the six months to 30 September 2018 is shown below.

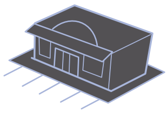
	30 September 2018			30 September 2017		
Rbn	Institutional	Retail	Total	Institutional	Retail	Total
Controllable	**(2.0)**	**–**	**(2.0)**	4.6	–	4.6
New business	**1.6**	**–**[1]	**1.6**	5.8	–[1]	5.8
Outflows owing to client losses	**(3.6)**	**–**	**(3.6)**	(1.2)	–	(1.2)
Uncontrollable	**(2.8)**	**(0.1)**	**(2.9)**	(4.6)	(0.9)	(5.5)
Ongoing contributions	**20.8**	**5.0**[1]	**25.8**	12.8	3.2[1]	16.0
Withdrawals for benefit payments	**(23.6)**	**(5.1)**	**(28.7)**	(17.4)	(4.1)	(21.5)
Withdrawal from platform	**(0.9)**	**–**	**(0.9)**	–	–	–
Net cash outflows	**(5.7)**	**(0.1)**	**(5.8)**	–	(0.9)	(0.9)

1. The ongoing contribution in Retail represents the capture of outflows from Institutional members in line with our retail strategy. This represents new business flows to the Retail division.

Net cash outflows were experienced over the period of R5.8 billion for Investments. For the Institutional business, R1.6 billion new business AuM flowed in the period with a further R2.5 billion assets awaiting transfer pending approval from regulators. Further outflows are anticipated from the platform business as we continue to de-emphasise this lower-margin business. Uncontrollable cash outflows continue to be negative, influenced by factors prevalent across the retirement fund industry.

Extensive work has been undertaken in the period to define the sales culture and process of the business. In addition strong senior staff appointments have been made to lead strategies and strengthen the business skills. The 15% increase in expenses include the costs associated with the strengthened team. Profit from operations increased 17% to R217 million for the period under review.

DIVISIONAL REVIEW OF OPERATIONS (CONTINUED)



Retail clients

The Retail clients division helps our members optimise their financial well-being along their life journey through an advice-led strategy of focusing on the needs of individuals. The division's key focus is to create, grow and protect the assets and wealth of our members and individual clients.

	Operating income net of direct expenses			Profit from operations before non-trading and capital items		
Rm	Sept 2018	%	Sept 2017	Sept 2018	%	Sept 2017
Wealth and investments	**447**	5	424	**194**	4	186
Retail insurance	**279**	3	271	**90**	50	60
Retail clients	**726**	4	695	**284**	15	246

During the period under review, the Retail clients' division grew operating income by 4% to R726 million and profit from operations increased by 15% to R284 million. The increase in operating profit was driven by an increase in new business in the Financial planning consultants (FPC) division and improved underwriting results in short-term insurance business.

Wealth and investments

Operating income grew by 5% to R447 million for the six months ended 30 September 2018. While continuing to drive cost-efficiencies, the business has invested in new resources and skills to drive future growth and innovation. This has led to a 4% increase in profit from operations to R194 million.

Under the current economic conditions, more South Africans are choosing to take their retirement funds in cash rather than preserving these funds for the future. Consequently, during the period under review, assets being preserved on exit and retirement decreased to 55% from 57% in the prior year.

In a challenging market where members are pressured to preserve their wealth when changing employers and tempted to withdraw funds, member education activities are required to ensure that both the short and long-term needs of members are met. The members accessed through these education activities increased to 25 000 in the period under review from 18 000, while financial well-being sessions at our corporate clients increased to 2 160 interventions from 1 404.

The continued presence and success of FPC has resulted in an improvement to the capture rate of preserved exit and retirement flows to 42% from 41% in the prior year.

In addition to the assets under management and administration reflected in the table on page 6 (in Investments), the division also advises clients whose assets are not administered by Alexander Forbes. The total assets under advisement increased by 5% to R71.1 billion in the period under review.

Retail insurance

The retail insurance businesses reported a 3% increase in operating income to R279 million. Profit from operations improved by 50% to R90 million.

Gross written premium in the Alexander Forbes short-term insurance business increased by 4% to R823 million for the period, with the business continuing to grow based on competitive product offerings and improved service levels. New business has increased by 11% in the motor and household portfolio compared to the comparable prior-year period. The loss ratio for motor and household business ended on 66.1% for the six months ended 30 September 2018, an improvement on the 67.3% reported in the comparable prior-year period. It should be noted that the loss ratio is seasonal with higher claims expected over the fourth quarter; despite this management is on track to meet the annual targeted loss ratio.

The group has made a strategic decision to discontinue providing AF Life individual insurance policies as of 1 July 2018. The existing policies will continue to be serviced but no new policies will be written. The operations of the business have been adjusted to reflect this decision, which resulted in a decrease in operating expenses. The declining in-force book has resulted in an increase in reserves which have been included in the results.

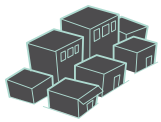
As a result of a focus on process improvement, productivity enhancement and the discontinuing of AF Life individual insurance, the Insurance cluster has shown a 10% decrease in operating expenses from the comparable prior-year period. Profit from operations increased 50% year-on-year to R90 million. Further investment into the short-term insurance distribution capability is expected in the second half of the year.

DIVISIONAL REVIEW OF OPERATIONS (CONTINUED)

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

	Operating income net of direct expenses			Profit from operations before non-trading and capital items		
Rm	**Sept 2018**	%	Sept 2017	**Sept 2018**	%	Sept 2017
Emerging markets						
Namibia	**78**	3	76	**24**	20	20
Botswana	**44**	22	36	**12**	>100	4
Other EM countries	**5**	67	3	**(2)**	67	(6)
AFEM head office	**–**	–	–	**(12)**	8	(13)
Total	**127**	10	115	**22**	>100	5

Emerging Markets operates in Botswana, Namibia, Nigeria, Uganda and Zambia.



Namibia and Botswana collectively contribute over 90% of the operating income, with the remainder coming from smaller operations in Nigeria, Uganda and Zambia. Emerging markets delivered improved performance with operating income up by 10% compared with the comparable prior-year period which was led by the Retirements segment in Botswana. Namibia's performance remained fairly muted, with operating income up 3% over the comparable prior-year period as a result of the continued economic recession coupled with increased competitive pressure. Cost savings of 5% mostly on non-client facing activities over the comparable prior-year period were realised through greater efficiency.

Sustainable growth is an ongoing challenge in the industry. Multinational clients require greater agility in their partnerships as they navigate their business footprint across Africa. In collaboration with Mercer, Alexander Forbes has successfully launched Arrive, a global benefits proposition with promising opportunities across our portfolio.

Administration only

	Operating income net of direct expenses			Profit from operations before non-trading and capital items		
Rm	**Sept 2018**	%	Sept 2017	**Sept 2018**	%	Sept 2017
Administration only	**55**	(23)	71	**–**	–	–

The Administration only segment is separately reported from the consulting division in Corporate & employee benefits and reflects the revenue earned from clients where fees are earned based on administration services only. The client relationship for these clients resides with the Operations and administration department. The strategic objective in this division is to assess the value proposition for standalone clients. This is achieved by considering simplicity, standardisation, improved governance, effective communication and improved financial well-being outcomes for individual members. Approximately 75% of the revenue decline during the period under review is as a result of the Administration only clients being converted to the umbrella funds within Retirements.

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

DIVISIONAL REVIEW OF OPERATIONS (CONTINUED)

Corporate

	Operating income net of direct expenses			Profit from operations before non-trading and capital items		
Rm	**Sept 2018**	%	Sept 2017	**Sept 2018**	%	Sept 2017
Corporate costs	**–**	–	–	**(154)**	97	(78)

Corporate costs include the office of the group chief executive and group chief financial officer, the group strategy office as well as costs associated with the listed holding company including non-executive directors' fees. The Corporate costs also include the consulting costs and project costs associated with the group's implementation of strategy. The significant increase in Corporate costs are due to the costs associated with the termination of the IT contract amounting to R52 million. In addition, the group has incurred consulting costs relating to the review of the legal and capital structure.

Prospects

Alexander Forbes continues to be a trusted brand with market-leading businesses offering a strong value proposition to our clients. The business is well placed to use this foundation to build trust and continue to make a difference in the lives of our clients and members.

The second half of the year is expected to bring additional challenges including the impact of client losses experienced in the period under review and ongoing competitive pressure.

Under the leadership of Dawie de Villiers, Alexander Forbes' newly appointed group chief executive, the group is in the process of undertaking a strategic review with the aim to ensure its relevance in South Africa, to assess the opportunities for growth and unlock the value potential across the group.

The strategic review is intended to strengthen our competitive position and allow sustainable performance in our employee benefits, savings and retirement markets, anchored on our value proposition as providers of advice-led solutions. The review will be concluded and presented to the board by the end of the current financial year.

Alexander Forbes is confident about the prospects of growth and development within South Africa and believes that the group is well placed to capitalise on the changes in the employee benefits environment in the long term.

Change in directorate

Mr T Dloti was appointed as independent non-executive director effective 1 August 2018. The services of Mr AA Darfoor as group chief executive were terminated effective 25 September 2018 and Mr DJ de Villiers replaced Mr AA Darfoor as group chief executive effective 1 November 2018. Ms N Ford-Hoon (Fok) resigned as the group chief financial officer with effect from 31 December 2018.

Corporate governance

The company's application of the principles contained in the King IV Report on Corporate Governance for South Africa (King IV) is disclosed in the King IV report available on the company's website. No material changes in application have occurred since the publication of that report as part of the FY2018 annual reporting suite of documents.

On behalf of the board of directors

N Nyembezi
Chairman

DJ de Villiers
Group chief executive

11 December 2018

The Alexander Forbes Group Holdings Limited (the group) condensed consolidated interim results, including the statement of financial position, income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows, for the six months ended 30 September 2018 (results) are prepared in accordance with the requirements of the JSE Limited (JSE) Listings Requirements, the requirements of International Financial Reporting Standards (IFRS) and its interpretations as adopted by the International Accounting Standards Board, the South African Institute of Chartered Accountants' (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the presentation requirements of IAS 34 *Interim Financial Reporting* and the requirements of the South African Companies Act applicable to condensed financial statements.

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

The accounting policies applied in the preparation of these condensed consolidated interim results are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the group's previous audited consolidated annual financial statements, except as modified by the adoption of IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). The group adopted IFRS 9 and IFRS 15 with effect from 1 April 2018.

The group has, as permitted by both IFRS 9 and IFRS 15, elected not to restate its comparative financial statements. Consequently, comparability will not be achieved by the fact that the comparative financial information has been prepared on a different basis. The impact of adopting IFRS 9 has been applied retrospectively with a cumulative adjustment to the group's opening 1 April 2018 reserves.

Any financial information contained in this announcement that may be construed as forecast information has not been reviewed or reported on by the group's external auditors. Additionally, these interim results have not been audited or reviewed by the group's external auditors. The group's 2018 annual financial information has been extracted from the underlying audited consolidated annual financial statements for the year ended 31 March 2018. The directors of the group take full responsibility for the preparation of this report.

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

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

The results were made publicly available on 11 December 2018.

FY2019

Alexander Forbes Group Holdings Limited

Unaudited condensed consolidated interim results for the six months ended 30 September 2018

ALEXANDERFORBES
Securing your financial well-being

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2018

Rm	Notes	Six months 30 Sept 2018	Six months 30 Sept 2017	12 months 31 Mar 2018
Continuing operations				
Fee and commission revenue	4	**2 088**	2 000	4 090
Insurance revenue	5	**1 283**	1 189	2 505
Interest revenue – effective interest method	4	**26**	19	47
Total revenue		**3 397**	3 208	6 642
Direct expenses attributable to fee and commission revenue	4	**(528)**	(533)	(1 070)
Insurance claims, commissions and withdrawals	5	**(917)**	(835)	(1 774)
Net expenses from reinsurance contracts	5	**(44)**	(41)	(151)
Operating income net of direct expenses		**1 908**	1 799	3 647
Operating expenses		**(1 466)**	(1 344)	(2 661)
Profit from operations before non-trading and capital items		**442**	455	986
Non-trading and capital items	6	**(385)**	(73)	(476)
Operating profit		**57**	382	510
Investment income	7	**100**	143	225
Finance costs	8	**(36)**	(48)	(97)
Reported profit/(loss) arising from accounting for policyholder investments in treasury shares	14	**20**	(11)	(24)
Share of profit of associate (net of tax)		**–**	2	–
Profit before taxation		**141**	468	614
Income tax expense	9	**(186)**	(159)	(308)
Income tax expense relating to group profits		**(173)**	(145)	(319)
Income tax (expense)/credit relating to policyholder investment returns		**(13)**	(14)	11
(Loss)/profit for the period from continuing operations		**(45)**	309	306
Discontinued operations				
(Loss)/profit from discontinued operations (net of tax)	10	**(2)**	15	21
(Loss)/profit for the period		**(47)**	324	327
Attributable to:				
Owners of the company		**(50)**	282	240
Non-controlling interest		**3**	42	87
		(47)	324	327
Basic (loss)/earnings per share (cents)	11	**(4.0)**	22.0	18.9
Diluted basic (loss)/earnings per share (cents)	11	**(4.0)**	22.0	18.8

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2018

Rm	**Six months 30 Sept 2018**	Six months 30 Sept 2017	12 months 31 Mar 2018
(Loss)/profit for the period	**(47)**	324	327
Other comprehensive income:			
Foreign currency translation differences of foreign operations	**45**	28	(9)
Cash flow hedge	**43**	3	(37)
Other comprehensive income that may be reclassified to profit or loss[1]	**88**	31	(46)
Remeasurement of post-employment benefit obligation	**–**	–	3
Other comprehensive income that will not be reclassified to profit or loss[1]	**–**	–	3
Total comprehensive income for the period	**41**	355	284
Total comprehensive income attributable to:			
Owners of the company	**31**	313	201
Non-controlling interest	**10**	42	83
Total comprehensive income for the period	**41**	355	284

1. Net of related taxes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2018

Rm	Notes	30 Sept 2018	30 Sept 2017	31 Mar 2018
ASSETS				
Financial assets held under multi-manager investment contracts	14	**307 400**	298 859	296 758
Financial assets of insurance and cell-captive facilities		**392**	313	352
Property and equipment		**160**	188	174
Purchased and developed computer software	6	**134**	302	400
Goodwill		**3 038**	3 355	3 038
Intangible assets		**356**	421	390
Investment in associates		**–**	11	–
Deferred tax assets		**180**	151	175
Financial assets	15	**119**	526	445
Insurance receivables		**1 423**	1 204	1 339
Trade and other receivables		**363**	411	299
Cash and cash equivalents		**5 884**	5 970	5 794
Assets of disposal groups classified as held for sale	10	**86**	70	82
Total assets		**319 535**	311 781	309 246
EQUITY AND LIABILITIES				
Owners of the company		**5 632**	6 448	6 010
Non-controlling interest		**283**	251	287
Total equity		**5 915**	6 699	6 297
Financial liabilities held under multi-manager investment contracts	14	**307 439**	298 944	296 825
Liabilities of insurance and cell-captive facilities		**392**	313	352
Borrowings		**719**	725	719
Employee benefits		**172**	166	162
Deferred tax liabilities		**117**	178	119
Provisions	6	**410**	306	304
Finance lease liabilities		**–**	72	51
Operating lease liabilities		**202**	192	197
Insurance payables		**3 523**	3 464	3 572
Trade and other payables		**630**	710	634
Liabilities of disposal groups classified as held for sale	10	**16**	12	14
Total liabilities		**313 620**	305 082	302 949
Total equity and liabilities		**319 535**	311 781	309 246

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

Rm	Six months 30 Sept 2018	Six months 30 Sept 2017	12 months 31 Mar 2018
Cash flows from operating activities			
Cash generated from operations	**492**	470	1 013
Net interest received	**50**	87	151
Taxation paid	**(234)**	(127)	(333)
Dividends paid	**(307)**	(600)	(829)
Net cash flows (paid to)/received from insurance and policyholder contracts	**(115)**	390	348
Net cash flows (paid to)/received from policyholder investment contracts	**(124)**	167	(1 920)
Cash flows from operating activities – discontinued operations	**(1)**	1	16
Net cash (outflow)/inflow from operating activities	**(239)**	388	(1 554)
Cash flows from investing activities			
Payments for intangible assets	**–**	–	(3)
Net cash inflow/(outflow) on financial assets	**354**	(174)	(145)
Payments for capital expenditure incurred on property, equipment and computer software	**(56)**	(173)	(321)
Net cash inflow/(outflow) from investing activities	**298**	(347)	(469)
Cash flows from financing activities			
Purchase of shares in terms of share buy-back transaction	**(91)**	(200)	(276)
Payments of lease liabilities	**(51)**	–	(9)
Purchase of shares in terms of share incentive schemes	**–**	–	(57)
Payments to non-controlling interests	**(10)**	(9)	(14)
Net cash outflow from financing activities	**(152)**	(209)	(356)
Decrease in cash and cash equivalents	**(93)**	(168)	(2 379)
Cash and cash equivalents at the beginning of the period	**13 702**	16 087	16 087
Effects of exchange rate changes on cash and cash equivalents	**62**	40	(6)
Cash and cash equivalents at the end of the period	**13 671**	15 959	13 702
Analysed as follows:			
Cash and cash equivalents of continuing operations	**5 884**	5 970	5 794
Cash held under multi-manager investment contracts	**7 755**	9 967	7 887
Cash held under insurance cell-captive contracts	**14**	13	6
Cash and cash equivalents of disposal groups held for sale	**18**	9	15
	13 671	15 959	13 702

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

Rm	Share capital	Treasury shares	Other reserves	Accumu-lated profit	Total	Non-con-trolling interest	Total equity
At 31 March 2017	6 192	(160)	(336)	1 205	6 901	218	7 119
Total comprehensive income	–	–	31	282	313	42	355
Profit for the period	–	–	–	282	282	42	324
Other comprehensive income	–	–	31	–	31	–	31
Total transactions with owners	–	(129)	(37)	(600)	(766)	(9)	(775)
Shares purchased in terms of the share schemes and share buy-back programme[1]	–	(200)	–	–	(200)	–	(200)
Settlement of share incentive schemes[2]	–	39	(39)	–	–	–	–
Movement of treasury shares in policyholder assets	–	32	–	–	32	–	32
Dividends paid	–	–	–	(600)	(600)	(9)	(609)
Movement in share-based payment reserve	–	–	2	–	2	–	2
At 30 September 2017	6 192	(289)	(342)	887	6 448	251	6 699
Total comprehensive income	–	–	(72)	(40)	(112)	41	(71)
Profit for the period	–	–	–	(42)	(42)	45	3
Other comprehensive income	–	–	(72)	2	(70)	(4)	(74)
Total transactions with owners	–	(103)	455	(678)	(326)	(5)	(331)
Shares purchased in terms of the share schemes and share buy-back programme[3]	–	133	–	–	133	–	133
Movement of treasury shares in policyholder assets	–	30	–	–	30	–	30
Dividends paid	–	–	–	(229)	(229)	(5)	(234)
Movement in share-based payment reserve	–	–	6	–	6	–	6
Transfer to retained earnings[4]	–	–	449	(449)	–	–	–
At 31 March 2018	6 192	(392)	41	169	6 010	287	6 297

1. The group purchased Alexander Forbes Group Holdings Limited shares to the value of R200 million, at an average price of R6.76 per share, in a general buy-back approved by shareholders.
2. During the period R26 million of the conditional share incentive scheme and R13 million of the forfeitable share scheme vested. Both amounts relate to the 2014 tranche.
3. The group purchased Alexander Forbes Group Holdings Limited shares to the value of R76 million, at an average price of R7.10 per share, in a general buy-back approved by shareholders. In addition shares to the value of R57 million were purchased for the shareholder-approved share incentive schemes.
4. During the period 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.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 September 2018

Rm	Share capital	Treasury shares	Other reserves	Accumu-lated (loss)/ profit	Total	Non-con-trolling interest	Total equity
At 31 March 2018	**6 192**	**(392)**	**41**	**169**	**6 010**	**287**	**6 297**
IFRS 9 transition adjustments[1]	–	–	–	(36)	(36)	(4)	(40)
Adjusted balance – 1 April 2018	**6 192**	**(392)**	**41**	**133**	**5 974**	**283**	**6 257**
Total comprehensive income	–	–	81	(50)	31	10	41
(Loss)/profit for the period	–	–	–	(50)	(50)	3	(47)
Other comprehensive income	–	–	81	–	81	7	88
Total transactions with owners	–	(79)	13	(307)	(373)	(10)	(383)
Shares purchased in terms of share schemes and share buy-back programme[2]	–	(91)	–	–	(91)	–	(91)
Settlement of share incentive schemes[3]	–	4	(4)	–	–	–	–
Movement of treasury shares in policyholder assets	–	8	–	–	8	–	8
Dividends paid	–	–	–	(307)	(307)	(10)	(317)
Movement in share-based payment reserve	–	–	17	–	17	–	17
At 30 September 2018	**6 192**	**(471)**	**135**	**(224)**	**5 632**	**283**	**5 915**

1. Refer to note 2.2.
2. The group purchased Alexander Forbes Group Holdings Limited shares to the value of R91 million during the period, at an average price of R5.27 per share, in a general buy-back approved by shareholders. In addition shares to the value of R65 million (12.5 million shares) were transferred from the treasury shares to the shareholder-approved share incentive schemes.
3. During the period R4 million relating to the 2015 tranche of the forfeitable share scheme vested.

CONDENSED CONSOLIDATED GROUP SEGMENTAL INCOME AND PROFIT ANALYSIS

For the six months ended 30 September 2018

	Operating income net of direct expenses			Profit from operations before non-trading and capital items		
Rm	2018	%	2017	2018	%	2017
Corporate & employee benefits	**612**	5	583	**78**	(26)	106
Consulting and retirements	**585**	7	545	**81**	(11)	91
Group risk	**27**	(29)	38	**(3)**	<(100)	15
Investments	**388**	16	335	**217**	17	186
Institutional clients	**1 000**	9	918	**295**	1	292
Wealth and investments	**447**	5	424	**194**	4	186
Retail insurance	**279**	3	271	**90**	50	60
Retail clients	**726**	4	695	**284**	15	246
Emerging markets	**127**	10	115	**22**	>100	5
Administration only	**55**	(23)	71	**–**	–	–
Corporate	**–**	–	–	**(154)**	97	(78)
Total group before items below	**1 908**	6	1 799	**447**	(4)	465
Normalised earnings before non-trading items	**1 908**	6	1 799	**447**	(4)	465
Accounting for property leases	**–**	–	–	**(5)**	(50)	(10)
Total group	**1 908**	6	1 799	**442**	(3)	455

Rm	2018	%	2017
Normalised earnings before non-trading items	**447**	(4)	465
Non-trading and capital items (excluding amortisation of PPA intangible assets and professional indemnity insurance cell-captive results)	**(317)**		(28)
Investment income (excluding policyholder investment income)	**87**		129
Finance costs	**(36)**		(48)
Share of profit of associates (net of tax)	**–**		2
Normalised profit before tax	**181**	(65)	520
Normalised income tax expense	**(194)**		(161)
Normalised (loss)/profit after tax	**(13)**	<(100)	359
Loss from discontinued operations	**(2)**		–
Normalised (loss)/profit for the period	**(15)**	<(100)	359
Attributable to non-controlling interest	**(3)**		(39)
Normalised (loss)/profit attributable to shareholders	**(18)**	<(100)	320
Normalised (loss)/earnings per share (cents)	**(1.4)**	<(100)	24.7
Normalised headline earnings per share (cents)	**19.2**	(24)	25.1
Normalised weighted average number of shares in issue (million)	**1 255**		1 296

During the financial year ended 31 March 2018 the group decided to simplify its financial reporting to align with the way it operates. The segmental analysis above, which is consistent with 31 March 2018, represents a change from the segmental report presented at 30 September 2017. Owing to this change the prior year's numbers have been restated to provide the appropriate comparative numbers. Refer to Annexure A for the detailed group segmental and profit analysis.

SUMMARY NOTES

For the six months ended 30 September 2018

1. Basis of preparation

The Alexander Forbes Group Holdings Limited (the group) condensed consolidated interim results, including the statement of financial position, income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows, for the six months ended 30 September 2018 (results) are prepared in accordance with the requirements of the JSE Limited (JSE) Listings Requirements, the requirements of International Financial Reporting Standards (IFRS) and its interpretations as adopted by the International Accounting Standards Board, the South African Institute of Chartered Accountants' (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the presentation requirements of IAS 34 *Interim Financial Reporting* and the requirements of the South African Companies Act applicable to condensed financial statements.

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

The accounting policies applied in the preparation of these condensed consolidated interim results are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the group's previous audited consolidated annual financial statements, except as modified by the adoption of IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 15 *Revenue from Contracts with Customers*. The group adopted IFRS 9 and IFRS 15 with effect from 1 April 2018.

The group has, as permitted by both IFRS 9 and IFRS 15, elected not to restate its comparative financial statements. Therefore comparability will not be achieved due to the fact that the comparative financial information has been prepared on a different basis. The impact of adopting IFRS 9 has been applied retrospectively with an adjustment to the group's opening 1 April 2018 accumulated profits. For more detail refer to notes 2.1 and 2.2.

These interim results have not been audited or independently reviewed by the group's external auditors. The group's 2018 annual financial information has been extracted from the underlying audited consolidated annual financial statements for the year ended 31 March 2018. The directors of the group take full responsibility for the preparation of this report.

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

2. Changes in significant accounting policies and presentation

This note explains the impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on the group's financial statements and discloses the new accounting policies that have been applied from 1 April 2018, where they are different to those applied in prior periods. The changes in accounting policies are also expected to be reflected in the group's consolidated financial statements for the year ending 31 March 2019. The effect of initially applying these standards are mainly attributed to an increase in impairment losses recognised on financial assets as well as reclassification of payments to customers from direct expenses to fee and commission revenue.

2.1 IFRS 15 *Revenue from Contracts with Customers – fee and commission revenue*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The group has adopted IFRS 15 using the cumulative effect method (with practical expedients), however with no material financial effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. The adoption of IFRS 15 has resulted in fee and commission revenue of R2 088 million and related direct expenses of R528 million being reported in the current period compared to fee and commission revenue of R2 097 million and related direct expenses of R537 million had the previous accounting standard been applied. The impact on operating income net of direct expenses is nil.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the group's various goods and services are set out below. Under IFRS 15 revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

2. Changes in significant accounting policies and presentation (continued)

Type of product/ service	Nature, timing of satisfaction of performance obligations, significant payment terms	Impact of change in accounting policy
Consulting fees; Administration fees (Consulting and administration)	Consulting fees – comprise fees earned in respect of advisory services. Fees derived from consulting services are recognised over time as the customer receives benefits as services are performed. Prior to the adoption of IFRS 15 revenue from consulting services was recognised based on the stage of completion as the related services were rendered. There are no differences between the amounts recognised under IFRS 15 and those that would have been recognised under previous accounting standards. Consulting contracts do not have significant financing arrangements and no discounts are provided to clients.	IFRS 15 did not have a significant impact on the group's interim results.
Actuarial consulting fees (Consulting)	Actuarial consulting fees – comprise fees earned in respect of actuarial reports and other ad hoc reports prepared for our clients. Actuarial consulting arrangements bear a fixed fee which is only payable on delivery of an actuarial report. Fees derived from actuarial consulting services are recognised at a point in time as the customer receives benefit on delivery of the actuarial report. Prior to the adoption of IFRS 15 revenue from consulting services was recognised based on the stage of completion as the related services were rendered.	IFRS 15 did not have a significant impact on the group's interim results.
Insured commission income (Commission)	Insured commission income – is derived from brokerage services and consulting services. The revenue relating to brokerage services is recognised on placement of a client. The consulting services portion is amortised over the term of the contract which is normally a year. The commission is received upfront and management has concluded, based on history, that that it is highly probable that there will not be a significant reversal of revenue. There are no differences between the amounts recognised under IFRS 15 and those that would have been recognised under previous accounting standards.	IFRS 15 did not have a significant impact on the group's interim results.
Healthcare commission income (Commission)	Healthcare commission income – comprises commissions earned in respect of healthcare products. Prior to IFRS 15 the company recognised the income on a monthly basis. The brokerage services contracts are renewable on an annual basis. Under IFRS 15 the company has identified a single performance obligation which is satisfied over time. The company shall continue to recognise and record the commission income on a monthly basis. Consequently, there are no differences between the amounts recognised under IFRS 15 and those that would have been recognised under previous accounting standards. Payments made to healthcare clients were classified as direct costs. On the adoption of IFRS 15 these costs are now deducted from the fees generated from those clients, thereby reducing the amount of revenue that would have been recognised. The effect on operating income net of direct expenses is nil.	IFRS 15 did not have a significant impact on the group's interim results.
Transition management fees (Asset based)	Transition management fees – comprise fees earned for services provided in relation to the transfer of investment assets. Prior to IFRS 15 transition management fees were recognised in income on transfer by reference to the net asset value of the assets transferred. Under IFRS 15 the company has identified a single performance obligation which is satisfied at a point in time. The company shall continue to recognise transition management fees in income on transfer of investment assets by reference to the net asset value of the assets transferred.	IFRS 15 did not have a significant impact on the group's interim results.
Multi-manager investment fees (Asset based)	Multi-manager investment fees – comprise fees earned for multi-manager investment and administration. Under IFRS 15 management has identified one performance obligation, being ongoing investment management and administration services the reason being that initial administration fees cannot be associated with services provided at inception of the contract. Consequently, initial administration fees will continue to be brought to book upon inception of the investment contract and recognised on a straight-line basis over the expected period of the contract. Ongoing investment management and administration services are considered a series of distinct services that are substantially the same and have the same pattern of transfer to the client. These are recognised over time and determined on a daily basis. Consequently, there are no differences between the amounts recognised under IFRS 15 and those that would have been recognised under previous accounting standards.	IFRS 15 did not have a significant impact on the group's interim results.

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

2. Changes in significant accounting policies and presentation (continued)

2.2 IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 April 2018 relates solely to the new impairment requirements, as described further below.

Loan receivable

The group has a loan receivable currently carried at R29 million. Under the previous accounting standard (IAS 39) there was *no objective evidence* that this loan receivable was impaired. IFRS 9 contains a new impairment model which will result in earlier recognition of losses. The likely outcomes for the collection of this receivable are variable with a greater likelihood that the group will suffer credit losses to the full value of the loan receivable. Consequently, this loan receivable has been provided for in full and against opening accumulated profits.

Long-outstanding trade receivable

One of the subsidiaries has a long-outstanding trade receivable amounting to R11 million. Under the previous accounting standard (IAS 39) there was no objective evidence that the counterparty to the trade receivable was unable to pay. IFRS 9 contains a new impairment model which will result in earlier recognition of losses. In applying the new guidance management expects a greater likelihood that the group will suffer credit losses to the full value of the trade receivable. Consequently, this trade receivable has been provided for in full and against opening accumulated profits.

Rm	Six months 30 Sept 2018
Opening accumulated profits	
Recognition of expected credit losses under IFRS 9 (net of related taxes)	**(36)**
Impact at 1 April 2018	**(36)**
Non-controlling interest	
Recognition of expected credit losses under IFRS 9 (net of related taxes)	**(4)**
Impact at 1 April 2018	**(4)**
Financial assets	
As reported	**119**
IFRS 9 expected credit losses	**29**
Amounts without adoption of IFRS 9	**148**
Trade and other receivables	
As reported	**363**
IFRS 9 expected credit losses	**11**
Amounts without adoption of IFRS 9	**374**

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

2. Changes in significant accounting policies and presentation (continued)

2.3 Changes in presentation of 'Operating income net of direct expenses'

As part of a financial statement enhancement exercise aimed at assisting the user to better estimate the amounts, nature and timing of cash flows, management has revised the presentation of the income statement with a focus on amounts included in the determination of operating income net of direct expenses. This revision has resulted in the group presenting total revenue for the first time. Management wants to emphasise that this revised presentation does not affect the caption 'operating income net of direct expenses'. This change in presentation has no impact on taxes and non-controlling interest as it is merely a reclassification between items of 'operating income net of direct expenses'.

The impact of the reclassification is as follows and is reflected in 2.3.1 and 2.3.2 below:

- Insurance revenue comprising gross written premiums and commission earned has been reclassified from net income from insurance operations.
- The net expenses from reinsurance contracts have been reclassified from net income from insurance operations and disclosed as a separate direct expense.
- Interest revenue determined using the effective interest method has been separately presented – reclassified from fee and commission income as well as from net income from insurance operations.

2.3.1 Restatement of operating income net of direct expenses for 30 September 2017

Rm	Reported in the current results	Re-classification	As previously reported
Fee and commission income	2 000	(2)	2 002
Insurance revenue	1 189	1 189	–
Net income from insurance operations	–	(330)	330
Interest revenue – effective interest method	19	19	–
Total revenue	3 208	*	*
Direct expenses attributable to fee and commission income	(533)	–	(533)
Insurance claims, commissions and withdrawals	(835)	(835)	–
Net expenses from reinsurance contracts	(41)	(41)	–
Operating income net of direct expenses	1 799	–	1 799

* Not shown on the face of the income statement.

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

2. Changes in significant accounting policies and presentation (continued)

2.3.2 Restatement of operating income net of direct expenses for 31 March 2018

Rm	Reported in the current results	Re-classification	As previously reported
Fee and commission income	**4 090**	(4)	4 094
Insurance revenue	**2 505**	2 505	–
Net income from insurance operations	**–**	(623)	623
Interest revenue – effective interest method	**47**	47	–
Total revenue	**6 642**	*	*
Direct expenses attributable to fee and commission income	**(1 070)**	–	(1 070)
Insurance claims, commissions and withdrawals	**(1 774)**	(1 774)	–
Net expenses from reinsurance contracts	**(151)**	(151)	–
Operating income net of direct expenses	**3 647**	–	3 647

3. 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.

	Six months 30 Sept 2018	Six months 30 Sept 2017	12 months 31 Mar 2018
Weighted average R:GBP rate	**18.3**	17.0	17.0
Closing R:GBP rate	**18.5**	18.1	16.6

* Not shown on the face of the income statement.

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

4. Fee and commission revenue

The group's operations and main revenue streams are those described in the last annual financial statements. The group's revenue is derived from contracts with customers, except for insurance revenue. The nature and effect of initially applying IFRS 15 on the group's interim financial statements are disclosed in note 2.

Disaggregation of revenue

	Institutional		Retail		Emerging markets		Administration only		Total	
Rm	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Secondary segments										
Consulting and retirements	**789**	747	**–**	–	**–**	–	**–**	–	**789**	747
Investments	**435**	409	**–**	–	**–**	–	**–**	–	**435**	409
Wealth and investments	**–**	–	**693**	664	**–**	–	**–**	–	**693**	664
Emerging markets	**–**	–	**–**	–	**111**	102	**–**	–	**111**	102
Administration only	**–**	–	**–**	–	**–**	–	**60**	78	**60**	78
Total	**1 224**	1 156	**693**	664	**111**	102	**60**	78	**2 088**	2 000
Revenue by type										
Consulting	**99**	101	**387**	369	**20**	21	**18**	24	**524**	515
Administration	**316**	293	**–**	–	**76**	66	**42**	54	**434**	413
Commission	**145**	138	**6**	5	**–**	–	**–**	–	**151**	143
Asset based	**664**	624	**299**	289	**15**	15	**–**	–	**978**	928
Other	**–**	–	**1**	1	**–**	–	**–**	–	**1**	1
Total	**1 224**	1 156	**693**	664	**111**	102	**60**	78	**2 088**	2 000
Region										
South Africa	**1 222**	1 150	**638**	624	**–**	–	**60**	78	**1 920**	1 852
Namibia	**–**	–	**–**	–	**61**	63	**–**	–	**61**	63
Botswana	**–**	–	**–**	–	**45**	36	**–**	–	**45**	36
Jersey and Channel Islands	**2**	6	**55**	40	**–**	–	**–**	–	**57**	46
Other	**–**	–	**–**	–	**5**	3	**–**	–	**5**	3
Total	**1 224**	1 156	**693**	664	**111**	102	**60**	78	**2 088**	2 000
Timing of revenue recognition										
Products transferred at a point in time	**18**	23	**–**	–	**8**	3	**–**	–	**26**	26
Services transferred over time	**1 206**	1 133	**693**	664	**103**	99	**60**	78	**2 062**	1 974
Total	**1 224**	1 156	**693**	664	**111**	102	**60**	78	**2 088**	2 000
Fee and commission revenue	**1 224**	1 156	**693**	664	**111**	102	**60**	78	**2 088**	2 000
Plus: Net insurance income excluding interest income	**24**	39	**274**	253	**24**	21	**–**	–	**322**	313
Insurance revenue	**302**	246	**893**	855	**88**	88	**–**	–	**1 283**	1 189
Insurance claims, commissions and withdrawals	**(294)**	(189)	**(565)**	(580)	**(58)**	(66)	**–**	–	**(917)**	(835)
Net expenses from reinsurance contracts	**16**	(18)	**(54)**	(22)	**(6)**	(1)	**–**	–	**(44)**	(41)
Plus: Interest revenue – effective interest method	**16**	7	**10**	12	**–**	–	**–**	–	**26**	19
Interest from insurance operations	**14**	5	**10**	12	**–**	–	**–**	–	**24**	17
Other interest	**2**	2	**–**	–	**–**	–	**–**	–	**2**	2
Less: Direct expenses[1]	**(264)**	(284)	**(251)**	(234)	**(8)**	(8)	**(5)**	(7)	**(528)**	(533)
Operating income net of direct expenses	**1 000**	918	**726**	695	**127**	115	**55**	71	**1 908**	1 799

1. Direct expenses relate to sub-agent expenses, commissions paid and asset management fees.

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

Rm	Six months 30 Sept 2018	Six months 30 Sept 2017	12 months 31 Mar 2018
5. Net income from insurance operations			
Insurance revenue[1]	**1 283**	1 189	2 505
Investment revenue from insurance operations (also refer to note 4)	**24**	17	43
Less: Insurance claims, commissions and withdrawals	**(917)**	(835)	(1 774)
Less: Net expenses from reinsurance contracts	**(44)**	(41)	(151)
Amounts ceded to reinsurers	**(690)**	(688)	(1 473)
Insurance claims and benefits covered through reinsurance contracts	**646**	647	1 322
Net income from insurance operations	**346**	330	623
6. Non-trading and capital items			
Non-trading:			
Professional indemnity insurance cell-captive result	**(34)**	1	(25)
Amortisation of intangible assets arising from business combination	**(34)**	(46)	(80)
Costs relating to strategic consulting engagement	**(26)**	(22)	(34)
Goodwill written off	**–**	–	(317)
Impairment/write-off of software[2]	**(287)**	(6)	(17)
Other	**(4)**	–	(3)
Total non-trading and capital items	**(385)**	(73)	(476)
7. Investment income			
Interest income	**76**	108	210
Investment and dividend income	**11**	21	31
Foreign exchange losses on intergroup loans	**–**	–	(5)
Investment income from general operations	**87**	129	236
Investment returns linked to policyholder tax expense	**13**	14	(11)
Total investment income	**100**	143	225

1. Insurance revenue for short-term insurance includes reinsurance commissions of R185 million (Sept 2017: R162 million, Mar 2018: R345 million).
2. Following a thorough review of the strategic roadmap and related projects within the IT programme by management, the group has decided to terminate the contract with the primary implementation partner resulting in an onerous provision amounting to R52 million. In addition, the group assessed the recoverability of software in development and concluded that no future economic benefit will flow and consequently impaired software amounting to R287 million.

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

8. Finance costs

Rm	Six months 30 Sept 2018	Six months 30 Sept 2017	12 months 31 Mar 2018
Finance costs derived from financial liabilities classified and carried at amortised costs:			
Interest on revolving credit facility	**(29)**	(30)	(60)
Cost of hedging[1]	**(3)**	(9)	(17)
Other interest costs	**(4)**	(9)	(20)
Total finance costs	**(36)**	(48)	(97)

9. Income tax expense

Rm	Six months 30 Sept 2018	Six months 30 Sept 2017	12 months 31 Mar 2018
South African income tax			
Current tax	**(193)**	(152)	(335)
Current period	**(168)**	(149)	(322)
Prior period	**(25)**	(3)	(13)
Deferred tax	**31**	15	39
Current period	**28**	15	34
Prior period	**3**	–	5
Foreign income tax			
Current tax – current period	**(7)**	(6)	(16)
Deferred tax – current period	**–**	1	–
Foreign withholding tax	**(2)**	(3)	(7)
Securities transfer tax	**(2)**	–	–
Income tax expense relating to group profits	**(173)**	(145)	(319)
Income tax (expense)/credit on policyholder investment returns	**(13)**	(14)	11
Current tax – current period	**(6)**	(19)	(44)
Deferred tax – current period	**(7)**	5	55
Total income tax expense	**(186)**	(159)	(308)

1. These costs represent the movement in forward points on a foreign exchange contract relating to the IT programme. This forward exchange contract was closed out during the period.

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

10. Discontinued operations

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 classified as assets and liabilities of a disposal group 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. Progress has been made during the period in concluding the transaction with the sale of the operation imminent.

Rm	Six months 30 Sept 2018	Six months 30 Sept 2017	12 months 31 Mar 2018
Assets and liabilities of disposal group classified as held for sale			
Long-term assets	**20**	5	25
Deferred tax assets	**1**	1	1
Trade and other receivables	**44**	53	33
Other current assets	**3**	2	8
Cash and cash equivalents	**18**	9	15
Total assets	**86**	70	82
Deferred tax liabilities	**–**	–	2
Provisions	**1**	–	1
Trade and other payables	**15**	12	11
Total liabilities	**16**	12	14
Summary income statement from discontinued operations			
Operating income net of direct expenses	**–**	27	81
Operating expenses	**(3)**	(20)	(66)
Operating (loss)/profit before non-trading and capital items	**(3)**	7	15
Investment income	**1**	1	–
Non-trading and capital items	**–**	10	8
Operating (loss)/profit	**(2)**	18	23
Share of profit of associate (net of tax)	**–**	–	2
(Loss)/profit before taxation	**(2)**	18	25
Income tax expense	**–**	(3)	(4)
(Loss)/profit from discontinued operations	**(2)**	15	21

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

11. Earnings per share

11.1 Basic earnings per ordinary share

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

11.2 Headline earnings per ordinary share

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

11.3 Diluted basic earnings per ordinary share

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

			Six months 30 Sept 2018	Six months 30 Sept 2017	12 months 31 Mar 2018
11.4	**Number of shares (million)**				
	Weighted average number of shares		**1 341**	1 341	1 341
	Weighted average shares held by policyholders classified as treasury shares		**(9)**	(16)	(14)
	Weighted average treasury shares		**(87)**	(46)	(58)
	Weighted average number of shares in issue (net of treasury shares)		**1 245**	1 279	1 269
	Dilutive shares		**15**	5	6
	Diluted weighted average number of shares		**1 260**	1 284	1 275
	Actual number of shares in issue		**1 341**	1 341	1 341
	Actual treasury shares		**(110)**	(79)	(95)
	Shares in issue net of treasury shares		**1 231**	1 262	1 246
11.5	**Calculation of basic and headline earnings from total operations (Rm)**				
	(Loss)/profit attributable to owners of the company		**(50)**	282	240
	Adjusting items:				
	– Impairment of goodwill and intangible assets		**258**	–	332
	– Other capital items		**–**	(5)	(9)
	Headline earnings for the period		**208**	277	563
	Earnings per share from total operations				
	Basic (loss)/earnings per share	(cents)	**(4.0)**	22.0	18.9
	Headline earnings per share	(cents)	**16.7**	21.7	44.4
	Diluted basic (loss)/earnings per share	(cents)	**(4.0)**	22.0	18.8
	Diluted headline earnings per share	(cents)	**16.5**	21.6	44.2

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

In addition, the group may issue AFH shares to the empowerment shareholder in future in terms of the circular issued to shareholders on 2 December 2016. The group has assessed the impact of this potential issue of shares and concluded that no material dilution exists in this reporting period.

SUMMARY NOTES (CONTINUED)
For the six months ended 30 September 2018

Rm	Six months 30 Sept 2018	Six months 30 Sept 2017	12 months 31 Mar 2018
12. Capital expenditure for the period	**61**	192	345
13. Operating lease commitments			
Due within one year	**179**	178	184
Due between one and five years	**778**	756	755
Due after five years	**232**	447	354
Total operating lease commitments	**1 189**	1 381	1 293

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

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

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

As a result of the group being listed, the investments by underlying asset managers in the listed shares of the group are recognised as treasury shares and all fair value adjustments recognised on these treasury shares are reversed, while the corresponding fair value adjustments of the liability continue to be recognised in the income statement. The resultant profit for the period of R20 million (2017: R11 million loss) 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 11.

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

Rm	Six months 30 Sept 2018	Six months 30 Sept 2017	12 months 31 Mar 2018
Total financial assets held under multi-manager investment contracts (per statement of financial position)	**307 400**	298 859	296 758
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	**65**	105	73
Financial effects of accounting for policyholder investments as treasury shares – prior years	**(6)**	(31)	(30)
Financial effects of accounting for policyholder investments as treasury shares – current year	**(20)**	11	24
Total financial liabilities held for policyholders under multi-manager investment contracts	**307 439**	298 944	296 825

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

Rm	Six months 30 Sept 2018	Six months 30 Sept 2017	12 months 31 Mar 2018
15. Financial assets			
15.1 Total financial assets			
Non-current financial assets	**67**	89	90
Current financial assets	**52**	437	355
	119	526	445
15.2 Analysis of financial assets			
Financial assets classified as available for sale	**–**	12	14
Financial assets designated as fair value through profit or loss[1]	**68**	284	264
Financial assets classified at amortised costs	**51**	77	85
Derivative financial assets[2]	**–**	153	82
	119	526	445

1. The decline in financial assets designated as fair value through profit or loss is due to the group's investment in unit trusts which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, thereby qualifying to be classified as cash and cash equivalents.
2. The derivative financial asset relating to the IT programme was closed out during the period.

16. Financial risk management and financial instruments

16.1 Financial risk factors

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

The summary consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements and this disclosure should be read in conjunction with the group's annual financial statements as at 31 March 2018.

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

16.2 Liquidity risk

Compared to the 31 March 2018 year-end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

16. Financial risk management and financial instruments (continued)

16.3 Fair value hierarchy

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

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

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

Rm	Level 1	Level 2	Level 3	Total
30 September 2018				
Financial assets measured at fair value				
Financial assets held under multi-manager investment contracts	186 050	107 813	5 782	299 645
Financial assets of insurance cell-captive facilities	210	168	–	378
General operations	–	1 056	14	1 070
Total financial assets measured at fair value	186 260	109 037	5 796	301 093
Cash held under multi-manager investment contracts	–	7 755	–	7 755
Cash held under insurance cell-captive contracts	–	14	–	14
	–	7 769	–	7 769
Financial liabilities measured at fair value				
Financial liabilities held under multi-manager investment contracts	–	301 657	5 782	307 439
Financial assets of insurance cell-captive facilities	–	392	–	392
Total financial liabilities measured at fair value	–	302 049	5 782	307 831

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

16. Financial risk management and financial instruments (continued)

16.3 Fair value hierarchy (continued)

Rm	Level 1	Level 2	Level 3	Total
31 March 2018				
Financial assets measured at fair value				
Financial assets held under multi-manager investment contracts	176 993	107 014	4 864	288 871
Financial assets of insurance cell-captive facilities	178	168	–	346
General operations	–	346	14	360
Total financial assets measured at fair value	177 171	107 528	4 878	289 577
Cash held under multi-manager investment contracts	–	7 887	–	7 887
Cash held under insurance cell-captive contracts	–	6	–	6
	–	7 893	–	7 893
Financial liabilities measured at fair value				
Financial liabilities held under multi-manager investment contracts	–	291 937	4 888	296 825
Financial assets of insurance cell-captive facilities	–	352	–	352
Total financial liabilities measured at fair value	–	292 289	4 888	297 177

Transfers between Levels 1 and 2

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

Level 3 reconciliation

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

SUMMARY NOTES (CONTINUED)

For the six months ended 30 September 2018

16. Financial risk management and financial instruments (continued)

16.3 Fair value hierarchy (continued)

Sensitivity analysis for Level 3 financial assets

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

Instrument	Valuation technique	Significant inputs
Suspended listed equities	Exchange trade price	Last exchange traded price
Community property company assets	Discounted cash flow model	Capitalisation rates and discounts 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.

16.4 Valuation methods and assumptions for valuation techniques

There were no material changes in the valuation methods and assumptions for valuation techniques since 31 March 2018. A detailed description of the valuation methods and assumptions for valuation techniques is available in our annual financial statements for the year ended 31 March 2018.

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

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

- Trade and other receivables
- Insurance receivables
- Cash and cash equivalents
- Trade and other payables
- Insurance payables
- Borrowings

17. Critical assumptions and judgements

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. 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.

18. Events occurring after reporting period

Subsequent to the reporting period, the group has terminated the contract with the primary implementation partner resulting in an onerous provision amounting to R52 million. This termination was treated as an adjusting event.

ANNEXURE A
GROUP SEGMENTAL INCOME AND PROFIT ANALYSIS

For the six months ended 30 September 2018

	Institutional								
	Consulting and retirements			Group risk			Investments		
Rm	2018	%	2017	2018	%	2017	2018	%	2017
Operating income net of direct expenses	**585**	7	545	**27**	(29)	38	**388**	16	335
Operating expenses before accounting for property lease[1]	**(504)**	11	(454)	**(30)**	30	(23)	**(171)**	15	(149)
Normalised operating profit before non-trading and capital items	**81**	(11)	91	**(3)**	<(100)	15	**217**	17	186
Normalised non-trading and capital items	**–**	(100)	(17)	**–**	–	–	**–**	–	–
Normalised operating profit	**81**	9	74	**(3)**	<(100)	15	**217**	17	186
Normalised net finance income	**(4)**	(43)	(7)	**4**	–	4	**43**	(9)	47
Share of profit of associates	**–**	–	–	**–**	–	–	**–**	–	–
Normalised profit before tax from continuing operations	**77**	15	67	**1**	(95)	19	**260**	12	233
Taxation[2]	**(24)**	14	(21)	**–**	<(100)	(6)	**(81)**	13	(72)
Normalised (loss)/profit for the period from continuing operations	**53**	15	46	**1**	(92)	13	**179**	11	161
Adjustments									
Amortisation of intangible assets arising from business combination									
Professional indemnity insurance cell-captive results									
Accounting for property lease									
Reported profit/(loss) arising from accounting for policyholder investment in treasury shares									
Tax effects on above adjustments									
(Loss)/profit for the year from continuing operations	**53**	15	46	**1**	(92)	13	**179**	11	161
Depreciations and amortisation[1]	**(11)**	(8)	(12)	**(2)**	–	(2)	**(9)**	10	(10)

1. Operating expenses before accounting for property lease includes depreciation and amortisation.
2. Due to the differences between the group's segmental structure and the legal entity structure, the taxation amount has been computed using the group's normalised effective tax rate. Where the segmental structure and legal entity structure align, the actual tax charge has been disclosed.
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
447	5	424	279	3	271	127	10	115	55	(23)	71	–	–	–	1 908	6	1 799
(253)	6	(238)	(189)	(10)	(211)	(105)	(5)	(110)	(55)	(23)	(71)	(154)	97	(78)	(1 461)[3]	10	(1 334)[3]
194	4	186	90	50	60	22	>100	5	–	–	–	(154)	97	(78)	447	(4)	465
–	–	–	–	–	–	(4)	–	–	–	–	–	(313)	>100	(11)	(317)	>100	(28)
194	4	186	90	50	60	18	>100	5	–	–	–	(467)	>100	(89)	130	(70)	437
1	<(100)	(4)	(5)	–	(5)	–	(100)	2	–	–	–	12	(73)	44	51	(37)	81
–	–	–	–	–	–	–	(100)	2	–	–	–	–	–	–	–	(100)	2
195	7	182	85	55	55	18	100	9	–	–	–	(455)	>100	(45)	181	(65)	520
(60)	7	(56)	(26)	53	(17)	(8)	>100	(3)	–	–	–	5	(64)	14	(194)	20	(161)
135	7	126	59	55	38	10	67	6	–	–	–	(450)	>100	(31)	(13)	<(100)	359
												(32)	(36)	(50)	(32)	(36)	(50)
												(34)	(26)	(46)	(34)	(26)	(46)
												(34)	<(100)	1	(34)	<(100)	1
												(5)	(50)	(10)	(5)	(50)	(10)
												20	<(100)	(11)	20	<(100)	(11)
												21	31	16	21	31	16
135	7	126	59	55	38	10	67	6	–	–	–	(482)	>100	(81)	(45)	<(100)	309
(14)	8	(13)	(15)	15	(13)	(3)	–	(3)	–	–	–	(2)	–	–	(56)	6	(53)
												Trading margin[3] (%)			23.2	(210bps)	25.3
												Cost-to-income[3] (%)			76.8	210bps	74.7

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 declared dividend for the period. The cover ratio may be calculated by dividing the normalised headline earnings per share by the 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; and ■ investment income and taxation payable on behalf of policyholders.

CORPORATE INFORMATION

Alexander Forbes Group Holdings Limited

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

Independent directors

N Nyembezi (Chairman), MD Collier, RM Head, M Ramplin, NG Payne, BJ Memela-Khambula, T Dloti

Non-executive directors

DJ Anderson, WS O'Regan, NB Radebe

Executive directors

DJ de Villiers (Group Chief Executive)
N Ford-Hoon (Fok) (Group Chief Financial Officer) (Resigned effective 31 December 2018)

Group general counsel and company secretary

CH Wessels

Investor relations

Z Amra

Registered office

Alexander Forbes, 115 West Street, Sandown, 2196

Transfer secretaries

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

Sponsor

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

Website

www.alexanderforbes.co.za

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Alexander Forbes Group Holdings Limited

(the company)

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