ALEXANDER FORBES GROUP HOLDINGS LIMITED

ANNUAL FINANCIAL STATEMENTS 2019

ALEXANDERFORBES

Securing your financial well-being

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DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

It is the responsibility of the independent auditor to report on the fair presentation of the financial statements. Their unmodified audit report appears on pages 7 to 13.

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

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

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

Directors' approval of annual financial statements

The group and company financial statements have been prepared in accordance with IFRS under the supervision of Mr BP Bydawell (chief financial officer), CA(SA), CFA and were approved by the board of directors on 14 June 2019 and are signed on their behalf by:

N Nyembezi
Non-executive Chair

DJ de Villiers
Chief Executive Officer

CERTIFICATE BY THE COMPANY SECRETARY

I, Catharina Helena (Carina) Wessels, hereby confirm, in my capacity as executive: governance, legal and compliance of Alexander Forbes Group Holdings Limited, that for the year ended 31 March 2019, the company has filed all required returns and notices in terms of the Companies Act 71 of 2008, as amended, with the Companies and Intellectual Property Commission and that all such returns and notices are to the best of my knowledge and belief true, correct and up to date.

CH Wessels
Executive: legal, governance and compliance (company secretary)

DIRECTORS' REPORT

for the year ended 31 March 2019

The directors have pleasure in submitting their report for the year ended 31 March 2019.

Nature of business

Alexander Forbes is a diversified financial services company headquartered in South Africa providing a broad range of retirements, consulting, investments, insurance and wealth management solutions to both corporate clients and individuals through an integrated platform. The company is dedicated to delivering outstanding employee benefits and investments solutions, as well administrative services for institutional clients and to securing the financial well-being of individual clients.

Alexander Forbes is headquartered in South Africa and listed on the Johannesburg Stock Exchange. The company's principal geographic focus is in South Africa, where it has been operating since 1935.

Directors' responsibilities

The responsibilities of the company's directors are detailed on page 1 of this document.

Financial statements and results

The financial results and financial position of the group are reflected from page 35 to page 39. The segmental analysis is included on pages 40 to 42.

Impairment of capitalised software development costs and related expenses

Following a thorough review of the strategic roadmap and related projects within the information technology programme by the board, the group has decided to terminate the contract with the primary implementation partner resulting in a R50 million termination payment as full and final settlement.

In addition, the group assessed the recoverability of software in development and concluded that no future economic benefit will flow and consequently software amounting to R290 million was written off.

Refer to note 4 for more detail.

Dividends to shareholders

Interim

The directors approved a gross interim ordinary dividend of 18 cents per ordinary share (2018: 18 cents per ordinary share) from profits. The dividend was paid on 14 January 2019 to shareholders registered on 8 January 2019.

Final

The directors have approved a gross final ordinary dividend of 12 cents per ordinary share (2018: 24 cents per ordinary share). The source of such dividends will be from profits. The dividend will be payable on 22 July 2019 to shareholders registered on 16 July 2019.

Special

The directors have approved a gross special cash dividend of 30 cents per ordinary share (2018: nil), subject to approval by the Financial Surveillance Department of the South African Reserve Bank (SARB). The source of such dividends will be from profits. The dividend will be payable on 22 July 2019 to shareholders registered on 16 July 2019, subject to SARB approval being obtained.

The directors are of the opinion that the company will satisfy the solvency and liquidity requirements of sections 4 and 46 of the Companies Act 71 of 2008.

Share capital

The authorised and issued share capital of the company at 31 March 2019 is set out in note 23 of this document.

Share incentive schemes

Information relating to the share incentive schemes is set out on pages 62 to 64.

Investigation, subsequent actions and reportable irregularity

The AFGH board initiated an investigation into allegations against the former chief executive officer. This resulted in the termination of the services of the former chief executive officer and actions to remedy all the issues identified during the investigation.

PricewaterhouseCoopers Incorporated (PwC) reported these matters as a reportable irregularity (including reporting as such to the Prudential Authority in accordance with section 252(1)(b) of the Financial Sector Regulation Act 9 of 2017) and concluded that they have been dealt with and are no longer continuing. PwC has expressed an unmodified opinion on the financial statements which are available for inspection at the company's registered office. The resultant legal processes between the former chief executive officer and the company remain ongoing.

Directors and Company Secretary

The names of the directors and the company secretary at the date of this report are detailed on the inside back cover of this document.

Change in directorate

Messrs NG Payne and T Dloti were appointed as independent non-executive directors effective 1 May and 1 August 2018 respectively. The service of Mr AA Darfoor as chief executive officer was terminated on 25 September 2018 and he was replaced by Mr DJ de Villiers on 1 November 2018.

Ms N Ford-Hoon resigned as the chief financial officer with effect from 14 December 2018 and she was replaced by Mr BP Bydawell on 1 April 2019.

The board wishes to thank Ms M Ramplin for her tremendous commitment, dedication and speed of execution on some critical

items requiring attention while caretaking the chief executive officer role during the period of transition in the current year.

Preparation of financial statements

These audited annual financial statements were compiled under the supervision of Mr BP Bydawell (chief financial officer), CA(SA), CFA.

Events after the financial year-end

Other than the declaration of the final and special cash dividends, no significant events took place between the end of the financial year and the date of this report.

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. Disclosure in respect of the current reporting will be available no later than 31 July 2019.

On behalf of the board of directors

N Nyembezi
Non-executive Chair

DJ de Villiers
Chief Executive Officer

14 June 2019

AUDIT AND RISK COMMITTEE REPORT

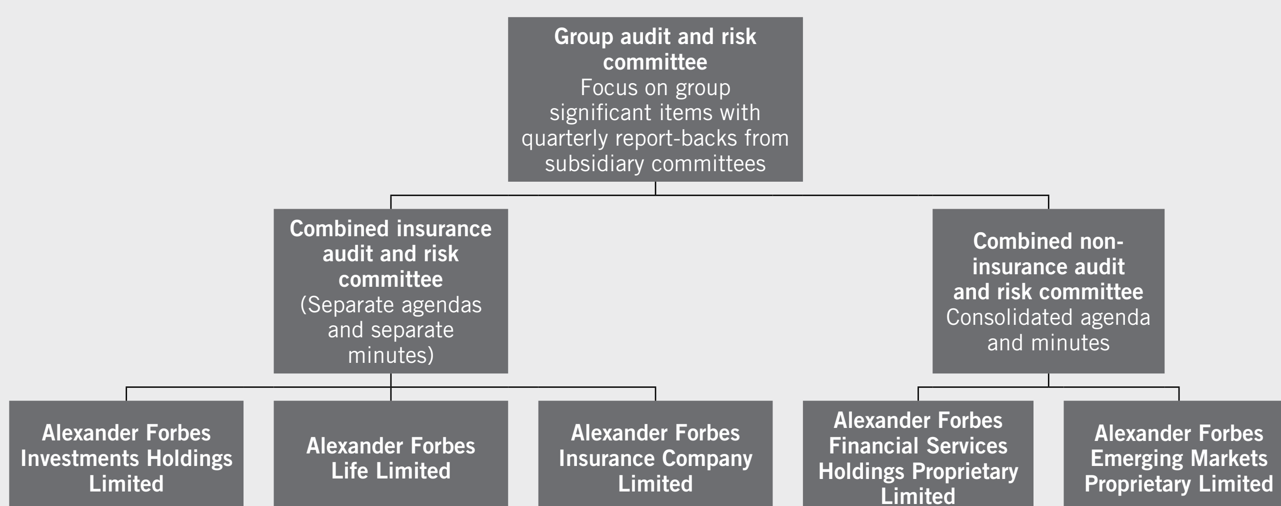
The committee is pleased to present its report for the financial year ended 31 March 2019. In 2018 we included an abbreviated version in the integrated report. This year we have combined both the statutory requirements and material aspects in relation to the committee for the reporting period in this single report.

Purpose and structure

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

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

To support the group committee, some subsidiary companies have also established audit committees and the South African structure is reflected below.



Terms of reference

The committee has adopted formal terms of reference, which are reviewed and updated as necessary on an annual basis (or more frequently if required) by both the committee and the board. The committee is satisfied that it complied with its legal, regulatory and other responsibilities during the financial year ended 31 March 2019.

The committee's primary objective is to assist the board with its responsibilities for the management of risk, safeguarding of assets, and oversight over financial control and reporting internal controls, shareholder reporting and corporate governance, particularly relating to legislative and regulatory compliance. The committee's roles and responsibilities include statutory and regulatory duties as per the Companies Act 71 of 2008, King IV, the Insurance Act 18 of 2017, JSE Limited Listings Requirements (JSE Listings Requirements) and Prudential Standards.

Composition and attendance

Mr NG Payne (Chair) 4/4
Mr MD Collier 4/4
Mr RM Head 4/4
Ms M Ramplin 4/4

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

The board chair and all non-committee member directors, chief executive officer, chief financial officer, compliance and risk heads, executive: governance, legal and compliance, chief technology officer, external auditor and head of group internal audit are standing invitees.

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

Financial statements and accounting practices

The committee reviewed the audited consolidated and separate annual financial statements of the company and group for the year ended 31 March 2019, particularly to ensure that disclosure was adequate and that fair presentation had been achieved. The committee recommended the approval of the

consolidated and separate annual financial statement to the board of directors. The committee believes that they present a balanced view of the group's performance for the period under review and that they comply with International Financial Reporting Standards.

Investigation, subsequent actions and reportable irregularity

The AFGH board initiated an investigation into allegations against the former chief executive officer. This resulted in the termination of the services of the former chief executive officer and actions to remedy all the issues identified during the investigation.

PricewaterhouseCoopers Incorporated (PwC) reported these matters as a reportable irregularity (including reporting as such to the Prudential Authority in accordance with section 252(1)(b) of the Financial Sector Regulation Act 9 of 2017) and concluded that they have been dealt with and are no longer continuing. PwC has expressed an unmodified opinion on the financial statements which are available for inspection at the company's registered office. The resultant legal processes between the former chief executive officer and the company remain ongoing.

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

Following the resignation of Ms N Ford-Hoon as chief financial officer with effect from 14 December 2018, Mr BP Bydawell returned to the company to support and stabilise the team during Ms Ford-Hoon's notice period. He remained in this role up to his appointment as chief financial officer on 1 April 2019. The board as a whole (including the audit committee members) deliberated on Mr Bydawell's expertise and experience on considering his suitability for appointment as chief financial officer and found it, and his leadership style, especially suitable for the company's current requirements. Mr Bydawell has appointed Ms R Nkgodi as deputy chief financial officer and will be focusing on ensuring the necessary internal depth and succession planning.

In relation to the reporting irregularity discussed above, the committee considered whether any reporting irregularities existed and confirm that none have been identified, however acknowledge that certain internal controls were required to be strengthened, on which immediate action was taken and progress already made.

Key items of focus

Some of the key items receiving the committee's focus during the reporting period:

- The circumstances surrounding the chief executive officer's termination received material attention, especially ensuring that no material financial reporting irregularities existed and that appropriate remedial actions were taken to immediately address identified deficiencies. This included a detailed review of some weaknesses in internal controls, largely caused by high staff turnover and a dependency on manual processing.
- A material amount of time was spent on critically evaluating the modernisation software impairment testing, which ultimately led to an impairment of R287 million and an additional R50 million in one-off operating expense as at the interim reporting period. In this regard the committee closely collaborated with the information technology governance committee, with the common members between both committees ensuring holistic review and debate. Both committees and the board recognise that this impairment resulted in a material destruction of value, but remain comfortable that the termination of the modernisation programme with the primary implementation partner was the correct strategic decision and further continuation would have led to a greater destruction of value.
- Following the extent of regulatory changes and also impacted by capacity constraints, compliance and risk maturity required attention and resulted in the establishment of the regulatory compliance project, to focus on and expedite compliance interventions. The committee will continue to receive detailed quarterly updates on the regulatory compliance progress, including the resolution of overall compliance capacity risk. Risk governance maturity and supporting policies and processes, aligned with the Prudential Standards, will continue to receive focus in the ensuing financial year.

External audit

The group's independent external auditor is PwC. Fees paid to the auditor is disclosed in note 3 to the group annual financial statements for the year ended 31 March 2019. During the year under review fees paid to PwC amounted to R28 million (2018: R26 million), which included R24 million (2018: R24 million) for statutory audit and related activities as well as R4 million (2018: R2 million) for preapproved non-audit services. The committee is satisfied with the level and extent of non-audit services rendered during the year by PwC and that such did not impact on their independence.

The committee annually assesses the independence of PwC and again completed such assessment at its meeting on 13 June 2019. PwC was required to confirm that:

- they are not precluded from reappointment due to any impediment in section 90(b) of the Companies Act;
- in compliance with section 91(5) of the Companies Act, by comparison with the membership of the firm at the time of its reappointment in 2018, more than one-half of the members remain in 2019; and
- they remain independent, as required by section 94(7)(a) of the Companies Act of South Africa and the JSE Listings Requirements.

At this meeting, the committee also specifically considered the information presented by PwC as required in terms of paragraph 22.15(h) of the JSE Listings Requirements, in relation to registration, inspections, firm internal control and

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

investigations in respect of PwC as a firm and the designated auditor, Ms A du Preez.

Based on these assessments and the information considered, the committee again nominated PwC as independent external auditor for the 2019/2020 financial year. Shareholders will therefore be requested to re-elect PwC as independent external auditor, with Ms A du Preez as designated auditor, for the 2019/2020 financial year at the AGM on 5 September 2019.

Key audit matters relevant to the consolidated financial statements

The key audit matters are those items of most significance as determined by PwC during the audit of the financial statements. The key audit matters consist of:

- goodwill impairment assessment;
- provision for errors and omissions claims including the Enhanced Transfer Value (ETV) and related reimbursement asset; and
- capitalisation and write-off assessment of developed computer software intangible assets.

For further details, refer to the independent auditor's report on pages 7 to 13.

Internal audit

The committee is responsible for ensuring that the group's internal audit function is independent and has the necessary resources, standing and authority within the group to enable it to perform its duties. Furthermore, the committee oversees co-operation between the internal and external auditors, and serves as a link between the board of directors and these functions. Internal audit continued to operate under the charter approved in the previous financial year. Following resource constraints, a reprioritisation of the annual audit plan was approved by the committee. The resource requirements have been receiving committee attention since September 2018 to ensure its appropriateness and adequate statutory and risk coverage.

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

Internal controls

Based on the review of the design, implementation and effectiveness of the group's system of internal financial controls conducted by the internal audit function during the year under review, and reports made by the independent external auditor on the results of their audit and management reports, the committee is satisfied that the company's system of internal financial controls, other than the specific items highlighted as part of the reportable irregularity and elsewhere in this report, is effective and forms a basis for the preparation of reliable financial statements.

Going concern

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

Key items of future focus

The following areas, in addition to continuing items from the year under review, will be:

- In achieving the strategic objective of an integrated company, the committee will support the board by evaluating how governance systems and processes can be simplified and integrated, while still ensuring appropriate coverage of and oversight over all areas.
- Both the committee and capital oversight committee will be debating the capital structure and capital efficiency towards the capital-light strategic objective.

Nigel Payne
Committee Chair

Sandton
14 June 2019

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Alexander Forbes Group Holdings Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Alexander Forbes Group Holdings Limited (the company) and its subsidiaries (together the group) as at 31 March 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

What we have audited

Alexander Forbes Group Holdings Limited's consolidated and separate financial statements set out on pages 14 to 126 comprise:

- the group and company statements of financial position as at 31 March 2019;
- the group and company income statements for the year then ended;
- the group and company statements of comprehensive income for the year then ended;
- the group and company statements of changes in equity for the year then ended;
- the group and company statements of cash flows for the year then ended;
- the accounting policies; and
- the notes to the financial statements.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

Materiality Group scoping Key audit matters	**Overall group materiality** ▪ R53 million.
	Group audit scope ▪ Full scope audits for 16 of 41 components (a component represents a subsidiary or a sub-group of subsidiaries) based on their financial significance. ▪ Specified audit procedures and analytical review procedures were performed on the remaining components.
	Key audit matters ▪ Goodwill impairment assessment. ▪ Provision for errors and omissions claims and the Enhanced Transfer Value (ETV) and related reimbursement asset. ▪ Capitalisation and write-off assessment of developed computer software intangible assets.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

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

Materiality

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

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

Overall group materiality	R53 million.
How we determined it	5% of consolidated profit before tax adjusted for the write-off of developed computer software intangible assets and contract exit costs (as per note 13).
Rationale for the materiality benchmark applied	The benchmark used to calculate materiality for the group is based on consolidated profit before tax, adjusted for the write-off of software costs and separation fees relating to the exit of the software supplier, because, in our view, it is the most suitable benchmark for a profit-oriented group whose equity securities are publicly traded. The write-off of software and separation costs were added back to consolidated profit before tax, as it is not reflective of the ongoing operations of the business. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

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

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

Our involvement included the following:

- issued group audit instructions;
- met with the component audit teams and reviewed their audit findings;
- for the most significant South African (representing more than 90% of net profit before taxation of the group) and foreign components (Botswana and Namibia, of which the PwC network audits one), we inspected audit working papers on site;
- attended quarterly audit committee meetings throughout the financial year for all significant components; and
- kept regular communication with audit teams throughout the year and appropriately directed their audits.

Specified audit procedures and analytical review procedures were performed on the remaining components.

By performing these procedures, together with the procedures performed on the consolidation, intercompany eliminations and the analytical procedures performed at a group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

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

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

<table>
<tr><th>Key audit matters</th><th>How our audit addressed the key audit matters</th></tr>
<tr><td>Goodwill impairment assessment
The group's goodwill amounting to R2.5 billion as at 31 March 2019 (2018: R3 billion) arose upon its reorganisation in 2007.

In the current year the group designated R500 million of goodwill related to the insurance businesses in South Africa and Namibia as held for sale as detailed in note 21.

We considered the goodwill impairment assessment to be a matter of most significance to our audit due to the magnitude of the goodwill balance and the significant judgement exercised by the directors in assessing impairment. For the year ended 31 March 2019 management performed an impairment assessment over the goodwill balance by calculating the value in use for each cash-generating unit (CGU) using a discounted cash flow method. Value in use is used to describe the present value of future cash flows derived from the use of an asset. The value in use models include assumptions relating to the future results of the business and the discount rates and terminal growth rates applied to the future cash flow forecasts. These models included projected cash flows for each CGU for five years, with a terminal growth rate applied after the fifth year.

Refer to the group's accounting policies and note 14 for the disclosure and measurement of goodwill, which includes the disclosures made by the directors on the critical assumptions, significant estimates and judgements in respect of the goodwill impairment assessment.</td><td>We tested key assumptions and methodologies used in the goodwill impairment assessment performed by the group, in particular those relating to the discount rates, market assumptions and terminal growth rates:
- We used our valuations expertise to evaluate inputs and assumptions used in determining the discount rate. This was achieved with reference to inputs used by similar entities as well as the market.
- With respect to the other market assumptions, we independently assessed these in comparison to externally derived data, where possible, including market expectations of investment returns, projected economic growth and interest rates.
- We tested the sensitivity of the impairment model to the discount rates, terminal growth rate, operating profit and capital expenditure. No impairment indicators were identified from the sensitivity analysis.
- We evaluated the reasonability of the assumptions applied in the budgeting process by comparing them to the historical results, economic outlook and industry forecasts.

We performed the following procedures to test the valuation model:
- assessed the model, including the CGUs and related asset allocation, for consistency against the prior year based on our understanding of the group's corporate structure;
- tested the access, change and maintenance controls of the budget information technology (IT) programme to assess its reasonability using our IT specialists;
- understood and assessed for reasonability the group's budget process, protocols and approval by the board;
- evaluated management's cash flow forecasts included in the budget by performing a comparison of the historical budgets against actual results. We challenged management on the reasonability of these cash flow projections by comparing expected cash flow, terminal values and growth assumptions to historical results, management-approved forecasts and independent sources; and
- tested the accuracy of the calculations used in the model and found no material differences.

In considering the impact of the requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations on the impairment assessment, we inspected whether the held-for-sale assets that fell within the definition of IFRS 5 were appropriately removed from the relevant goodwill CGUs, as detailed in note 21 of the financial statements.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

Key audit matters	How our audit addressed the key audit matters
Provision for errors and omissions claims and the Enhanced Transfer Value (ETV) and related reimbursement asset The group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions committed in the ordinary course of its business activities. This results in actual, probable and possible liabilities as accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The group has recognised a provision for errors and omissions claims of R38 million (2018: R189 million) and an ETV provision of R197 million. A reimbursement asset was also recognised relating to the ETV provision of R122 million. The recognition of the provisions is determined to be a key audit matter due to the level of judgement used by management in determining both the likelihood of negative outcomes of the associated claims, as well as the potential magnitude of each outcome. The reimbursement asset is a key audit matter as judgement was required to assess whether the recoverability of the asset is 'virtually certain' as defined by the accounting standards. Refer to the group's accounting policies and notes 19 and 28 for disclosures of the errors and omissions claims policy, the significant estimates and the process of determining the provision amounts and the critical assumptions and judgements applied, and the ETV reimbursement asset.	We performed the following procedures to evaluate the provision for errors and omissions: ■ considered the accounting for the provision for errors and omissions claims in terms of the group's accounting policies and IFRS by independently evaluating the conclusions made by management on the likelihood and potential magnitude on a sample of claims; ■ assessed and tested the controls over the identification, evaluation, provisioning and reporting of various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions; ■ tested the controls around the reporting of incidents and quarterly declarations made by divisional management to the board of directors; ■ assessed the risk ratings assigned by management by inspection of the evidence relating to the assigned risk rating for a sample of claims; ■ circulated legal confirmation letters and instructions to component audit teams to further identify claims not reported by management. No material exceptions were identified; ■ compared a sample of claims paid to the provisions raised in previous periods and observed that management's provisioning process predicted the outcome within a reasonable range; and ■ evaluated claims with unquantified exposures at year-end through inspection of the latest available information and inquiry of management for a sample of claims. Based on the evidence obtained we have not identified liabilities that should have been raised. We performed the following procedures to evaluate the ETV claim liability included in the provision for errors and omissions: ■ obtained an understanding of the developments in the ETV claim, including the underlying assumptions, rationale and sensitivities relating to the provision, through meetings with management, board members and experts (both management and PwC) in the UK claim. We assessed management's application of the requirements of IAS 37 to the ETV claim based on this understanding; ■ obtained the Skilled Person's Report, which includes a calculation of the provision by an expert appointed by the UK Regulator and obtained a confirmation from an independent management expert, appointed by Alexander Forbes, detailing the critical aspects of the calculation, including areas of judgement in quantifying the ETV claim. We assessed these calculations for reasonability by comparing the assumptions and methods applied by management's expert to the Skilled Person's Report and by performing a sensitivity analysis on the critical areas of judgement. We found the calculations to be consistent with one another; ■ assessed the independence, competence and objectivity of management's expert by considering the reputation of the expert in the industry; ■ tested management's calculation of the provisions relating to the ETV claim for accuracy; ■ assessed the impact of subsequent events through inquiry with management and updating the assessment of key inputs for developments in the claim that occurred between the date of the financial statements and the date the financial statements were approved for issue; and ■ evaluated the disclosure of the ETV claim in accordance with the requirements of IAS 37. We performed the following procedures to evaluate the ETV reimbursement asset: ■ inspected the group's insurance policies to understand the terms and conditions attached to the reinsurance of the ETV liability; and ■ assessed the recognition of the insurance asset against the requirements of IAS 37, placing specific focus on the requirement of 'virtually certain' in the IFRS recognition criteria. We obtained a confirmation letter from the lead insurer subscribing to the primary layer of the insurance policy relating to the ETV claim. The letter confirmed that the full reserve has been raised, the lead insurer has sufficient funds to meet its obligations and sufficient disclosures have been made by the group to the lead insurer to assess the claim against information available at 31 March 2019.

Key audit matters	How our audit addressed the key audit matters
Capitalisation and write-off assessment of developed computer software intangible assets Amounts capitalised to developed computer software intangible assets amounted to R83 million (2018: R270 million). Write-off expenses amounting to R262 million (2018: R17 million) are detailed in note 13. The write-off relates mainly to the Sapiens contract which was subsequently terminated and fully written off. The group's IT modernisation plan was terminated during the course of 2019. We considered the capitalisation of the developed computer software intangible assets and related write-off in 2019 to be a matter of most significance to our audit due to the magnitude of the write-off and the judgement required in assessing whether directly associated costs (which include employee costs and an appropriate portion of relevant overheads of the system development team) meet the recognition criteria as defined in the group's accounting policies as an asset. Refer to the group's accounting policies and note 13 for the disclosure and recognition criteria of software intangibles which includes the disclosures made by the directors on the critical assumptions, significant estimates and judgements used in the recognition of developed computer software intangibles and testing for write-off.	We performed the following procedures on the write-off of the Sapiens contract: ■ inspected the Sapiens exit contract, which was signed by management, validating the entire write-off of the Sapiens project; ■ traced the termination payments to bank statements; and ■ tested the mathematical accuracy of the accounting for the write-off. No exceptions were noted. We performed the following procedures to assess the capitalisation of developed computer software intangible assets: ■ compared the recognition and measurement of developed computer software intangible assets per the group's accounting policy to the requirements of IAS 38 *Intangible Assets*; ■ inspected management's capitalisation rationale and methodology documentation for costs attributable to developing the system, such as employees' and consultant costs that are capitalised; ■ inspected the cluster and project plans including underlying benefits (e.g. increased efficiency assumptions) and agreed them on a sample basis to the approved plans and benefits that were presented by management to the IT modernisation subcommittee meeting; and ■ selected a sample of invoices for inspection and considered the foreign cost conversion, assessed that they were correctly capitalised in terms of the capitalisation recognition requirements and assessed whether the costs were recognised in the correct financial period. We performed the following procedures on the impairment assessment relating to the remaining developed computer software intangible assets in use: ■ inspected the discounted cash flow models to assess the appropriateness thereof and confirm that the model has been consistently applied throughout the group; ■ confirmed that there were no instances where software had not been utilised for prolonged periods of time through inquiry of management and inspection of the online platform; and ■ considered new developments in technology and any defects in the current software in use that may render the software obsolete through inquiry of management and inspection of online platforms. Based on the above procedures, no impairment indicators were noted.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the Alexander Forbes Group Holdings Limited Annual Financial Statements for the year ended 31 March 2019, which includes the Directors' Report, the Audit and Risk Committee Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this audit report, and the Alexander Forbes Group Holdings Limited Integrated Annual Report 2019, which is expected to be made available to us after that date.

Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Alexander Forbes Group Holdings Limited for 45 years.

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularity has been described in note 42 of the financial statements.

PricewaterhouseCoopers Inc.
Director: Alsue du Preez
Registered Auditor

Johannesburg
14 June 2019

ACCOUNTING POLICIES

for the year ended 31 March 2019

The principal accounting policies applied in the preparation of the group and company financial statements are set out below. These policies are consistent with those applied in the previous year, except for the changes required by standards, amendments and interpretations effective in 2019.

Basis of preparation

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

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

- Derivative financial instruments are measured at fair value.
- Financial instruments measured at fair value.
- Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.
- Defined benefit pension plans – plan assets measured at fair value.

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

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

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

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

Standards, amendments and interpretations effective in 2019

The following standards, amendments and interpretations have been adopted by the group for the first time for the financial year ended 31 March 2019. The adoption of these amendments did not have a significant impact on the current period or any prior period and is not likely to affect future periods except for IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

Effective date	Standard, amendment or interpretation
1 January 2018	IFRS 9 *Financial Instruments*
	IFRS 15 *Revenue from Contracts with Customers*
	Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
	Annual Improvements 2014 – 2016 cycle
	Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
	Annual Improvements to IFRS standards 2015 – 2017 cycle

Standards, amendments and interpretations not yet effective

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 31 March 2019 reporting periods and have not been early adopted by the group. The group's assessment of the impact of material new standards and interpretations is set out below.

Title of standard	IFRS 16 *Leases*
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.
Impact	The group finance team has set up a committee which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the group's operating leases. As at the reporting date the group has non-cancellable operating lease commitments of R1 144 million (see note 33). Of these commitments a negligible portion relates to short-term leases and low-value leases which will both be recognised on a straight-line basis as an expense in profit or loss. For the remaining lease commitments the group expects to recognise right-of-use assets of approximately R736 million (which includes notional VAT) on 1 April 2019, lease liabilities of approximately R1 084 million and deferred tax asset of approximately R97 million. The adoption of IFRS 16 will on the date of initial application result in a deficit in equity of approximately R251 million.

The group expects that net profit before tax will decrease by approximately R10 million for 2020 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately R138 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The group's activities as a lessor are not material and hence the group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

The group will apply the standard from its mandatory adoption date of 1 April 2019. The group intends to apply the retrospective transition approach and accordingly will restate comparative information as if this new standard had always applied.

Title of standard	**IFRS 17 *Insurance Contracts***
Impact	Following an announcement by the group that it will be exiting the insurance business via a sales transaction, the insurance results are now classified as discontinued operations. The sale of the insurance business is expected to be concluded within 12 months. IFRS 17 is mandatory for financial years commencing on or after 1 January 2022. Consequently, this new accounting standard is not applicable and will have no impact on the group.

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

Consolidation

(a) Subsidiaries

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

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

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

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

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

(b) Non-controlling interests

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

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

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

(c) Structured entities

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

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2019

(d) Associates

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

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

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

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

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

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

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

(e) Collective investment schemes

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

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

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

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

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

Foreign currency

(a) Functional and presentation currency

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

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

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

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

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

Translation differences on monetary items, such as financial assets held at FVTPL, are reported as part of the fair value gain or loss on such instruments. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value

was determined. Translation differences on non-monetary financial assets and liabilities, such as equities held at FVTPL, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as fair value through other comprehensive income (2018: available-for-sale financial assets), are included in other comprehensive income.

(c) Foreign exchange gains and losses arising on consolidation

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

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

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign currency gains or losses on such item are considered to form part of the net investment in the foreign operation and are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

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

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

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

Property and equipment

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

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

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

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

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

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

Goodwill

Goodwill arises on the acquisition of subsidiaries and associates.

The group measures goodwill at the acquisition date as:

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

ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2019

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

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

Intangible assets

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

(a) Purchased and developed computer software

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

Purchased computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over the useful life of the asset. Costs may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency costs of developing software.

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

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

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

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

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

Customer relationships

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

Trade names

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

(c) Deferred acquisition costs (DACs)

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

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

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

(d) Trademarks and licences

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

Financial assets

(i) Classification

From 1 April 2018 the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost.

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

In addition, when the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset the group recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate is recalculated.

(iii) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. The group has classified its debt instruments into the at amortised cost category. The group's debt instruments are held for collection of contractual cash flows which represent solely payments of principal and interest. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in investment income together with foreign exchange gains and losses.

Equity instruments

The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other investment income in the statement of profit or loss as applicable.

(iv) Impairment

From 1 April 2018 the group assesses on a forward-looking basis the expected credit losses (ECLs) associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

General method

At each reporting date the group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of ECLs. To make that assessment, the group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

The group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

Simplified method

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected

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lifetime losses to be recognised from initial recognition of the receivables, see note 44 for further details.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date the group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the group on terms that the group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Accounting policies applied until 31 March 2018

The group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Classification

Until 31 March 2018 the group classified its financial assets in the following categories:

- financial assets at FVTPL;
- loans and receivables; and
- available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition.

Reclassification

The group could choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9 (see description above).

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVTPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised as follows:

- for financial assets at FVTPL – in profit or loss within other gains/(losses); or
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in OCI; or
- for other monetary and non-monetary securities classified as available for sale – in OCI.

Details on how the fair value of financial instruments is determined are disclosed in note 44: Financial risk.

When securities classified as available for sale were sold the accumulated fair value adjustments recognised in OCI

were reclassified to profit or loss as gains and losses from investment securities.

Impairment

The group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Impairment testing of trade receivables is described in note 44: Financial risk.

Assets classified as available for sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – was removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available for sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

Derivative financial instruments and hedging

The group's policy for derivatives financial instruments and hedging did not change on adoption of IFRS 9.

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

- a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

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

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

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

Movements in the hedging reserve in shareholders' equity are shown in note 22.5. Other changes in the fair value of derivative instruments are recognised immediately in profit or loss.

Cash flow hedges that qualify for hedge accounting

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

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

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

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

Impairment of non-financial assets

(a) Goodwill

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

(b) Impairment of other non-financial assets

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

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

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

Cash and cash equivalents

Cash and cash equivalents include the following:

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

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

Accrued income

Other receivables include contract work in progress in respect of unbilled consulting fees. Contract work in progress is assessed for impairment like normal trade receivables (refer to note 44.1.2).

Equity

(a) Share capital

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

(b) Dividend distributions

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

(c) Treasury shares

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

(d) Share-based payment reserve

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

Classification of insurance and investment contracts

The group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the group defines a significant insurance risk as the possibility of having to pay benefits, on the occurrence of an insured event, that are at least

10% more than the benefits payable if the insured event did not occur. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable.

Insurance contracts

Insurance contracts are classified into two main categories depending on the duration of risk and whether or not the terms and conditions are fixed.

(a) Short-term insurance contracts

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

(b) Short-term insurance liabilities

The following are classified as short-term insurance liabilities:

Unearned premiums – Liabilities of insurance cell-captive facilities

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

Outstanding claims

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

(c) Long-term insurance contracts

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

(d) Long-term insurance liabilities

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

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

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

(e) Receivables and payables related to insurance contracts

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

(f) Embedded derivatives

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

(g) Deferred policy acquisition costs (DPACs)

Commissions and other acquisition costs arising from property and casualty short-term insurance contracts that vary with, and are related to, securing new contracts and renewing existing contracts are capitalised. All other costs

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are recognised in profit or loss when incurred. The DPAC is subsequently amortised and recognised in profit or loss over the life of the policies as premiums are earned.

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

(h) Liability adequacy test

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

(i) Reinsurance contracts held

Contracts entered into by the group with reinsurers, under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. The benefits to which the group is entitled under its reinsurance contracts are recognised as reinsurance assets and are included in insurance-related receivables from underwriting activities. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from, or due to, reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

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

(j) Salvage and subrogation reimbursements

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

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

Investment contracts

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

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

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

Financial liabilities

The group classifies its financial liabilities in the following categories:

- financial liabilities at FVTPL; and
- financial liabilities at amortised cost.

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

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

The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include

only data from observable markets. Where the transaction price is not necessarily the fair value of the financial liabilities the day-one gain or loss is deferred and recognised over the term of the liability.

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

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

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

(a) Financial liabilities at FVTPL

This category has two subcategories:

- financial liabilities held for trading; and
- those designated at FVTPL at inception.

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

A financial liability is designated as FVTPL where the group determines such a designation will eliminate an accounting mismatch because the related assets are carried at FVTPL.

All classes of financial liabilities classified on the statement of financial position as liabilities of insurance cell-captive contracts are designated as FVTPL.

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

(b) Financial liabilities at amortised cost

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

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

Deferred tax

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

Deferred tax is not recognised for the following temporary differences:

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

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

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

Employee benefits

(a) Pension obligations

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

A defined contribution plan is a post-employment benefit plan under which the group and/or employees pay fixed contributions into a separate entity. The group has no legal

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

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

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

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

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

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

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

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

Past service costs are recognised immediately in profit or loss.

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

(b) Post-employment medical obligations

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

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

(c) Short-term employee benefits

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

(d) Termination benefits

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

Share-based payments

The Alexander Forbes group operates a number of equity-settled, share-based compensation plans under which the subsidiary entities receive services from employees as consideration for equity instruments (shares) of the ultimate holding company. The fair value of the employee services received in exchange for the grant of the shares is recognised as

an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted:

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

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

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

When the shares vest, in some circumstances, the ultimate holding company issues new shares to settle. In other circumstances, when shares vest, the company settles using shares of the company previously acquired from the market.

Provisions

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

Leases

(a) Finance leases

Assets acquired under lease agreements that transfer substantially all the risks and rewards of ownership to the group are accounted for as finance leases. The asset is capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments upon initial recognition, with an equivalent amount being stated as a finance lease liability. The capitalised asset is depreciated over the shorter of the useful life of the asset or the lease term. Lease payments are apportioned between finance costs and capital repayments using the effective interest method. Finance costs are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance costs are recognised in profit or loss over the lease period.

(b) Operating leases

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

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

Contingencies and commitments

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

Income from operations

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

- commission fees in respect of brokerage, administration, management and consultancy services;
- net underwriting profit from the risk-taking activities of insurance operations; and
- interest revenue from financing operations and insurance operations.

Income recognition – general operations

(a) Financial services

- *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. Consulting services provided by the group to a client are, in our view, a series of distinct services that are substantially the same and have the same pattern of transfer to each client. For instance, each increment of the group's services – for example, a day or month of consulting services – is distinct because the client can benefit from it on its own. In addition, each increment of service (a day or month) is separately identifiable from those preceding it and following it. Further, each consulting services contract with a client is a single performance obligation to provide consulting services to each client over the duration of the contract. As a result, revenue from consulting services to a fund shall continue to be recognised/accrued and recorded on a monthly basis.

ACCOUNTING POLICIES (CONTINUED)
for the year ended 31 March 2019

- *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. The group does not have an enforceable right to payment for work completed to date. Fees derived from actuarial consulting services are recognised at a point in time as the customer receives benefit on delivery of the actuarial report.
- *Administration fees* – comprise fees earned for the administration of retirement funds. Fees derived from administration services are recognised over time as each client receives benefits as services are performed. The fee income earned by the group is based on an agreed percentage and is payable to the group monthly in arrears. The monthly administration services provided by the group to a client are, in our view, a series of distinct services that are substantially the same and have the same pattern of transfer to the client. For instance, each increment of the group's services – for example, a month of administration services – is distinct because the client can benefit from it on its own. In addition, each increment of service (a month) is separately identifiable from those preceding it and following it. Further, each administration services contract with a customer is a single performance obligation to provide administration services to a client over the duration of the contract. As a result, revenue from administration services is recognised and recorded monthly.
- *Commission income* – comprises commissions earned in respect of insurance and investment products. Commission income is derived from brokerage services and consulting services. The revenue relating to brokerage services is recognised on placement of a client. As the commission is recognised upfront, management has assessed and concluded, based on history, that it is highly probable that there will not be a significant reversal of revenue.

  The consulting services portion is treated in the same way as described above under consulting fees.
- *Healthcare commission income* – commission fees relate to brokerage services by the company's personnel acting as brokers for insurers. In management's view, the monthly fees relate to a monthly service provided by the company to a client. These services in our view are a series of distinct services that are substantially the same and have the same pattern of transfer to the client. For instance, each increment of the company's services – for example, a day or month that the client remains with the insurer – is distinct because the insurer can benefit from it on its own. In addition, each increment of service (a day or month) is separately identifiable from those preceding it and following it. Further, each contract with a client is a single performance obligation to provide services to the client over the duration of the contract. As a result monthly commission fees are recognised and recorded on a monthly basis.

  Payments made to healthcare clients are deducted from fees generated from those healthcare clients, thereby reducing the amount of revenue that would have been recognised.
- *Fund annuity purchase fees* – comprise fees earned on fund annuity purchases. The group has identified a single performance obligation which is satisfied at a point in time. Fees are recognised in income with reference to the value of the assets transferred.

(b) Multi-manager investment – AF Investments

- *Multi-manager investment fees* – comprise fees earned for the management/administration of retirement funds. Daily management/administration services provided by the group to a client are, in our view, a series of distinct services that are substantially the same and have the same pattern of transfer to the client. For instance, each increment of the group's services – for example, a day of investment management/administration services – is distinct because the client can benefit from it on its own. In addition, each increment of service (a day) is separately identifiable from those preceding it and following it. Further, each investment management/administration services contract with a customer is a single performance obligation to provide investment management/administration services to the customer over the duration of the contract. As a result, revenue from investment management/administration services is recognised daily and recorded monthly.
- *Transition management fees* – comprise fees earned for services provided in relation to the transfer of investment assets. The group has identified a single performance obligation which is satisfied at a point in time. The group recognised transition management fees in income on transfer of investment assets by reference to the net asset value of the assets transferred.

Income recognition – financing and insurance operations

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

Income recognition – insurance operations

- *Income from insurance activities* – refer to the accounting policies on insurance contracts.
- *Reinsurance commission income* – comprises commissions earned in respect of insurance referred to reinsurers. Income is recognised on the effective commencement

or renewal date of the insurance policy. A portion of the income is deferred when further servicing is required to be rendered. The amount deferred is that which will cover the expected future servicing costs, together with a reasonable profit thereon, and is recognised as a liability. Deferred income is recognised in profit or loss evenly over the period of the policy.

- *Profit commission* – comprises negotiated profit shares with reinsurers. Income is recognised when earned.
- *Management fees on insurance cell-captive contracts* – income is calculated as a percentage of premiums received. Income is recognised on the effective commencement or renewal dates of the related insurance programme. A portion of the management fees is deferred to cover the expected future servicing costs, together with a reasonable profit thereon, and is recognised as a liability. The deferred income is recognised over the servicing period on a consistent basis, reflecting the pattern of servicing activities.

Profit from operations before non-trading and capital items

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

Non-trading and capital items

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

Investment income

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

Finance costs

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

Income tax

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

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

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

(a) Current tax

The current income tax and capital gains tax charges are the expected taxes payable or receivable on the taxable income or loss for the year, using applicable tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(b) Deferred tax

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

Segment reporting

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

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

When the group changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, is restated unless

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2019

the information is not available and the cost to develop it would be excessive.

Non-current assets held for sale

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

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

Discontinued operations

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

Critical assumptions and judgements

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

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

   The actuarial value of policyholder assets and liabilities arising from long-term insurance contracts is determined using the FSV method as described in SAP 104.

   The method requires a number of assumptions as inputs to the valuation model. The process followed to determine the valuation assumptions is outlined in note 31: Insurance payables.

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

   The estimation of the ultimate liability arising from claims under short-term insurance contracts has several sources of uncertainty. The risk environment can change suddenly and unexpectedly owing to a wide range of events or influences. There is no absolute certainty in respect of identifying risks at an early stage, measuring them sufficiently or correctly estimating their real hazard potential. Over time the group has developed a methodology that is aimed at establishing insurance provisions that have a reasonable likelihood of being adequate to settle all its insurance obligations. Refer to note 31: Insurance payables for more details.

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

   Due to the nature of its activities the group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions or non-compliance with laws and regulations in the conduct of its ordinary course of business. As with any business with similar operations to the group, the risk exists that new claims relating to past events and significant adverse developments in past claims could result in material changes to provisions made in respect of prior years. Refer to note 28.2: Provision for errors and omissions claims for further information.

4. **Goodwill**

   The group recorded significant goodwill (and intangible assets) upon its reorganisation in 2007 in terms of IFRS 3. These goodwill balances are evaluated for impairment on an annual basis. This evaluation is based on the estimation of future cash flows and discount rates as further explained in note 14: Goodwill.

5. **Fair value**

   Financial instruments

   The group's policy for determining the fair value of financial instruments is described in the accounting policies. The group holds a number of financial assets and liabilities that are designated at fair value through profit or loss. Full disclosure of the valuation hierarchy and sensitivities is contained in the risk management section of this report. Refer to note 44: Financial risk.

6. **Employment benefit obligations**

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

   The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country-specific conditions. The inflation rate used is a rate within

the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index-linked bonds of a similar term.

Other key assumptions for post-employment medical benefit obligations are based in part on current market conditions. Additional information is disclosed in note 26: Employee benefits.

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

7. Deferred tax assets

The deferred tax assets include amounts relating to two subsidiary companies. These two companies are currently making losses owing to an inability to recover their operating costs fully. The group has assessed the future profitability of these two entities and concluded that the deferred assets arising from deductible temporary differences and tax losses will be recoverable using the estimated future taxable income based on approved business plans and budgets for the subsidiaries. The subsidiaries are expected to generate taxable income from 2020 and onwards. The losses can be carried forward indefinitely and have no expiry date.

8. Collective investment schemes

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

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

Refer to note 46: Consolidated and unconsolidated entities.

9. Developed computer software

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

Expenditure, which enhances and extends the benefits of computer software programs beyond their original specifications and lives, is recognised as a capital improvement and added to the original cost of the software.

Refer to note 13: Purchased and developed computer software.

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

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

Refer to note 14.4 for key assumptions and sensitivity thereof.

Changes in significant accounting policies

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 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.

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 details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the group's various 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.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2019

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 and administration fees – comprise fees earned in respect of advisory services. Fees derived from consulting and administration services are recognised over time as the customer receives benefits as services are performed. Prior to the adoption of IFRS 15 revenue from consulting and administration services were 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 and administration 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 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 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 treated in the same way as described above under consulting and administration fees. The commission is received upfront and management has concluded, based on history, 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 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 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 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 results.

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*. IFRS 9 was adopted without restating comparative information. The reclassifications adjustments arising from the new impairment rules are therefore not reflected in the restated statement of financial position as at 31 March 2018, but are recognised in the opening statement of financial position on 1 April 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 April 2018 is described 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.

Trade receivable

A subsidiary within the group 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.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, accumulated profits and non-controlling interest:

Rm	31 March 2019
Opening accumulated profits – IAS 39/IAS 18	
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	**108**
IFRS 9 expected credit losses	**29**
Amounts without adoption of IFRS 9	**137**
Trade and other receivables	
As reported	**415**
IFRS 9 expected credit losses	**11**
Amounts without adoption of IFRS 9	**426**

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2019

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial assets and financial liabilities as at 1 April 2018.

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

Reclassifications of financial instruments on adoption of IFRS 9 – 1 April 2018

Rm	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Financial assets held under multi-manager investment contracts				
Fair value through profit or loss	FVTPL	FVTPL	**288 871**	**288 871**
Loans and receivables	Loans and receivables	FVTPL	**7 887**	**7 887**
Financial assets of cell-captive insurance facilities and insurance contracts				
Fair value through profit or loss	FVTPL	FVTPL	**178**	**178**
Balances relating to insurance contracts – carried at fair value	FVTPL	FVTPL	**168**	**168**
Loans and receivables	Loans and receivables	FVTPL	**6**	**6**
General operations				
Financial assets				
Available for sale	FVTOCI	FVTOCI	**14**	**14**
Fair value through profit or loss	FVTPL	FVTPL	**264**	**264**
Derivative financial asset – cash flow hedge	FVTOCI	FVTOCI	**82**	**82**
Loans and receivables	Loans and receivables	Amortised cost	**85**	**85**
Insurance receivables	Loans and receivables	Amortised cost	**1 339**	**1 339**
Trade and other receivables	Loans and receivables	Amortised cost	**224**	**224**
Cash and cash equivalents				
Money market	Loans and receivables	FVTPL	**500**	**500**
Other	Loans and receivables	Amortised cost	**5 294**	**5 294**
Total financial assets			**304 912**	**304 912**
Financial liabilities				
Financial liabilities held under multi-manager investment contracts	Designated – FVTPL	Designated – FVTPL	**296 825**	**296 825**
Liabilities of cell-captive insurance facilities	Designated – FVTPL	Designated – FVTPL	**352**	**352**
Borrowings	Amortised cost	Amortised cost	**719**	**719**
Finance lease liability	Amortised cost	Amortised cost	**51**	**51**
Insurance payables	Amortised cost	Amortised cost	**2 029**	**2 029**
Trade and other payables	Amortised cost	Amortised cost	**510**	**510**
Total financial liabilities			**300 486**	**300 486**

FVTPL – Fair value through profit/loss
FVTOCI – Fair value through other comprehensive income

GROUP INCOME STATEMENT

for the year ended 31 March 2019

Rm	Notes	2019	Restated 2018[1]
Continuing operations			
Fee and commission revenue	2	**4 058**	3 981
Fee and commission expenses		**(922)**	(971)
Operating income net of direct expenses		**3 136**	3 010
Operating expenses	3	**(2 458)**	(2 177)
Profit from operations before non-trading and capital items		**678**	833
Non-trading and capital items	4	**(231)**	(159)
Operating profit		**447**	674
Investment income	5	**213**	208
Finance costs	6	**(89)**	(96)
Reported profit/(loss) arising from accounting for policyholder investments as treasury shares	10.3	**8**	(24)
Share of net loss of associate (net of income tax)		**(4)**	–
Profit before taxation		**575**	762
Income tax expense	7	**(259)**	(260)
Income tax expense relating to group profits		**(238)**	(271)
Income tax (expense)/credit relating to policyholder investment returns		**(21)**	11
Profit for the year from continuing operations		**316**	502
Discontinued operations			
Profit/(loss) from discontinued operations (net of tax)	21.1	**72**	(175)
Profit for the year		**388**	327
Profit attributable to:			
Owners of the company		**334**	240
Non-controlling interest	8	**54**	87
		388	327
Basic earnings/(loss) per share (cents)			
Continuing operations		**21.6**	33.3
Discontinued operations		**5.4**	(14.4)
Total operations	9	**27.0**	18.9
Diluted earnings/(loss) per share (cents)			
Continuing operations		**21.3**	33.2
Discontinued operations		**5.4**	(14.4)
Total operations	9	**26.7**	18.8

[1] Restated for the effects of discontinued operations. Refer to note 21.1.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2019

Rm	Notes	2019	Restated 2018[1]
Profit for the year		**388**	327
Other comprehensive income:			
Foreign currency translation differences – foreign operations		**44**	(9)
Foreign currency translation reserve reclassified to profit or loss on loss of control		**(17)**	–
Cash flow hedge	22.5	**40**	(37)
Other comprehensive income for the year that may be reclassified to profit or loss[2]		**67**	(46)
Remeasurement of post-employment benefit obligations	26.3	**–**	3
Other comprehensive income that will not be reclassified to profit or loss[2]		**–**	3
Total comprehensive income for the year		**455**	284
Total comprehensive income attributable to:			
Owners of the company		**394**	201
Non-controlling interest		**61**	83
Total comprehensive income for the year		**455**	284

1. Restated for the effects of discontinued operations.
2. Net of related taxes.

GROUP STATEMENT OF FINANCIAL POSITION

at 31 March 2019

Rm	Notes	2019	2018
ASSETS			
Financial assets held under multi-manager investment contracts	10	**299 852**	296 758
Financial assets of insurance cell-captive facilities	11	**–**	352
Property and equipment	12	**139**	174
Purchased and developed computer software	13	**151**	400
Goodwill	14	**2 537**	3 038
Intangible assets	15	**323**	390
Investment in associate	16	**24**	–
Deferred tax assets	27	**200**	175
Financial assets	17	**108**	445
Insurance receivables	18	**–**	1 339
Tax assets	41	**4**	15
Trade and other receivables	19	**415**	284
Cash and cash equivalents	20	**5 041**	5 794
Assets of disposal group classified as held for sale	21	**3 500**	82
Total assets		**312 294**	309 246
EQUITY AND LIABILITIES			
Share capital		**6 192**	6 192
Treasury shares		**(497)**	(392)
Other reserves		**120**	41
Accumulated (loss)/profit		**(64)**	169
Owners of the company	22	**5 751**	6 010
Non-controlling interest		**299**	287
Total equity		**6 050**	6 297
Financial liabilities held under multi-manager investment contracts	23	**299 885**	296 825
Financial liabilities of insurance cell-captive facilities	24	**–**	352
Borrowings	25	**719**	719
Employee benefits	26	**154**	162
Deferred tax liabilities	27	**113**	119
Provisions	28	**369**	304
Finance lease liabilities	29	**–**	51
Operating lease liabilities	30	**199**	197
Insurance payables	31	**1 689**	3 572
Trade and other payables	32	**611**	585
Tax liabilities	41	**20**	49
Liabilities of disposal group classified as held for sale	21	**2 485**	14
Total liabilities		**306 244**	302 949
Total equity and liabilities		**312 294**	309 246

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2019

Rm	Notes	2019	Restated 2018[1]
Cash flows from operating activities			
Cash generated from operations	35	**821**	861
Interest received	36	**189**	213
Interest paid	37	**(89)**	(78)
Net cash flows (paid to)/received from insurance and policyholder contracts	39	**(215)**	348
Net cash flows paid to policyholder investment contracts	40	**(2 121)**	(1 982)
Taxation paid	41	**(383)**	(333)
Dividends paid		**(531)**	(829)
Dividends paid to non-controlling interests		**(11)**	(14)
Cash flows from operating activities – discontinued operations		**292**	184
Net cash outflow from operating activities		**(2 048)**	(1 630)
Cash flows from investing activities			
Payments for intangible assets		**–**	(3)
Payments to investment in associate		**(23)**	–
Payments for financial assets		**(31)**	(258)
Proceeds from disposal of financial assets		**367**	113
Payments for capital expenditure incurred on property, equipment and computer software		**(113)**	(317)
Proceeds from sale of subsidiaries and businesses	21.4	**15**	–
Cash flows from investing activities – discontinued operations		**(6)**	(4)
Net cash inflow/(outflow) from investing activities		**209**	(469)
Cash flows from financing activities			
Payments of lease liabilities		**(51)**	(9)
Purchase of shares in terms of share buy-back transaction and share incentive schemes		**(151)**	(333)
Net proceeds from sale of treasury shares held under policyholder investment contracts		**26**	62
Purchase of treasury shares held under policyholder investment contracts		**(17)**	(47)
Proceeds from disposal of treasury shares held under policyholder investment contracts		**43**	109
Net cash outflow from financing activities		**(176)**	(280)
Decrease in cash and cash equivalents		**(2 015)**	(2 379)
Cash and cash equivalents at the beginning of the year		**13 702**	16 087
Effects of exchange rate changes on cash and cash equivalents		**64**	(6)
Cash and cash equivalents at the end of the year		**11 751**	13 702
Analysed as follows:			
Cash and cash equivalents of disposal group classified as held for sale	21	**938**	15
Cash and cash equivalents of continuing operations	20	**5 041**	5 794
Cash held under multi-manager investment contracts		**5 772**	7 887
Cash held under insurance cell-captive contracts		**–**	6
		11 751	13 702

1. Restated, refer to note 48.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2019

Rm	Share capital	Treasury shares	Other reserves	Accumu-lated profit/ (loss)	Total	Non-controlling interest	Total equity
At 1 April 2017	6 192	(160)	(336)	1 205	6 901	218	7 119
Total comprehensive income	–	–	(41)	242	201	83	284
Profit for the year	–	–	–	240	240	87	327
Other comprehensive income	–	–	(41)	2	(39)	(4)	(43)
Total transactions with owners of the company	–	(232)	418	(1 278)	(1 092)	(14)	(1 106)
Shares purchased in terms of share buy-back programme and share incentive schemes[1]	–	(333)	–	–	(333)	–	(333)
Settlement of share incentive schemes[2]	–	39	(39)	–	–	–	–
Movement of treasury shares in policyholder assets[3]	–	62	–	–	62	–	62
Dividends paid	–	–	–	(829)	(829)	(14)	(843)
Movement in share-based payment reserve	–	–	8	–	8	–	8
Transfer to retained earnings[4]	–	–	449	(449)	–	–	–
At 31 March 2018	**6 192**	**(392)**	**41**	**169**	**6 010**	**287**	**6 297**
IFRS 9 transition adjustment[5]	**–**	**–**	**–**	**(36)**	**(36)**	**(4)**	**(40)**
Adjusted balance 1 April 2018	**6 192**	**(392)**	**41**	**133**	**5 974**	**283**	**6 257**
Total comprehensive income	**–**	**–**	**60**	**334**	**394**	**61**	**455**
Profit for the year	**–**	**–**	**–**	**334**	**334**	**54**	**388**
Other comprehensive income	**–**	**–**	**60**	**–**	**60**	**7**	**67**
Total transactions with owners of the company	**–**	**(105)**	**19**	**(531)**	**(617)**	**(45)**	**(662)**
Shares purchased in terms of share buy-back programme[6]	**–**	**(151)**	**–**	**–**	**(151)**	**–**	**(151)**
Settlement of share incentive schemes[7]	**–**	**20**	**(20)**	**–**	**–**	**–**	**–**
Movement of treasury shares in policyholder assets[3]	**–**	**26**	**–**	**–**	**26**	**–**	**26**
Dividends paid	**–**	**–**	**–**	**(531)**	**(531)**	**(11)**	**(542)**
Movement in share-based payment reserve	**–**	**–**	**39**	**–**	**39**	**–**	**39**
Other movements in non-controlling interest[8]	**–**	**–**	**–**	**–**	**–**	**(34)**	**(34)**
At 31 March 2019	**6 192**	**(497)**	**120**	**(64)**	**5 751**	**299**	**6 050**

1. The group purchased Alexander Forbes Group Holdings Limited (AFH) shares to the value of R276 million, at an average price of R6.89 per share, in a general buy-back approved by shareholders. In addition, R57 million of AFH shares were purchased in terms of share incentive schemes.
2. Shares amounting to R39 million relating the 2014 tranches of the conditional share scheme (R26 million) and the forfeitable share scheme (R13 million) were settled in the prior year.
3. The net movement of R26 million (2018: R62 million) includes a R17 million (2018: R47 million) purchase of policyholder treasury shares at an average price of R5.11 (2018: R7.02).
4. The group transferred the redemption reserve amounting to R449 million into accumulated profits. This reserve arose in prior years on the redemption of historic preference shares. The transfer has a nil impact on total equity; however, it resulted in a reduction in accumulated profits.
5. Refer to IFRS 9 *Financial Instruments* within the accounting policies.
6. The group purchased AFH shares to the value of R151 million during the year, at an average price of R5.11 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 treasury shares to the shareholder-approved share incentive schemes.
7. Shares amounting to R4 million relating to the 2015 tranche of the forfeitable share scheme was settled. In addition R16 million relating to the 2018 retention share scheme was also settled.
8. This amount relates to changes in non-controlling interests following the disposal of the group's Kenyan operations.

GROUP SEGMENTAL INCOME AND PROFIT ANALYSIS

for the year ended 31 March 2019

	Institutional											
	Consulting and retirements			Administration only			Group risk[1]			Investments		
Rm	2019	%	2018	2019	%	2018	2019	%	2018	2019	%	2018
Operating income net of direct expenses	**1 176**	6	1 111	**112**	(22)	143	**92**	42	65	**764**	7	712
Operating expenses before accounting for property lease[1]	**(1 083)**	19	(912)	**(112)**	(22)	(143)	**(55)**	20	(46)	**(362)**	15	(314)
Normalised operating profit before non-trading and capital items	**93**	(53)	199	**–**	–	–	**37**	95	19	**402**	1	398
(Loss)/profit from previously discontinued operations	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Normalised non-trading and capital items	**–**	(100)	(6)		–	–	**(3)**	–	–	**–**	–	–
Normalised operating profit/(loss)	**93**	(52)	193	**–**	–	–	**34**	79	19	**402**	1	398
Normalised net finance income	**7**	(<100)	(15)	**–**	–	–	**6**	(25)	8	**57**	12	51
Share of net (loss)/profit of associate	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Normalised profit/(loss) before tax from operations	**100**	(44)	178	**–**	–	–	**40**	48	27	**459**	2	449
Taxation[2]	**(32)**	(45)	(58)	**–**	–	–	**(13)**	44	(9)	**(137)**	(5)	(144)
Normalised profit/(loss) for the year	**68**	(43)	120	**–**	–	–	**27**	50	18	**322**	6	305
Adjustments							**–**		(317)			
Accounting for property lease												
Amortisation of intangible assets arising from business combination												
Goodwill write-off arising from business combination									(317)			
Professional indemnity insurance cell-captive results												
Reported profit/(loss) arising from accounting for policyholder investment in treasury shares												
Investment returns on behalf of policyholders												
Tax effects on above adjustments												
Profit/(loss) for the year	**68**	(43)	120	**–**	–	–	**27**	(<100)	(299)	**322**	6	305
Depreciation and amortisation[3]	**(22)**	–	(22)	**–**	–	–	**(3)**	(25)	(4)	**(22)**	(4)	(23)

1. Discontinued operations consists of group risk, retail insurance and portions of emerging markets (operating income net of direct expenses amounting to R62 million (2018: R62 million) and normalised operating profit before non-trading and capital items of R8 million (2018: R18 million).
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 rate has been applied.
3. Operating expenses before accounting for property lease includes depreciation and amortisation.
4. Cost-to-income is computed using operating expenses exclusive of accounting for property lease.

Retail																	
Wealth and investments			Retail insurance[1]			Emerging markets[1]			Corporate			Less: Discontinued operations[1]			Total continuing operations		
2019	%	2018	**2019**	%	2018	**2019**	%	2018	**2019**	%	2018	**2019**	%	2018	**2019**	%	2018
891	4	856	**573**	12	510	**255**	2	250	**–**	–	–	**(727)**	14	(637)	**3 136**	4	3 010
(508)	9	(465)	**(381)**	(3)	(394)	**(223)**	2	(219)	**(221)**	44	(153)	**490**	1	484	**(2 455)**	14	(2 162)
383	(2)	391	**192**	66	116	**32**	3	31	**(221)**	44	(153)	**(237)**	55	(153)	**681**	(20)	848
–	–	–	**–**	–	–	**(7)**	(<100)	16	**–**	–	–	**7**	(<100)	(16)	**–**	–	–
(44)	69	(26)	**(93)**	–	–	**47**	(<100)	(9)	**(256)**	>100	(6)	**149**	(<100)	(7)	**(200)**	>100	(54)
339	(7)	365	**99**	(15)	116	**72**	89	38	**(477)**	>100	(159)	**(81)**	(54)	(176)	**481**	(39)	794
(11)	22	(9)	**(10)**	11	(9)	**5**	(<100)	(1)	**65**	(43)	114	**(16)**	–	(16)	**103**	(16)	123
–	–	–	**–**	–	–	**–**	(100)	1	**(4)**	–	–	**–**	(100)	(1)	**(4)**	–	–
328	(8)	356	**89**	(17)	107	**77**	>100	38	**(416)**	>100	(45)	**(97)**	(50)	(193)	**580**	(37)	917
(104)	(10)	(116)	**(28)**	(20)	(35)	**(17)**	>100	(7)	**2**	(86)	14	**81**	59	51	**(248)**	(18)	(304)
224	(7)	240	**61**	(15)	72	**60**	94	31	**(414)**	>100	(31)	**(16)**	(89)	(142)	**332**	(46)	613
									(16)	(85)	(111)	**–**	(100)	317	**(16)**	(86)	(111)
									(3)	(80)	(15)				**(3)**	(80)	(15)
									(67)	(16)	(80)				**(67)**	(16)	(80)
									–	–	–	**–**	–	317	**–**	–	–
									36	(<100)	(25)				**36**	(<100)	(25)
									8	(<100)	(24)				**8**	(<100)	(24)
									21	(<100)	(11)				**21**	(<100)	(11)
									(11)	(<100)	44				**(11)**	(<100)	44
224	(7)	240	**61**	(15)	72	**60**	94	31	**(430)**	>100	(142)	**(16)**	(<100)	175	**316**	(37)	502
(23)	(4)	(24)	**(25)**	–	(25)	**(5)**	(38)	(8)	**–**	(100)	(1)	**6**	(25)	8	**(94)**	(5)	(99)
											cost-to-income[4]				**78%**	6%	72%

GROUP SEGMENTAL INCOME AND PROFIT ANALYSIS

(CONTINUED) for the year ended 31 March 2019

The segmental analysis reflects the operating structure under which management currently reports.

The group's executive examines the performance both from a product and geographic perspective and has identified the following reportable segments of the business:

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

- consulting and retirements includes actuarial consulting, healthcare actuarial and consulting, fund administration, consulting to standalone retirement funds, fund administration and consulting to umbrella retirement funds and beneficiary funds;
- the administration only segment is separately reported from the consulting division in corporate & employee benefits and reflects the revenue earned from clients where we earn fees only based on administration services. This segment was reported separately in the prior year; however, due to the change of chief operating decision-makers, this segment is now reported under institutional; and
- group risk – group risk and disability insurance through Alexander Forbes Life.

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

Retail clients
Retail clients include the following business units:

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

Emerging markets
Alexander Forbes emerging markets (emerging markets) operates in five countries across Africa – Namibia, Botswana, Nigeria, Uganda and Zambia, with a primary offering of corporate & employee benefits. Namibia, however, has both an institutional and retail offering much like the South African business, while the Nigerian business operates as a consulting and actuarial practice. We note that the operations in Kenya have been disposed of in the year (refer to note 21 for further detail).

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

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

Amortisation of intangible assets arising from business combination – Non-trading and capital items include the ongoing accounting amortisation of intangible assets amounting to R67 million for the year ended 31 March 2019 (2018: R80 million). The capitalisation of intangible assets and the related amortisation resulted from the required accounting treatment at the time of the private equity acquisition of the group in 2007. The amortisation will continue over the expected useful lives established at the time of the transaction. The accounting for amortisation has no impact on the cash flows of the group.

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

Accounting for property lease – The accounting treatment for long-term leases, particularly at the Sandton head office, continues to have a small positive impact on the operating profit growth rate while the absolute value is an expense of R3 million for the year ended 31 March 2019 (2018: R15 million). The impact is isolated and removed from normalised results to afford a better comparison and to reflect the true premises cost over the long term.

Reported profit/(loss) arising from accounting for policyholder investment in treasury shares – In terms of IFRS, as presently constituted, any Alexander Forbes shares acquired by underlying asset managers (under a discretionary mandate) and held by the group's multi-manager investment subsidiary for policyholders (the shares) are required to be accounted for in Alexander Forbes' consolidated financial statements as treasury shares. As a result any fair value gains or losses made on the shares, which are economically matched to the policyholder liabilities, are recognised in the group's income statement.

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

1. Foreign currency exchange rates

Certain transactions of the group occur in foreign currencies. In the current year the most significant foreign currency is the Great British pound (GBP). The GBP transactions and balances have been translated using the exchange rates below. Other less material foreign transactions and balances have been translated to rands using appropriate weighted average rates and closing rates respectively.

Rm		2019	2018
Weighted average rate	(ZAR:GBP)	**18.5**	17.0
Closing rate	(ZAR:GBP)	**18.8**	16.6

2. Fee and commission revenue[1]

The group's operations and main revenue streams are those described in the accounting policies. The group's revenue is derived from contracts with customers.

Fee and commission income as disclosed under IAS 18 for the prior year is represented in the table below:

Fee income from consulting and administrative services	2 060
Fee income from investment management activities	1 892
Brokerage fees and commission income	22
Other income	7
Total	3 981

Fee and commission revenue as disclosed under IFRS 15 is represented in the table below:

Disaggregation of revenue

	Primary segments							
	Institutional		Retail		Emerging markets		Total	
Rm	2019	2018	2019	2018	2019	2018	2019	2018
Secondary segments								
Consulting and retirements	**1 598**	1 534	**–**	–	**–**	–	**1 598**	1 534
Investments	**836**	829	**–**	–	**–**	–	**836**	829
Wealth and investments	**–**	–	**1 282**	1 251	**–**	–	**1 282**	1 251
Emerging markets	**–**	–	**–**	–	**206**	199	**206**	199
Administration only	**136**	168	**–**	–	**–**	–	**136**	168
Total	**2 570**	2 531	**1 282**	1 251	**206**	199	**4 058**	3 981
Revenue by type								
Consulting and advice fees	**267**	276	**542**	511	**55**	52	**864**	839
Administration fees	**705**	696	**225**	224	**117**	112	**1 047**	1 032
Commission	**296**	283	**8**	8	**7**	6	**311**	297
Investment management fees	**1 302**	1 276	**507**	508	**27**	29	**1 836**	1 813
Total	**2 570**	2 531	**1 282**	1 251	**206**	199	**4 058**	3 981
Revenue by region								
South Africa	**2 566**	2 522	**1 228**	1 210	**–**	–	**3 794**	3 732
Namibia	**–**	–	**–**	–	**106**	116	**106**	116
Botswana	**–**	–	**–**	–	**92**	76	**92**	76
Jersey and Channel Islands	**4**	9	**54**	41	**–**	–	**58**	50
Other	**–**	–	**–**	–	**8**	7	**8**	7
Total	**2 570**	2 531	**1 282**	1 251	**206**	199	**4 058**	3 981
Timing of revenue recognition								
Products transferred at a point in time	**27**	27	**51**	46	**–**	–	**78**	73
Services transferred over time	**2 543**	2 504	**1 231**	1 205	**206**	199	**3 980**	3 908
Total	**2 570**	2 531	**1 282**	1 251	**206**	199	**4 058**	3 981

1. Restated for the effects of discontinued operations. Refer to note 21.1.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

3. Operating expenses[1]

Rm	Notes	2019	2018
Operating expenses classified by nature are as follows:			
Amortisation – purchased and developed computer software	13	**(40)**	(41)
IT maintenance and support		**(188)**	(128)
Depreciation	12	**(54)**	(58)
Leasehold improvements		**(3)**	(3)
Computer equipment		**(43)**	(47)
Furniture fittings, office equipment and other assets		**(8)**	(8)
External auditor's remuneration		**(28)**	(26)
Audit service – fees for audit		**(24)**	(24)
Non-audit service		**(4)**	(2)
Professional fees		**(157)**	(105)
Regulatory and compliance		**(20)**	(21)
Insurance costs		**(58)**	(57)
Premises' operating costs		**(60)**	(60)
Operating lease charges		**(193)**	(196)
Staff costs[2]		**(1 442)**	(1 361)
Salaries, wages and other benefits		**(1 252)**	(1 206)
Share-based payments		**(41)**	(16)
Termination benefits		**(30)**	(21)
Retirement benefit contributions – defined contribution plans		**(8)**	(8)
Other staff costs		**(111)**	(110)
Travel and conference costs		**(41)**	(43)
Marketing and communications		**(93)**	(81)
Termination of IT contract		**(50)**	–
Claims and bad debts		**(50)**	(32)
Other operating expenses		**(79)**	(74)
Recovery from discontinued operations		**95**	106
Total operating expenses[3]		**(2 458)**	(2 177)

1. Restated for the effects of discontinued operations. Refer to note 21.1.
2. Staff costs include executive directors' and non-executive directors' remuneration. Refer to note 42 for a detailed analysis.
3. Total operating expenses exclude non-trading and capital items which are disclosed in note 4.

4. Non-trading and capital items[1]

Rm	2019	2018
Costs relating to strategic consulting engagement	**(34)**	(34)
Software written off[2]	**(150)**	(17)
Software written off	**(290)**	(17)
Software written off – reclassified to discontinued operations	**140**	–
Other[3]	**(16)**	(3)
Normalised non-trading and capital items	**(200)**	(54)
Professional indemnity insurance cell-captive result	**36**	(25)
Amortisation of intangible assets arising from business combination[4]	**(67)**	(80)
Goodwill written off[5]	**–**	–
Goodwill written off	**–**	(317)
Goodwill written off – reclassified to discontinued operations	**–**	317
Total non-trading and capital items	**(231)**	(159)

1. Restated for the effects of discontinued operations. Refer to note 21.3.
2. Following a thorough review of the strategic roadmap and related projects within the IT programme by the board, the group has decided to terminate the contract with the primary implementation partner, resulting in a R50 million termination payment as full and final settlement. In addition, the group assessed the recoverability of software in development and concluded that no future economic benefit will flow and consequently software amounting to R290 million was written off (of which R287 million relates to the termination of the IT programme). R140 million of the total relates to the insurance business, classified as a discontinued operation (refer to note 21).
3. Other items comprise mainly the increase in provisions relating to proposed client settlements.
4. The amortisation of intangible assets amounting to R67 million is included in intangible assets (refer to note 15). The R80 million of the prior year consists of R5 million included in purchased and developed computer software (refer to note 13) and R75 million included in intangible assets (refer to note 15).
5. Goodwill allocated to the group risk CGU was fully written off in the prior year. This business has been classified as a discontinued operation (refer to note 21).

5. Investment income[1]

Rm	2019	2018
Interest income	**178**	210
Investment and dividend income	**14**	16
Foreign exchange losses on intergroup loans	**–**	(7)
	192	219
Multi-manager operations		
Investment returns linked to policyholder tax expense	**21**	(11)
Total investment income	**213**	208
Investment income is derived from the following categories of financial assets:		
Amortised cost	**178**	210
Financial assets at fair value	**35**	(2)
Total investment income	**213**	208

1. Restated for the effects of discontinued operations. Refer to note 21.1.

6. Finance costs[1]

Rm	2019	2018
Interest on revolving credit facility	**(59)**	(60)
Cost of hedging[2]	**(7)**	(17)
Other interest	**(23)**	(19)
Total finance costs	**(89)**	(96)

1. Restated for the effects of discontinued operations. Refer to note 21.1.
2. 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 year.

7. Income tax expense[1]

Rm	2019	2018
South African income tax		
Current tax	**(279)**	(288)
Current year	**(279)**	(274)
Prior years	**–**	(14)
Deferred tax	**67**	39
Current year	**66**	34
Prior years	**1**	5
Foreign income tax	**(14)**	(16)
Current tax	**(14)**	(16)
Foreign withholding tax	**(4)**	(6)
Securities transfer tax	**(8)**	–
Income tax expense relating to corporate profits	**(238)**	(271)
Income tax (expense)/credit on policyholder investment returns	**(21)**	11[2]
Current tax – current year	**(7)**	(44)
Deferred – current year	**(14)**	55
Income tax expense	**(259)**	(260)

1. Restated for the effects of discontinued operations. Refer to note 21.1.
2. Credit due to net release of unrealised gains.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

7. Income tax expense (continued)

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

%	2019	2018
South African income tax rate for companies	**28.0**	28.0
Adjusted for the effects of:		
Foreign withholding tax	**2.0**	0.6
Policyholder tax	**3.5**	(1.4)
Unutilised tax losses (net of prior-year assessment loss utilised)	**0.7**	0.9
Exempt income	**1.7**	1.5
Disallowed expenses		
Legal fees	**2.4**	0.7
Donations	**2.0**	–
Unrealised investment losses	**0.3**	0.3
Software write-off	**5.7**	–
Fair value adjustment of treasury shares	**(0.4)**	0.9
Loss on disposal of investment in subsidiary	**–**	(0.3)
Sundry items	**0.6**	–
Difference in foreign tax rates from other tax jurisdictions	**(2.9)**	0.6
Prior-year underprovision (net of prior-year overprovision)	**–**	1.2
Adjustment for capital gains included in taxable income	**0.1**	–
Effective tax rate per income statement	**43.7**	33.0

8. Profit attributable to non-controlling interest

	2019	2018
Profit attributable to non-controlling interest (Rm)	**54**	87

The profits attributable to non-controlling interest in the current year largely comprise amounts due to African Rainbow Capital (ARC) who hold a 10% shareholding in Alexander Forbes Limited. Details of non-wholly-owned subsidiaries are provided in note 46: Consolidated and unconsolidated entities.

9. Earnings per share

9.1 Basic earnings per share

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

9.2 Headline earnings per share

Headline earnings per share is calculated by excluding applicable non-trading and capital gains and losses from the profit attributable to 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.

9.3 Diluted earnings per share

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

9. Earnings per share (continued)

9.4 Normalised earnings per share

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

			2019	2018
9.5	**Number of shares (million)**			
	Weighted average number of shares		**1 341**	1 341
	Weighted average shares held by policyholders classified as treasury shares		**(9)**	(14)
	Weighted average treasury shares		**(95)**	(58)
	Weighted average number of shares in issue (net of treasury shares)		**1 237**	1 269
	Dilutive shares		**14**	6
	Diluted weighted average number of shares		**1 251**	1 275
	Actual number of shares in issue		**1 341**	1 341
	Actual treasury shares		**(118)**	(95)
	Shares in issue net of treasury shares		**1 223**	1 246
	Normalised number of shares			
	Weighted average number of shares in issue		**1 237**	1 269
	Shares held by policyholders classified as treasury shares		**9**	14
	Normalised number of shares in issue		**1 246**	1 283
9.6	**Calculation of basic and headline earnings from total operations (Rm)**			
	Profit attributable to owners of the company		**334**	240
	Adjusting items (net of tax and non-controlling interests):			
	– Profit on disposal of subsidiary – discontinued operations		**(50)**	–
	– Software written off – continuing operations		**135**	15
	– Software written off – discontinued operations		**126**	–
	– Goodwill written off – discontinued operations		**–**	317
	– Other capital items		**–**	(9)
	Headline earnings for the year		**545**	563
	Earnings per share from total operations[1]			
	Basic earnings per share	(cents)	**27.0**	18.9
	Headline earnings per share	(cents)	**44.0**	44.4
	Diluted basic earnings per share	(cents)	**26.7**	18.8
	Diluted headline earnings per share	(cents)	**43.5**	44.2

1. Amounts computed using unrounded numbers.

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 year 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 company may issue shares to the empowerment shareholder, ARC, in future in terms of the circular issued to shareholders on 2 December 2016. These shares have an immaterial anti-dilutive impact and are accordingly not included in the diluted number of shares above.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

9. Earnings per share (continued)

			2019	2018
9.7	**Calculation of normalised earnings from total operations (Rm)**			
	Normalised profit for the year from continuing operations per group segmental income and profit analysis		**332**	613
	Adjusting items:			
	Profit from discontinued operations		**72**	121
	Attributable to non-controlling interests		**(54)**	(77)
	Normalised profit attributable to owners of the company		**350**	657
	Adjusting items (net of tax and non-controlling interests):			
	– Profit on disposal of subsidiary – discontinued operations		**(50)**	–
	– Software written off – continuing operations		**135**	15
	– Software written off – discontinued operations		**126**	–
	Normalised headline earnings from total operations		**561**	672
	Normalised basic earnings per share[1]	(cents)	**28.1**	51.2
	Normalised headline earnings per share[1]	(cents)	**45.0**	52.4
9.8	**Calculation of basic and headline earnings from continued operations[2] (Rm)**			
	Profit after tax from continuing operations		**316**	502
	Less: Profit attributable to non-controlling interests		**(49)**	(79)
	Profit attributable to owners of the company		**267**	423
	Adjusting items (net of tax and non-controlling interests):			
	– Software written off		**135**	15
	Headline earnings from continuing operations		**402**	438
	Earnings per share from continuing operations[1]			
	Basic earnings per share from continuing operations	(cents)	**21.6**	33.3
	Headline earnings per share from continuing operations	(cents)	**32.5**	34.5
	Diluted basic earnings per share from continuing operations	(cents)	**21.3**	33.2
	Diluted headline earnings per share from continuing operations	(cents)	**32.1**	34.4
9.9	**Calculation of basic and headline earnings from discontinued operations[1] (Rm)**			
	Profit/(loss) after tax from discontinued operations		**72**	(175)
	Less: Profit attributable to non-controlling interests		**(5)**	(8)
	Profit/(loss) from discontinued operations attributable to owners of the company		**67**	(183)
	Adjusted for (net of tax and non-controlling interest):			
	– Profit on disposal of subsidiary		**(50)**	–
	– Software written off		**126**	–
	– Goodwill written off		**–**	317
	– Other capital items		**–**	(9)
	Headline earnings from discontinued operations		**143**	125
	Earnings per share from discontinued operations[1]			
	Basic earnings/(loss) per share from discontinued operations	(cents)	**5.4**	(14.4)
	Headline earnings per share from discontinued operations	(cents)	**11.5**	9.9
	Diluted basic earnings/(loss) per share from discontinued operations	(cents)	**5.4**	(14.4)
	Diluted headline earnings per share from discontinued operations	(cents)	**11.4**	9.8

1. Amounts computed using unrounded numbers.
2. Restated for the effects of discontinued operations.

10. Financial assets held under multi-manager investment contracts

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

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

Rm	2019	2018
A reconciliation between financial assets held under multi-manager and unit trust investment contracts:		
Opening balance	**296 758**	281 498
Movement during the year:[1]		
Premium inflow	**48 714**	51 693
Withdrawals	**(64 672)**	(50 645)
Investment returns after tax	**21 064**	16 410
Policyholder fees charged/investment portfolio expenses	**(2 029)**	(2 248)
Other	**17**	50
Closing balance[2]	**299 852**	296 758

1. This amount is economically off-set by a corresponding movement in financial liabilities held under multi-manager investment contracts (refer to note 23).
2. Included in this balance are 19 (2018: 19) funds that are consolidated when the group's interest in the funds increases above the 20% threshold (refer to the accounting policies for further detail).

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

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

Rm	2019	2018
Financial assets at fair value through profit or loss		
Equity securities – listed	**102 511**	106 547
– unlisted	**737**	84
Preference shares – listed	**452**	332
Collective investment schemes	**102 650**	87 940
Debt securities – listed	**19 252**	20 510
– government stock	**22 102**	20 734
Debentures – listed	**681**	3 053
Policy of insurance		
Cash and deposits	**1 874**	2 247
Bonds and debentures	**8 853**	8 285
Equities	**12 548**	13 591
Unlisted equities	**463**	1 038
Other portfolio assets	**1 854**	1 456
Derivative financial instruments	**11**	(1)
Money market	**20 092**	23 055
Cash and cash equivalents – cash	**5 772**	7 887
Total financial assets held under multi-manager investment contracts	**299 852**	296 758

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

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

10.3 Reconciliation of assets held under multi-manager investment contracts

As a result of the group being listed, the investments by underlying asset managers in the Alexander Forbes Group Holdings' listed shares are recognised as treasury shares and all fair value adjustments recognised on these treasury shares are reversed, while the corresponding fair value adjustments on the financial liability continue to be recognised in the income statement. The resultant profit for the year of R8 million (2018: loss of R24 million) has been disclosed separately on the face of the income statement. This treatment also affects the number of shares in issue, the impact of which is disclosed in note 9.

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

Rm	2019	2018
Total financial assets held under multi-manager investment contracts (per statement of financial position)	**299 852**	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	**47**	73
Financial effects of accounting for policyholder investments as treasury shares – prior year	**(6)**	(30)
– current year	**(8)**	24
Total financial liabilities held for policyholders under multi-manager investment contracts	**299 885**	296 825

11. Financial assets of insurance cell-captive facilities

As part of the group's strategic refocusing of its operations the insurance cluster has been discontinued. As a result the current-year balance for financial assets of insurance cell-captive facilities was transferred to disposal group classified as held for sale. The prior year balance consists of all financial assets relating to insurance contracts held by Alexander Forbes Investments in South Africa and related cell-captive contracts in Emerging markets Namibia are included in the consolidated statement of financial position of the group. An analysis of the financial assets attributable to policyholders and cell shareholders' interests in the insurance cell-captive companies is provided below. These financial assets are directly matched to linked obligations to the policyholders and cell shareholders of the insurance cell-captive companies. The promoter cells' share (or shareholders' interest) in the other financial assets of the insurance cell-captive companies are included in the relevant line items of the group statement of financial position.

Rm	Note	2019	2018
Financial assets at fair value through profit or loss			
Money market		**357**	178
Cash and cash equivalents			
Cash		**11**	6
Reinsurance assets			
Receivables		**62**	58
Reinsurers' share of outstanding claims		**4**	3
Reinsurers' share of unearned premium provision		**118**	104
Reinsurers' share of incurred but not yet reported (IBNR) provision		**3**	3
Total financial assets attributable to policyholders and cell shareholders' interests in insurance cell-captive companies		**555**	352
Transferred to assets of disposal groups classified as held for sale	21.5	**(555)**	–
Closing balance		**–**	352

Financial assets' disclosure on maturity and currency is not provided as these insurance cell-captive facility assets are directly matched to linked obligations. Refer to note 24.

12. Property and equipment

Rm	Leasehold improvements	Computer equipment	Furniture and fittings, office equipment and other assets	Total
2019				
Carrying value				
Cost	**32**	**225**	**58**	**315**
Accumulated depreciation and accumulated impairment losses	**(11)**	**(150)**	**(15)**	**(176)**
Carrying value at 31 March 2019	**21**	**75**	**43**	**139**
Cost				
Balance at 1 April 2018	**34**	**312**	**80**	**426**
Additions to enhance existing operations	**6**	**22**	**6**	**34**
Disposals	**(2)**	**(7)**	**(11)**	**(20)**
Transfer to disposal group classified as held for sale	**(1)**	**(6)**	**(8)**	**(15)**
Derecognition[1]	**(5)**	**(96)**	**(9)**	**(110)**
Balance at 31 March 2019	**32**	**225**	**58**	**315**
Accumulated depreciation and accumulated impairment losses				
Balance at 1 April 2018	**(14)**	**(212)**	**(26)**	**(252)**
Depreciation charge for the year	**(3)**	**(45)**	**(9)**	**(57)**
continuing operations	**(3)**	**(43)**	**(8)**	**(54)**
discontinued operations	**–**	**(2)**	**(1)**	**(3)**
Disposals	**–**	**7**	**7**	**14**
Transfer to disposal group classified as held for sale	**1**	**4**	**4**	**9**
Derecognition[1]	**5**	**96**	**9**	**110**
Balance at 31 March 2019	**(11)**	**(150)**	**(15)**	**(176)**
2018				
Carrying value				
Cost	34	312	80	426
Accumulated depreciation and accumulated impairment losses	(14)	(212)	(26)	(252)
Carrying value at 31 March 2018	20	100	54	174
Cost				
Balance at 1 April 2017	31	279	94	404
Additions to enhance existing operations	3	38	6	47
Disposals	–	(5)	(9)	(14)
Transfer to disposal group classified as held for sale	–	–	(11)	(11)
Balance at 31 March 2018	34	312	80	426
Accumulated depreciation and accumulated impairment losses				
Balance at 1 April 2017	(10)	(168)	(24)	(202)
Depreciation charge for the year	(4)	(49)	(10)	(63)
continuing operations	(3)	(47)	(8)	(58)
discontinued operations	(1)	(2)	(2)	(5)
Disposals	–	5	7	12
Transfer to disposal group classified as held for sale	–	–	1	1
Balance at 31 March 2018	(14)	(212)	(26)	(252)

[1] During the year the group derecognised cost and related accumulated depreciation of fully depreciated assets no longer in use which resulted in no impact to the group's income statement.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

12. Property and equipment (continued)

Property and equipment for the prior year include assets that were capitalised as part of a finance lease, which was settled during the current year. The net book value of these assets were as follows:

Rm	2019	2018
Furniture and fittings	–	21
Cost	–	38
Accumulated depreciation	–	(17)
Computer equipment	–	15
Cost	–	45
Accumulated depreciation	–	(30)

Refer to note 29: Finance lease liabilities for more information on the lease arrangement.

13. Purchased and developed computer software

The group entered into a forward exchange contract in order to reduce the currency risk associated with this contract. The foreign exchange gains and losses on the spot component of this forward exchange contract were deferred in equity. When the related developed computer software asset was recognised, a portion of those deferred exchange gains or losses was off-set against the developed computer software asset as a basis adjustment (refer to note 22.5). During the year, developed computer software amounting to R290 million was written off.

Rm	In use	In development	2019 Total
Carrying value			
Cost	**308**	**83**	**391**
Accumulated amortisation and accumulated impairment losses	**(240)**	**–**	**(240)**
Carrying value at 31 March 2019	**68**	**83**	**151**
Cost			
Balance at 1 April 2018	**414**	**287**	**701**
Movement during the year:			
Additions	**9**	**70**	**79**
Reclassification of hedging reserves[1]	**–**	**5**	**5**
Disposals	**(3)**	**–**	**(3)**
Asset write-off charged to the income statement	**(28)**	**(262)**	**(290)**
continuing operations	**(22)**	**(128)**	**(150)**
discontinued operations	**(6)**	**(134)**	**(140)**
Derecognition[2]	**(84)**	**(17)**	**(101)**
Balance at 31 March 2019	**308**	**83**	**391**
Accumulated amortisation and accumulated impairment losses			
Balance at 1 April 2018	**(284)**	**(17)**	**(301)**
Movement during the year:			
Amortisation for the year	**(43)**	**–**	**(43)**
continuing operations	**(40)**	**–**	**(40)**
discontinued operations	**(3)**	**–**	**(3)**
Disposals	**3**	**–**	**3**
Derecognition[2]	**84**	**17**	**101**
Balance at 31 March 2019	**(240)**	**–**	**(240)**

1. Reclassification of FEC reserves relating to IT modernisation programme.
2. During the year the group derecognised cost and related accumulated depreciation of fully depreciated assets no longer in use, which resulted in no impact to the group's income statement.

13. Purchased and developed computer software (continued)

Rm	In use	In development	2018 Total
Carrying value			
Cost	414	287	701
Accumulated amortisation and accumulated impairment losses	(284)	(17)	(301)
Carrying value at 31 March 2018	130	270	400
Cost			
Balance at 1 April 2017	356	45	401
Movement during the year:			
Additions	33	265	298
Reclassification of hedging reserve[1]	–	7	7
Disposals	(5)	–	(5)
Transfer to in use	30	(30)	–
Balance at 31 March 2018	414	287	701
Accumulated amortisation and accumulated impairment losses			
Balance at 1 April 2017	(238)	–	(238)
Movement during the year:			
Amortisation for the year	(44)	–	(44)
continuing operations	(41)	–	(41)
discontinued operations	(3)	–	(3)
Amortisation charge arising from business combination	(5)	–	(5)
Transfer to assets of disposal group classified as held for sale	3	–	3
Impairment charge through the income statement	–	(17)	(17)
Balance at 31 March 2018	(284)	(17)	(301)

1. Reclassification of FEC reserves relating to IT modernisation programme.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

14. Goodwill

	Rm	Notes	2019	2018
14.1	Carrying value		**2 537**	3 038
14.2	**Reconciliation of movement in carrying value**			
	Opening balance		**3 038**	3 355
	Movement during the year:			
	Retail insurance – transferred to disposal group classified as held for sale	14.3	**(445)**	–
	Emerging markets – transferred to disposal group classified as held for sale	14.3	**(56)**	–
	Group risk (previously AF Life) – write-off	14.3	**–**	(317)
	Closing balance		**2 537**	3 038
	Analysis of goodwill balances per the reorganised CGUs			
	Institutional clients		**1 872**	1 872
	Consulting and retirements		**480**	480
	Investments		**1 392**	1 392
	Retail client		**646**	1 091
	Wealth and investments		**646**	646
	Retail insurance		**–**	445
	Emerging markets		**19**	75
			2 537	3 038

14.3 Impairment review of goodwill and reclassification to held for sale

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

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

In March 2019 the group announced a revised strategy that resulted in the decision to exit the insurance businesses as well as sub-scale African operations. Consequently, the insurance operations of the group (both short-term insurance and group risk) as well as sub-scale African operations have been classified as discontinued operations during the current period. Goodwill allocated to these CGUs have been classified to assets of disposal groups classified as held for sale (refer to note 21).

Goodwill allocated to the group risk CGU (previously AF Life) was fully written off in the prior year. The write-off was as a result of the sub-scale growth expected, higher reserving requirements, the increase in regulatory capital required and the increase in claims experience, all of which reduced the expected cash generation from this business.

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

14. Goodwill (continued)

14.4 Impairment review of goodwill

Key assumptions used include:

%		South Africa		Emerging markets	
		2019	2018	2019	2018
Discount rates – weighted average cost of capital		**13.2**	12.5	**15.0**	14.3
Terminal growth rate		**4.0**	4.0	**4.5**	4.0
Average growth in operating income net of direct expenses					
Corporate & employee benefits	(%)	**8 – 12**	4 – 8	**–**	–
Investments	(%)	**7 – 11**	6 – 10	**–**	–
Wealth and investments	(%)	**8 – 12**	6 – 10	**–**	–
Retail insurance	(%)	**10 – 14**	10 – 14	**–**	–
Emerging markets	(%)	**–**	–	**6 – 10**	7 – 11
Forecast period (years)		**5**	5	**5**	5

Sensitivity analysis

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

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

15. Intangible assets

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

	Rm	2019	2018
15.1	**Carrying value**		
	Cost	**1 481**	1 485
	Accumulated amortisation and accumulated impairment losses	**(1 158)**	(1 095)
	Balance at 31 March	**323**	390
15.2	**Analysis of intangible assets**		
	Customer lists	**196**	247
	Trade names	**125**	140
	Intellectual property	**2**	3
		323	390
15.3	**Reconciliation of movement in carrying value**		
	Opening balance	**390**	462
	Movement during the year:		
	Additions	**–**	3
	Amortisation charge (refer to note 4)	**(67)**	(75)
	Closing balance	**323**	390

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for the year ended 31 March 2019

16. Investment in associates

The group entered into an arrangement with a private consortium of shareholders. This arrangement is housed under a newly formed fintech entity, KIN Digital Proprietary Limited (KIN). KIN's principal place of business is South Africa. The group has a 40% ownership interest in KIN. Refer to note 47.2.

	Rm	2019	2018
16.1	**Equity-accounted carrying value**		
	Cost	**28**	2
	Share of cumulative post-acquisition reserves	**(4)**	(2)
	Closing balance	**24**	–
16.2	**Reconciliation of movement in equity-accounted carrying value**		
	Opening balance	**–**	13
	Movement during the year:		
	Additions	**28**	–
	Share of (loss)/profits of associates	**(4)**	2
	Transfer to disposal groups held for sale	**–**	(15)
	Closing balance	**24**	–

17. Financial assets

	Rm	2019	2018
17.1	**Total financial assets**		
	Non-current financial assets	**49**	90
	Current financial assets	**59**	355
	Total financial assets	**108**	445
17.2	**Analysis of financial assets**		
	Financial assets classified as available for sale	**–**	14
	ASISA investment	**–**	14
	Financial assets at fair value through profit or loss	**59**	264
	Money market instruments	**33**	80
	Collective investment schemes	**26**	142
	Bonds	**–**	42
	Financial assets at fair value through other comprehensive income – designated	**13**	–
	ASISA investment	**13**	–
	Financial assets at amortised cost	**36**	85
	Equity release housing loans	**32**	29
	Other loans	**4**	56
	Derivative financial asset	**–**	82
	Forward exchange contract	**–**	82
	Total financial assets	**108**	445

Rm	Note	2019	2018
18. Insurance receivables			
Insurance brokerage income receivable and other insurance balances		**409**	296
Reinsurance brokerage income receivables		**196**	139
Receivables from short-term insurance contracts		**253**	366
Premium debtors		**8**	7
Reinsurers' share of unearned premium provision		**26**	27
Reinsurers' share of outstanding claims provision		**170**	204
Reinsurers' share of IBNR provision		**49**	47
Reinsurance recoverable		**–**	81
Receivable from long-term insurance contracts		**581**	513
Premium debtors		**51**	46
Reinsurers' share of policyholder liability (group life)		**530**	467
Other insurance-related receivables		**25**	25
		1 464	1 339
Transferred to assets of disposal group classified as held for sale	21.5	**(1 464)**	–
Closing balance		**–**	1 339

A reconciliation of the receivables from short-term and long-term insurance contracts with the payables from such contracts is provided in note 31.

19. Trade and other receivables[1]

Rm	2019	2018
Financial assets:		
Trade receivables[2]	**168**	167
Other receivables	**73**	57
Total financial assets	**241**	224
Non-financial assets:		
Accrued and not billed balances	**21**	22
Reimbursement insurance asset – Enhanced Transfer Value (ETV)[3]	**122**	–
Prepayments	**31**	38
Total trade and other receivables	**415**	284

1. The trade and other receivables balance is all current, with no portion being non-current.
2. Included in trade and other receivables are impairments of trade receivables of R16.4 million (2018: R6.4 million). Refer to note 44.1 for further detail.
3. The amount relates to a reimbursement insurance asset from the primary market, refer to note 28.

20. Cash and cash equivalents

Rm	2019	2018
20.1 Total cash and cash equivalents		
Cash and bank balances	**4 508**	4 572
Short-term deposits	**533**	1 222
Total cash and cash equivalents	**5 041**	5 794
20.2 Analysis of cash resources		
Total cash and cash equivalents	**5 041**	5 794
Less: Restricted cash relating to policyholder balances, capital and regulatory requirements and other restrictions	**(4 018)**	(4 637)
Available cash resources	**1 023**	1 157
20.3 Cash and cash equivalents included in policyholder and cell-owner assets are as follows:		
Multi-manager and unit trust investment contracts	**5 772**	7 887
Insurance cell-captive facilities	**–**	6
	5 772	7 893

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

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

In March 2019 the group announced a revised strategy that resulted in the decision to exit the insurance businesses as well as sub-scale African operations. This is in line with the decision to refocus the business, providing advice-led integrated retirement solutions and holistic wealth management.

Consequently, the insurance operations of the group (both short-term insurance and group risk) as well as sub-scale African operations have been classified as discontinued operations during the current period. The assets and liabilities of these operations are presented as assets and liabilities of a disposal group classified as held for sale at the date of discontinuance. The results of operations of the discontinued entities are reported separately in the income statement with the prior year also being restated to take this into effect.

In addition, the group's Kenyan business unit which was classified as a discontinued operation in prior years has been disposed of, resulting in a profit of R56 million (see note 21.4).

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

Rm	Notes	2019	2018
Fee and commission revenue		**79**	194
Insurance revenue	21.2	**2 716**	2 505
Interest revenue – effective interest method		**53**	43
Less: Fee and commission revenue from previously discontinued operations		**–**	(81)
Total revenue[1]		**2 848**	2 661
Fee and commission expenses		**(103)**	(99)
Insurance claims, commissions and withdrawals		**(1 859)**	(1 774)
Net expenses from reinsurance contracts		**(159)**	(151)
Operating income net of direct expenses[1]		**727**	637
Operating expenses		**(497)**	(549)
Less: Operating expenses relating to previously discontinued operations		**7**	65
Profit from operations before non-trading and capital items		**237**	153
Add: (Loss)/profit from previously discontinued operations		**(7)**	16
Non-trading and capital items	21.3	**(149)**	(310)
Operating profit/(loss)		**81**	(141)
Investment income		**18**	17
Finance costs		**(2)**	(1)
Share of net profit of associate		**–**	1
Profit/(loss) before tax		**97**	(124)
Income tax expense		**(81)**	(51)
Profit/(loss) for the year from discontinued operations		**16**	(175)
Profit on disposal of subsidiary and associate	21.4	**56**	–
Total profit/(loss) from discontinued operations		**72**	(175)
Profit attributable to:			
Owners of the company		**67**	(183)
Non-controlling interest		**5**	8
		72	(175)

1. Excluding previously discontinued operations relating to the group's Kenyan and international operations. The Kenyan business unit was disposed of in the current year.

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

21.2 Net income from insurance operations

	Long-term insurance		Short-term insurance		Total	
Rm	2019	2018	2019	2018	2019	2018
Gross earned premiums	**679**	571	**2 037**	1 934	**2 716**	2 505
Gross written premiums[1]	**679**	571	**2 175**	2 020	**2 854**	2 591
Less: Movement in unearned premium provision	**–**	–	**(138)**	(86)	**(138)**	(86)
Reinsurers' share thereof	**(376)**	(378)	**(1 111)**	(1 095)	**(1 487)**	(1 473)
Net earned premiums	**303**	193	**926**	839	**1 229**	1 032
Investment income from insurance operations	**10**	12	**44**	31	**54**	43
Commission expenses related to insurance operations	**(15)**	(10)	**(24)**	(22)	**(39)**	(32)
Net premium and investment income	**298**	195	**946**	848	**1 244**	1 043
Gross claims and transfers to policyholders' funds	**(553)**	(431)	**(1 269)**	(1 311)	**(1 822)**	(1 742)
Reinsurers' share thereof	**366**	306	**963**	1 016	**1 329**	1 322
Net claims and transfers to policyholders' funds	**(187)**	(125)	**(306)**	(295)	**(493)**	(420)
Net income from insurance operations	**111**	70	**640**	553	**751**	623

1. Gross written premium for long-term insurance includes reinsurance commission of R417 million (2018: R345 million) for the year ended 31 March 2019.

21.3 Non-trading and capital items (discontinued operations)

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

Rm	2019	2018
Software written off	**(140)**	–
Goodwill relating to group risk written off	**–**	(317)
Costs related to proposed client settlement – Enhanced Transfer Values[1]	**(122)**	–
Reimbursement related to historical client settlement – Enhanced Transfer Values[1]	**122**	–
Other	**(9)**	7
	(149)	(310)

1. In the prior year we referred to a specific matter which was being reviewed by a foreign regulator in respect of a legacy subsidiary business that had been disposed of in a prior year inclusive of certain warrantees. The matter has now reached a quantifiable stage and management has accordingly raised a provision for this claim. The group is adequately insured for claims as a result of such errors and omissions. In addition, management has obtained confirmation from the insurance underwriters indicating that the event is covered in terms of the policy; consequently it has become virtually certain that an inflow of economic benefits will arise and, as a result, the insurance asset and related income are recognised in these financial statements. Accordingly, there is a nil impact to the group's income statement.

21.4 Disposal of subsidiary and associate

The Alexander Forbes Kenyan business unit, consisting of Zamara Actuaries and Consultants Proprietary Limited (ZAAC) and Zamara Risk and Insurance Brokers Limited (ZARIB), has been disposed of, resulting in a profit of R56 million.

	2019	2018
Carrying value of net assets sold	**(70)**	–
Non-controlling interest	**34**	–
Foreign currency translation reserve of disposed entities	**21**	–
Carrying value disposed of	**(15)**	–
Proceeds on disposal	**74**	–
Capital gains tax	**(3)**	–
Profit on disposal of subsidiary	**56**	–
Net proceeds on disposal	**71**	–
Less: Proceeds receivable[1]	**(41)**	–
Net consideration received in cash	**30**	–
Cash and cash equivalents disposed of	**(15)**	–
Net cash inflow	**15**	–

1. Proceeds receivable relate to amounts held in escrow to be released when the tax assessment for the entity is released by the applicable revenue authorities.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

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

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

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

Rm	Notes	Retail insurance	Group risk	Emerging markets	Total 2019	Total 2018
Assets of insurance cell-captives	11	–	–	555	555	–
Long-term assets		9	1	5	15	25
Deferred tax asset		5	–	–	5	1
Goodwill	14.2	445	–	56	501	–
Insurance receivables	18	258	777	429	1 464	–
Trade and other receivables		10	1	11	22	41
Cash and cash equivalents		527	398	13	938	15
Total assets		**1 254**	**1 177**	**1 069**	**3 500**	82
Liabilities of insurance cell-captives	24	–	–	555	555	–
Insurance payables	31	457	890	425	1 772	–
Deferred tax liability		–	–	1	1	2
Provisions – non-current		11	5	4	20	1
Taxation payables		8	11	2	21	–
Trade and other payables		50	51	15	116	11
Total liabilities		**526**	**957**	**1 002**	**2 485**	14
Total equity		**728**	**220**	**67**	**1 015**	68

22. Equity holders' funds

22.1 Total equity holders' funds

Rm	Notes	2019	2018
Share capital at no par value	22.2	**6 192**	6 192
Treasury shares	22.3	**(497)**	(392)
Other reserves		**120**	41
Share-based payment reserve	22.4	**41**	22
Foreign currency translation reserve		**80**	53
Cash flow hedge reserve	22.5	**2**	(33)
Other reserves		**(3)**	(1)
Accumulated (loss)/profit		**(64)**	169
		5 751	6 010

22. Equity holders' funds (continued)

22.2 Analysis of share capital

	2019		2018	
	Number of shares '000	Share capital Rm	Number of shares '000	Share capital Rm
Authorised				
Ordinary shares	**2 500 000**	**–**	2 500 000	–
Non-convertible redeemable B preference shares	**45 000**	**–**	45 000	–
Issued				
Ordinary shares	**1 341 427**	**6 192**	1 341 427	6 192
	1 341 427	**6 192**	1 341 427	6 192

22.3 Treasury shares

Rm	2019	2018
Opening balance	**(392)**	(160)
Movement during the year:		
Net proceeds on disposal of treasury shares in policyholder assets	**26**	62
Purchase of shares in terms of share schemes and share buy-back programme	**(151)**	(333)
Settlement of share incentive schemes	**20**	39
Closing balance	**(497)**	(392)

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

22. Equity holders' funds (continued)

22.3 Treasury shares (continued)

22.3.1 BEE Employee Share Option Plan (ESOP)

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

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

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

The shares receive 30% of the dividends distributed to ordinary shareholders. The remaining 70% of the dividends is applied against the notional loan, taken out to purchase the shares. The trust is restricted from disposing of or encumbering these shares during the term of the trust. Dividends distributed by the trust are treated as employee benefits. Dividend income earned by the trust and subsequently distributed to qualifying employees was R3.9 million (2018: R6 million) during the current financial year.

AFGH has a call option in terms of which the shares may be repurchased under specific criteria relating to change in control, change in BEE rating and various other provisions. The repurchase price will be calculated in terms of a repurchase formula specifically defined in the agreements.

	Rm	2019	2018
22.4	**Share-based payment reserve**		
	Opening balance	**22**	53
	Expensed to income statement	**39**	8
	Settlement of share incentive schemes	**(20)**	(39)
	Closing balance	**41**	22

The group has two types of awards of shares to its employees: the forfeitable awards and the conditional share awards.

22.4.1 Forfeitable shares issued to staff

Under this scheme shares are awarded to employees, which will vest at a future date if the employee remains employed. The employee participates in the benefits of the share award during the vesting period. Shares are forfeited if the employee ceases to be an employee of the group. The group has no legal or constructive obligation to repurchase or settle the award in cash. To hedge exposure to this award issued under this scheme the group acquires shares in the market which are then held on behalf of the employees by a trust which was set up specifically for this purpose. The trust is consolidated and the shares are reflected as treasury shares. The forfeitable awards issued to employees consist of both the forfeitable share plan (FSP) as well as the retention share plan (RSP). These awards are aimed at retention with the FSP vesting at the end of three years while the RSP vests in two tranches, the first being after six months and the second after 12 months. The employees are entitled to dividend distributions during the vesting period.

Movement in the number of outstanding shares:

'000	2019	2018
At 1 April	**6 000**	3 033
Granted	**14 942**	5 699
Forfeited/vested	**(7 225)**	(2 732)
31 March	**13 717**	6 000

22. Equity holders' funds (continued)

22.4 Share-based payment reserve (continued)

22.4.1 Forfeitable shares issued to staff (continued)

Shares issued and outstanding at the end of the year have the following vesting dates (certain employees, upon approval by the group remuneration committee may receive allocations outside the general tranches. Refer to note 42.2):

'000	Grant date fair value[1]	Vesting date	Total shares issued 2019	Total shares issued 2018	Total shares outstanding 2019	Total shares outstanding 2018
2015 tranche – FSP	R8.89	31 July 2018	**–**	410	**–**	410
2016 tranche – FSP	R7.47	24 July 2019	**458**	458	**392**	458
2017 tranche – FSP	R7.09	24 July 2020	**5 132**	5 132	**3 110**	5 132
2018 tranche – FSP	R5.64	1 July 2021	**8 854**	–	**8 358**	–
2018 tranche – RSP[2]	R5.64	30 June 2019	**6 089**	–	**1 857**	–
			20 533	6 000	**13 717**	6 000

1. The grant date fair value of the shares is determined based on the market price at the date of issue.
2. The RSP 2018 shares vest in two tranches, namely 31 December 2018 (vested 2.3 million shares) and 30 June 2019. A total of 1.9 million shares were forfeited.

22.4.2 Conditional share incentive scheme

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

The awards vest with shares granted to participants being subject to the group achieving its target growth in normalised headline earnings per share (NHEPS) over the measurement period. The cumulative NHEPS over the measurement period is equal to the sum of the base year NHEPS grown by the consumer price index (CPI) and real gross domestic product (GDP) per annum over the performance period.

During the year the vesting period for the 2015 tranche of the scheme ended. The measurement period was based on the growth rate in NHEPS between 1 April 2015 and 31 March 2018. The hurdle rates for threshold and target were not met, thus the performance condition resulted in zero shares being allocated.

2016 tranche – These shares vest on 24 July 2019. Thirty per cent of the shares vest if the group achieves a three-year compound growth rate in NHEPS of nominal GDP (i.e. real GDP plus inflation) over the performance period (1 April 2016 and 31 March 2019) and 100% of the shares will vest if the growth rate is nominal GDP plus 8% (eight percentage points). A pro rata proportion of shares will vest based on any growth rate between these two points. At a compound growth rate in NHEPS below nominal GDP all conditional shares are forfeited.

2017 tranche – These shares vest on 24 July 2020. Thirty per cent of the shares vest if the group achieves a three-year compound growth rate in NHEPS of nominal GDP (i.e. real GDP plus inflation) over the performance period (1 April 2017 and 31 March 2020) and 100% of the shares will vest if the growth rate is nominal GDP plus 8% (eight percentage points). A pro rata proportion of shares will vest based on any growth rate between these two points. At a compound growth rate in NHEPS below nominal GDP all conditional shares are forfeited.

2018 tranche – These shares vest on 1 July 2021. Thirty per cent of the shares vest if the group achieves a three-year compound growth rate in NHEPS of nominal GDP (i.e. real GDP plus inflation) over the performance period (1 April 2018 and 31 March 2021) and 100% of the shares will vest if the growth rate is nominal GDP plus 8% (eight percentage points). A pro rata proportion of shares will vest based on any growth rate between these two points. At a compound growth rate in NHEPS below nominal GDP all conditional shares are forfeited. Certain employees, upon approval by the group remuneration committee may receive allocations outside the general tranches. Refer to note 42.2.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

22. Equity holders' funds (continued)

22.4 Share-based payment reserve (continued)

22.4.2 Conditional share incentive scheme (continued)

Movement in the number of shares outstanding is as follows:

'000	2019	2018
At 1 April	**37 917**	40 524
Granted	**9 036**	15 929
Forfeited	**(21 912)**	(18 536)
31 March	**25 041**	37 917

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

'000	Grant date fair value[1]	Vesting date	Total shares outstanding 2019	2018
2015 tranche	R8.12	4 August 2018	**–**	10 200
2016 tranche	R6.21	24 July 2019	**7 454**	13 079
2017 tranche	R6.15	24 July 2020	**9 238**	14 638
2018 tranche	R4.74	1 July 2021	**8 349**	–
			25 041	37 917

The grant date fair value of the shares is determined based on the market price at the date of issue less the net present value of expected dividends over the vesting period.

	Rm	2019	2018
22.5	**Cash flow hedge reserve**		
	Opening balance	**(33)**	–
	Change in fair value of hedging instrument recognised in other comprehensive income for the year	**53**	(53)
	Reclassified to profit and loss	**(8)**	–
	Capitalised to purchased and developed software	**5**	7
	Tax effects on above items	**(15)**	13
	Closing balance[1]	**2**	(33)

1. The closing balance of the cash flow hedge reserve is reflected net of the non-controlling interest's share amounting to R300 000 (2018: R4 million).

As outlined under note 13 the group entered into a foreign exchange contract in order to reduce the currency risk associated with foreign denominated contracts. The group designated only the change in the fair value of the spot component as the hedging instrument. As a result changes in the spot rate were accounted for in this cash flow hedge reserve via other comprehensive income. The forward exchange contract was subsequently closed out during the year. The remaining foreign exchange contracts are regarded as insignificant.

23. Financial liabilities held under multi-manager investment contracts

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

Rm	2019	2018
Opening balance	**296 825**	281 604
Movement during the year:[1]		
Premium inflows	**48 731**	51 692
Withdrawals	**(64 672)**	(50 645)
Investment return net of taxation	**21 287**	16 463
Policyholder fees charged/investment portfolio expenses	**(2 029)**	(2 318)
Exchange rate difference	**(16)**	–
Fair value adjustments	**(241)**	29
Closing balance	**299 885**	296 825

1. This amount is economically off-set by a corresponding movement in financial assets held under multi-manager investment contracts (refer to note 10) except to the extent of the effect of treasury shares.

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

Rm	2019	2018
Open ended – payable on demand	**299 885**	296 825

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

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

Rm	2019	2018
Financial liabilities linked to investment contracts	**299 885**	296 825

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

24. Financial liabilities of insurance cell-captive facilities

As part of the group's strategic refocusing of its operations, the insurance cluster has been discontinued. As a result the current year balance for financial assets of insurance cell-captive facilities was transferred to assets of disposal groups classified as held for sale. The prior-year balance consist of all insurance-related financial liabilities of AF Investments in South Africa. Cell-captive-related financial liabilities in Emerging markets Namibia are included in the consolidated statement of financial position of the group. An analysis of the policyholders' and cell owners' interests in the financial liabilities of these insurance cell-captive companies is provided below. The promoter cell (or shareholder's) interest in the other financial liabilities of the insurance cell-captive companies is included in the relevant line item in the group statement of financial position.

Rm	Note	2019	2018
Short-term insurance technical liabilities		**542**	330
Gross unearned premium provision		**533**	323
Gross outstanding claims provision		**5**	4
Gross IBNR provision		**4**	3
Long-term insurance technical liabilities			
Policyholder liability		**(1)**	(1)
Insurance liabilities of insurance cell-captive facilities		**541**	329
Other liabilities attributable to policyholders and cell owners		**14**	23
Cell owners' interest[1]		**35**	25
Receivables[1]		**(16)**	(11)
Taxation (receivable)/payable		**(5)**	9
		555	352
Transferred to liabilities of disposal group classified as held for sale	21.5	**(555)**	–
Closing balance		**–**	352

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

These liabilities are directly matched to linked financial assets. Refer to note 11.

25. Borrowings

	Rm	2019	2018
25.1	**Analysis of borrowings**		
	Revolving credit facility (refer to note 25.4)	**719**	719

	Rm	Revolving credit facility	2019	2018
25.2	**Reconciliation of movement in borrowings**			
	Opening balance	**719**	**719**	725
	Movements for the year:			
	Interest accrued	**59**	**59**	60
	Interest paid	**(59)**	**(59)**	(60)
	Transferred to liabilities of disposal group classified as held for sale	**–**	**–**	(6)
	Closing balance	**719**	**719**	719

	Rm	2019	2018
25.3	**Discounted maturity analysis of borrowings**		
	Due within one year	**719**	719

25.4 Revolving credit facility

The credit facility with Rand Merchant Bank is unsecured and bears interest at JIBAR plus 1.25% per annum compounded quarterly. The interest is payable quarterly while the capital is repayable annually together with any unpaid interest on 31 March 2019. The facility is renewable annually for a six-month period up until 30 September 2019. Renewal is subject to an annual credit review by the lender and the financing needs of the group.

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

The credit facility agreement is for R800 million (2018: R800 million) and may be drawn or repaid at any time, in whole or in part, which would include the capital plus any accrued and unpaid interest to the repayment date.

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

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

25.5 Financial covenants

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

Rm	Notes	2019	2018

26. Employee benefits

26.1 Total employee benefits

Rm	Notes	2019	2018
Defined benefit pension fund obligation – South Africa	26.2	**–**	–
Post-employment medical benefit obligation – South Africa	26.3	**106**	105
Provision for leave pay	26.4	**48**	57
Total employee benefits		**154**	162

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

26.2 Defined benefit pension fund obligation – South Africa

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

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

The fund is valued by a statutory actuary on a tri-annual basis, with a full actuarial assessment being completed on 31 March 2019. The actuary is of the opinion that the fund is in a sound financial position. For accounting reporting the projected unit credit method is used to value the liability.

The membership of the fund as at the last actuarial valuation at 31 March 2019 comprised three active members (2018: 10) and 61 pensioners (2018: 63).

A portion of fund assets are managed by our subsidiary, AF Investments, and the total value is R197 million (2018: R200 million). Another portion of the fund assets is invested with a financial institution with a credit rating of Baa2 per Moody's. These assets are secured by South African government bonds. As such the Alexander Forbes pension fund will be entitled to the proceeds of the bonds should the financial institution default.

Rm	2019	2018
Present value of benefit obligation	**(138)**	(150)
Fair market value of the plan assets	**204**	208
	66	58
Impact of asset ceiling	**(66)**	(58)
Total	**–**	–

26. Employee benefits (continued)

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

Reconciliation of movements

Rm	Present value of obligation	Fair value of plan assets	Total	Impact of asset ceiling	Total
At 31 March 2017	(147)	206	59	(59)	–
Current service costs	(1)	–	(1)	–	(1)
Interest expense	(13)	19	6	–	6
Remeasurements	(1)	(6)	(7)	–	(7)
Contributions	–	1	1	–	1
Payment from plans – benefits paid	12	(12)	–	–	–
Adjustment to the asset ceiling	–	–	–	1	1
At 31 March 2018	**(150)**	**208**	**58**	**(58)**	**–**
Current service costs	**(1)**	**–**	**(1)**	**–**	**(1)**
Interest expense	**(12)**	**17**	**5**	**–**	**5**
Remeasurements	**15**	**(11)**	**4**	**–**	**4**
Contributions	**(1)**	**1**	**–**	**–**	**–**
Payment from plans – benefits paid	**11**	**(11)**	**–**	**–**	**–**
Adjustment to the asset ceiling	**–**	**–**	**–**	**(8)**	**(8)**
At 31 March 2019	**(138)**	**204**	**66**	**(66)**	**–**

%	2019	2018	2017
The principal actuarial assumptions applied are as follows:			
Discount rate	**9.3**	8.6	9.2
Inflation rate	**5.5**	5.6	6.3
Salary increase rate	**6.5**	6.6	7.3
Pension increase allowance	**5.5**	5.6	6.3

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

Rm	Change in assumption	Increase in obligation	Decrease in obligation
Discount rate	**1%**	**(8.3)**	**9.7**
Inflation rate	**1%**	**10.0**	**(8.6)**
Salary increase rate	**1%**	**0.2**	**(0.2)**
Pension increase allowance	**1%**	**9.7**	**(8.4)**

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

26. Employee benefits (continued)

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

Methods and assumptions in sensitivity analysis

The components of plan assets are as follows:

%	2019	2018
Cash	**6.33**	7.98
Equity		
Listed equities	**23.10**	23.67
Unlisted equities	**0.01**	0.02
Bonds	**51.29**	48.42
Property	**1.71**	2.05
International		
Equity	**12.04**	11.37
Bonds	**0.22**	0.16
Cash	**3.69**	2.09
Property	**0.30**	0.19
Other	**1.31**	4.05
	100.00	100.00

26.3 Post-employment medical benefit obligation – South Africa

In South Africa certain employees, who joined the group before 1 March 1997, are entitled to a post-employment medical aid subsidy. At 31 March 2019 this applies to a total of 257 people (2018: 257) and comprises 30 active employees (2018: 30) and 227 pensioners (2018: 227). Employees who joined the group after 1 March 1997 are not eligible for post-employment medical aid subsidies.

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

The obligation is valued every year by actuaries using the projected unit credit method. The date of the last actuarial valuation was 31 March 2019. The post-employment medical obligation is partly funded through an insurance cell-captive arrangement. The assets of the insurance cell totalled R60 million at 31 March 2019 (2018: R61 million).

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

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

26. Employee benefits (continued)

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

Rm		2019	2018
The latest actuarial valuation reflected the following:			
Medical benefit obligation		**96**	95
Hardship fund liability		**10**	10
Recognised liability in the statement of financial position		**106**	105
A reconciliation of the movement in the post-employment medical benefit obligation in South Africa is as follows:			
Opening balance		**95**	98
Current service costs		**1**	1
Interest expense		**8**	9
Remeasurements[1]		**–**	(5)
Benefits paid		**(8)**	(8)
Closing balance		**96**	95
The principal actuarial assumptions applied are as follows:			
Discount rate	(%)	**9.8**	8.8
Inflation (CPIX) rate	(%)	**5.9**	6.0
Retirement age	(years)	**62/65**	62/65

[1] Gross of related taxes.

Mortality rates are assumed as follows:

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

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

%	Change in assumption	Increase in obligation	Increase in obligation
Discount rate	**1.0**	**8.70**	**10.40**
Inflation (CPIX) rate	**1.0**	**10.50**	**8.90**

Rm	2019	2018
26.4 Provision for leave pay		
Opening balance	**57**	52
Movement during the year:		
Increase in provision	**20**	15
Decrease in provision	**(18)**	(10)
Transferred to held for sale	**(7)**	–
Disposal as a result of business combination	**(3)**	–
Foreign subsidiaries exchange difference	**(1)**	–
Closing balance	**48**	57

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

	Rm	Notes	2019	2018
27.	**Deferred taxation**			
27.1	**Net deferred tax assets balance**			
	Deferred tax assets	27.2	**200**	175
	Deferred tax liabilities	27.3	**(113)**	(119)
	Net deferred tax assets		**87**	56
27.2	**Reconciliation of movement in the net deferred tax asset balance**			
	Opening balance		**175**	148
	Movement during the year:			
	Credit charged to income statement		**46**	14
	Charged to other comprehensive income		**(16)**	11
	Transfer to asset groups held for sale		**(5)**	–
	Foreign subsidiaries' exchange differences		**–**	2
	Closing balance		**200**	175
27.3	**Reconciliation of movement in the net deferred tax liability balance**			
	Opening balance		**(119)**	(199)
	Movement during the year:			
	Credit per income statement		**5**	80
	Transfer to asset groups held for sale		**1**	2
	Foreign subsidiaries' exchange differences		**–**	(2)
	Closing balance		**(113)**	(119)
27.4	**Analysis of deferred tax assets**			
	Post-employment benefit obligations		**13**	15
	Deferred income		**1**	2
	Calculated tax losses[1]		**87**	50
	Cash flow hedges		**–**	19
	Provisions		**59**	36
	Operating lease liability		**56**	55
	Accelerated tax allowances		**(7)**	–
	Work in progress		**(6)**	–
	Other items		**(3)**	(2)
	Total deferred tax assets		**200**	175
27.5	**Analysis of deferred tax liabilities**			
	Policyholder assets		**(22)**	(8)
	Accelerated tax allowances, provisions and other items		**(1)**	(3)
	Deferred tax recognised in terms of IFRS 3 business combination[2]		**(90)**	(108)
	Total deferred tax liabilities		**(113)**	(119)

1. Assessed losses not recognised on the balance sheet amount to R162 million (2018: R174 million).
2. This amount represents the deferred tax balance raised on intangible assets recognised at the time of the private equity transaction.

Rm	Notes	2019	2018
28. Provisions			
Provisions for errors and omissions claims	28.2	**38**	189
Provisions for client settlements – ETV	28.3	**197**	–
Proposed client settlements	28.4	**125**	104
Other[1]		**9**	11
Total	28.2	**369**	304

1. Other provisions relate to planned strategic reorganisations undertaken within the business.

28.1 Analysis and reconciliation of movement in provisions

Rm	Provisions for errors and omissions claims	Provision for client settlements – ETV	Proposed client settlements	Other	Total
Balance at 31 March 2017	194	–	97	–	291
Movement during the year:					
Net increase in provision	2	–	8	11	21
Payments made	(4)	–	(1)	–	(5)
Foreign subsidiaries' exchange differences	(3)	–	–	–	(3)
Balance at 31 March 2018	**189**	**–**	**104**	**11**	**304**
Movement during the year:					
Net (decrease)/increase in provision	**(21)**	**122**	**22**	**50**	**173**
Provided for under errors and omissions claims	**(75)**	**75**	**–**	**–**	**–**
Payments made	**(77)**	**–**	**(1)**	**(52)**	**(130)**
Foreign subsidiaries' exchange differences	**22**	**–**	**–**	**–**	**22**
Balance at 31 March 2019	**38**	**197**	**125**	**9**	**369**

The provision for proposed client settlements is current in nature while all other provisions are considered to be non-current. Uncertainties affecting the timing and amount of the settlement of provisions are discussed in the relevant note below.

28.2 Provision for errors and omissions claims

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

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

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

28. Provisions (continued)

28.2 Provision for errors and omissions claims (continued)

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

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

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

28.3 Provision for client settlements – Enhanced Transfer Value (ETV)

In the prior year we referred to a specific matter which was being reviewed by a foreign regulator in respect of a legacy subsidiary business that had been sold inclusive of certain warrantees. The matter has now reached a quantifiable stage and management has accordingly raised a provision for this claim. The group is adequately insured for claims as a result of such errors and omissions.

The provision amounts to R197 million, of which R75 million has been provided for in terms of the Mannequin policy while the remaining R122 million is covered as part of the market policy (refer to note 28.2). Management has obtained confirmation from the insurance underwriters indicating that the event is covered in terms of the policy, consequently it has become virtually certain that an inflow of economic benefits will arise and, as a result, the reimbursement insurance asset (refer to note 19) and related income are recognised (refer to note 21). Accordingly, there is a nil impact to the group's income statement.

28.4 Provision for client settlements and other legal claims

The group voluntarily appointed independent legal advisers to conduct a full review of past and current business practices across all of the South African operations in 2006. The results of the review were fully disclosed and published on the group's website. Following this review the provision for proposed client settlements for historical business practices, including the practice referred to as 'bulking' (refer to note 34.2 for further details on 'bulking'), was made. Interest accrues on this provision at the prime lending rate less 4% up to the date of settlement payments.

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

Critical assumptions and judgements

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

Provisions for client settlements – Enhanced Transfer Value (ETV)

The estimation of the provision requires certain assumptions and judgements by management, namely the number of cases requiring redress and the expected average redress amount per case. Should the number of cases requiring redress or the expected average redress amount increase by 10%, an additional provision of approximately R13 million will be required. This additional provision amount is covered in terms of the market policy (refer to note 28.3).

29. Finance lease liability

Rm	Future minimum lease payments	Interest	Present value of minimum lease payments at 31 March
2018			
Not later than one year	51	–	51
	51	–	51

Rm	2019	2018
Reconciliation of movement in finance lease liability		
Opening balance as at 1 April	**51**	75
Interest accrued	**–**	1
Remeasurement of finance lease liability	**–**	(16)
Cash payment	**(51)**	(9)
Closing balance as at March 2019	**–**	51

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

In the prior year the group successfully negotiated a settlement of the future minimum lease payments relating to the furniture, fixtures and IT equipment. As part of the deal the group took over legal ownership of the related assets upon payment of the agreed settlement price of R51 million during April 2018. As a result, the carrying value of finance lease liability in the current year is nil (2018: R51 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

Rm	Note	2019	2018
30. Operating lease liability			
Accrued liability		**199**	197

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

31. Insurance payables

31.1 Total insurance payables

Rm	Note	2019	2018
Payables from insurance contracts			
Claims float held for insurance operations		**62**	64
Policyholder liability under long-term insurance contracts (group life)		**690**	545
Insurance payables from broking activities		**10**	16
Payables from insurance-related activities			
Reinsurance creditors		**679**	579
Reinsurance commission		**4**	3
Payables from short-term insurance contracts		**327**	336
Gross unearned premium provision		**40**	41
Gross outstanding claims provision		**220**	230
Gross IBNR provision		**67**	65
Payables from umbrella retirement fund activities[1]		**1 689**	2 029
		3 461	3 572
Transferred to disposal group classified as held for sale	21.5	**(1 772)**	–
Closing balance		**1 689**	3 572

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

31. Insurance payables (continued)

31.2 Policyholder liability under long-term insurance contracts

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

Rm	Notes	2019	2018
Gross policyholder liability	31.1	**690**	545
Less: Reinsurance assets relating to the policyholder liability	18	**(581)**	(467)
Net liability to policyholders – transferred to liabilities of disposal groups classified as held for sale		**109**	78
A reconciliation of the movement in the net policyholder liability is as follows:			
Opening balance		**78**	21
Movement during the year:			
Increase in reserving		**31**	34
Increase claims experience		**–**	23
Closing balance – transferred to liabilities of disposal groups classified as held for sale		**109**	78

Critical assumptions and judgements

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

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

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

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

The process for determining assumptions used are as follows:

- *IBNR multiple*
  The methodology remains the same as the prior year, i.e. actual experience is used as a base for the run-off triangle approach. The run-off triangle approach is based on a blended method, consisting of the Chain Ladder and Bornhuetter-Ferguson methods. If the development to date (for a period) is greater than 85% for income disability and funeral, and 80% for other lump sum claims the IBNR is calculated using the Chain Ladder method for that period, otherwise the IBNR is calculated using the Bornhuetter-Ferguson method.
- *Mortality and morbidity*
  For group life insurance contracts, the rate of recovery from disability is derived from industry experience studies adjusted, where appropriate, for the group's own experience. For individual life insurance contracts, demographic assumptions are set with reference to reinsurer rates and industry experience.
- *Expenses*
  Expense assumptions are based on an expense analysis, using a functional cost approach. This analysis allocates expenses between initial fees (costs relating to the acquisition of new business) and maintenance fees (costs relating to the maintenance of all contracts).
- *Investment income*
  Estimates are made as to future investment income and are tested against market conditions as at the valuation date taking into account the terms of the liabilities. Inflation assumptions are tested against market conditions and, with regard to consistency, are tested against interest rate assumptions.
- *Tax*
  Allowance is made for future taxation and taxation relief.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

31. Insurance payables (continued)

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

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

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

Also refer to note 43.5: Long-term insurance (life insurance).

Rm	Notes	2019	2018
31.3 Net payables from short-term insurance contracts			
The net payables from short-term insurance contracts arise from short-term insurance business written by the short-term insurance subsidiaries of the group. The net payables position comprises:			
Payables from short-term insurance contracts	31.1	**327**	336
Less: Receivables from short-term insurance contracts	18	**(253)**	(366)
Net payable/(receivable) from short-term insurance contracts – transferred to liabilities of disposal groups classified as held for sale		**74**	(30)
A reconciliation of the movement in the net payables is as follows:			
Opening balance		**(30)**	70
Claims incurred[1]		**104**	(100)
Closing balance – transferred to liabilities of disposal groups classified as held for sale		**74**	(30)

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

Critical assumptions and judgements

Outstanding claims provisions include notified claims as well as IBNR claims. Each notified claim is assessed on a case-by-case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar claims. Case estimates are regularly reviewed and updated if necessary. The Chain Ladder technique has been used to calculate the provision for IBNR. This methodology is based on the analysis of statistics, including the pattern of notification of claims in respect of different underwriting periods.

32. Trade and other payables

Rm	2019	2018
Financial liabilities		
Trade payables	**168**	206
Accrued expenses	**183**	143
Other payables	**129**	161
	480	510
Non-financial liabilities		
Employee-based accruals	**131**	75
	611	585

33. Commitments

33.1 Operating lease commitments

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

Rm	2019 Total	2018 Total
Due within one year	**195**	184
Due between one to five years	**610**	755
Due after five years	**339**	354
	1 144	1 293

Rm	2019	2018
33.2 Capital commitments		
Commitments in respect of capital expenditure approved by directors:		
Contracted for	**14**	298
Not contracted for	**–**	10
	14	308

These commitments relate largely to software purchases and the funds to meet these commitments will be provided from internal cash resources generated by operations. Refer to note 4 for details regarding termination of the contract with the primary implementation partner.

34. Contingencies

34.1 Overview

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

The structure of the group's professional indemnity insurance programme is explained in note 28.2 to these financial statements.

34.2 Client settlements arising from historical business practices

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

	Rm	2019	2018
35.	**Cash generated from operations**[1]		
	Profit before taxation from continuing operations	**575**	762
	Items disclosed separately:		
	Net interest expense	**(125)**	(113)
	Non-cash items:		
	Depreciation of property and equipment	**55**	59
	Amortisation of intangible assets and software	**107**	121
	Movement in operating lease liability	**2**	15
	Net movement in provisions	**52**	8
	non-cash movement in provisions	**193**	21
	payments made out of provisions	**(141)**	(13)
	Reported (profit)/loss arising from accounting for policyholder investments in treasury shares	**(8)**	24
	Movement in working capital (refer to note 38)	**(25)**	(39)
	IFRS 9 impairments	**36**	–
	Software write-off	**153**	25
	Movement in other non-cash items	**(1)**	(1)
		821	861
36.	**Interest received**[1]		
	Investment income per income statement	**214**	208
	Less non-cash investment income from financial assets	**(4)**	(6)
	Exclude policyholder-related interest	**(21)**	11
	Interest received	**189**	213
37.	**Interest paid**[1]		
	Finance costs per income statement	**(89)**	(95)
	Non-cash finance costs	**–**	17
	Finance costs paid	**(89)**	(78)
38.	**Movement in working capital**		
	Movement in working capital balances		
	Trade and other receivables	**(164)**	114
	Trade and other payables	**139**	(153)
		(25)	(39)
39.	**Operating cash flows relating to insurance and policyholder balances**		
	Insurance receivables	**(125)**	(202)
	Insurance payables	**(74)**	612
	Decrease in policyholder working capital balances	**(37)**	(51)
	Interest return relating to policyholder tax	**21**	(11)
		(215)	348

1. Restated for the effects of discontinued operations.

40. Cash flows from policyholder investment contracts

Rm	2019	2018
Premium inflows	**48 714**	51 693
Investments made net of disinvestments	**13 843**	(3 036)
Movement in insurance cell-captive facilities cash inflow	**(6)**	6
Investment withdrawals	**(64 672)**	(50 645)
	(2 121)	(1 982)

41. Taxation paid[1]

Rm	2019	2018
Taxation payable at the beginning of the year	**(49)**	(3)
Prepaid tax at the beginning of the year	**15**	53
Charge in income statement	**(239)**	(271)
Policyholder tax charge in income statement	**(21)**	11
Charge to income statement for operations discontinued and disposed of in the year included in discontinued operations	**(81)**	(52)
Adjusted for:		
Reclassification of disposal groups classified as held for sale	**17**	–
Other non-cash movement	**(41)**	(105)
Prepaid taxation at the end of the year	**(4)**	(15)
Taxation payable at the end of the year	**20**	49
Tax paid	**(383)**	(333)

1. Restated for the effects of discontinued operations.

42. Related party disclosure

42.1 List of related party relationships

Major shareholders

The equity holders of the company are detailed in Annexure A.

Mercer Africa Limited, a subsidiary of the US-listed Marsh & McLennan Companies Inc., holds a 33% interest in the company. African Rainbow Capital Financial Services Holdings Proprietary Limited (ARC), a subsidiary of African Rainbow Capital holds an 8.9% interest in the company.

Material non-controlling interest

ARC also holds a 10% interest in Alexander Forbes Limited.

Subsidiaries and associates

During the year the group acquired a 40% interest in KIN Digital Proprietary Limited (KIN), a fintech entity. Refer to note 16 for more details on material transactions with associates.

Details of subsidiaries and associates, which are considered material to the group and in respect of which the group has a continuing interest, are provided in note 46: Consolidated and unconsolidated entities to these financial statements.

Post-employment benefit plans

Details of retirement benefit plans are provided in note 26: Employee benefits.

Directors

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

42. Related party disclosure (continued)

42.1 List of related party relationships (continued)

Prescribed officers

The group has defined the chief executive officer, chief financial officer and members of the group executive committee as prescribed officers of the group as defined by the Companies Act of South Africa.

Key management personnel

Key management personnel are defined as the prescribed officers and the board of directors of Alexander Forbes Group Holdings Limited.

42.2 Summary of related party transactions

Transactions with shareholders

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

Transactions with subsidiaries

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

Transactions with post-employment benefit plans

Contributions to retirement benefit plans amounted to R1 million (2018: R1 million) to the defined benefit fund and R8 million (2018: R8 million) to the post-employment medical obligation plan, as detailed in note 26: Employee benefits. There are no amounts outstanding at year-end. Assets of the retirement benefit plans are invested through Alexander Forbes Investments Limited; these assets amount to R197 million (2018: R200 million).

The retirement benefit plans of the group are compulsory funds and as such key management are participants in the fund. At 31 March 2019 the investments held through the retirement benefit plans by key management are R18.2 million (2018: R6 million).

Transactions with key management

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

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

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

Executive directors' and chairman's remuneration paid to current office holders during the current and prior years are detailed below. The bonus for the 2019 year reflects the amount accrued and approved by the remuneration committee for the year ended 31 March 2019 and paid in June 2019.

Investigation, subsequent actions and reportable irregularity

The AFGH board initiated an investigation into allegations against the former chief executive officer. This resulted in the termination of the services of the former chief executive officer and actions to remedy all the issues identified during the investigation.

PricewaterhouseCoopers Incorporated (PwC) reported these matters as a reportable irregularity (including reporting as such to the Prudential Authority in accordance with section 252(1)(b) of the Financial Sector Regulation Act 9 of 2017) and concluded that they have been dealt with and are no longer continuing. PwC has expressed an unmodified opinion on the financial statements which are available for inspection at the company's registered office.The resultant legal processes between the former chief executive officer and the company remain ongoing.

42. Related party disclosure (continued)

42.2 Summary of related party transactions (continued)

Transactions with key management (continued)

Executive directors and prescribed officers (R'000)	Salary	Bonus	Benefits and allowances	Retirement fund contri-butions	LTIPs	Dividends received	Total
2019							
DJ de Villiers[1] (chief executive officer and interim executive: investments)	**1 850**	**5 080**	**552**	**198**	**9 618**	**336**	**17 634**
BP Bydawell[2] (chief financial officer)	**1 629**	**1 250**	**163**	**78**	**–**	**–**	**3 120**
CH Wessels[3] (executive: legal, governance and compliance)	**2 198**	**2 250**	**49**	**361**	**749**	**220**	**5 827**
B Mokoena (executive: emerging markets)	**2 472**	**800**	**431**	**429**	**544**	**60**	**4 736**
L Stevens (executive: marketing and customers)	**1 945**	**800**	**41**	**319**	**576**	**42**	**3 723**
Total for the year	**10 094**	**10 180**	**1 236**	**1 385**	**11 487**	**658**	**35 040**

1. Appointed 1 November 2018. Mr DJ de Villiers received a sign-on award comprising a R3 million bonus and 1 867 510 FSP shares amounting to R9.6 million.
2. Appointed 1 April 2019. Prior to his appointment Mr BP Bydawell was employed as a consultant for a period of six months during which he acted in the capacity of chief financial officer.
3. The bonus amount of R2.25 million awarded to Ms CH Wessels includes a sign-on award comprising R500 000 paid in the current year to align to awards that were given up from her previous employer.

The above individuals are considered key management during the current financial year and accordingly no comparative information is presented.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

42. Related party disclosure (continued)

42.2 Summary of related party transactions (continued)

The following former employees held executive positions within the group.

Former executives and prescribed officers (R'000)	Salary	Bonus	Benefits and allow-ances	Retire-ment fund contri-butions	Contractual termination obligations[1]	LTIPs	Dividends received	Total
2019								
AA Darfoor[2] (chief executive officer)	**2 892**	**–**	**108**	**45**	**–**	**–**	**256**	**3 301**
N Ford-Hoon[2] (chief financial officer)	**2 333**	**–**	**411**	**249**	**–**	**–**	**27**	**3 020**
L Greyling[2] (chief executive officer: investments)	**1 999**	**–**	**275**	**214**	**3 496**	**1 501**	**146**	**7 631**
V Naicker[2] (chief risk officer)	**1 893**	**–**	**423**	**215**	**2 013**	**377**	**49**	**4 970**
T Powis[2, 3] (head of corporate and employee benefits)	**1 655**	**1 274**	**269**	**86**	**2 950**	**–**	**–**	**6 234**
S Reddy[2] (chief executive officer: retail clients)	**2 316**	**–**	**248**	**290**	**2 383**	**398**	**83**	**5 718**
B Schluep[2] (chief executive officer: emerging markets)	**585**	**–**	**246**	**4**	**3 104**	**–**	**–**	**3 939**
S Price[2] (chief operating officer)	**235**	**–**	**171**	**31**	**–**	**–**	**–**	**437**
Total for the year[4]	**13 908**	**1 274**	**2 151**	**1 134**	**13 946**	**2 276**	**561**	**35 250**
2018								
AA Darfoor (chief executive officer)	5 934	2 445	231	88	–	1 418	36	10 152
N Ford-Hoon (chief financial officer)	1 848	817	20	194	–	788	20	3 687
L Greyling (chief executive officer: investments)	2 715	1 501	47	285	–	535	14	5 097
V Naicker (chief risk officer)	2 691	754	52	282	–	506	13	4 298
T Powis (head of corporate and employee benefits)	813	–	185	–	–	–	–	998
S Reddy (chief executive officer: retail clients)	2 793	796	119	343	–	608	15	4 674
B Schluep (chief executive officer: emerging markets)	3 307	–	53	293	–	–	22	3 675
J Mather (group chief information officer)	372	–	5 618	–	–	–	–	5 990
S Price (chief operating officer)	2 777	–	53	358	–	565	14	3 767
Total for the year[4]	23 250	6 313	6 378	1 843	–	4 420	134	42 338

1. There were several resignations from the previous executive committee members during the year. Certain amounts were, however, already contractually owed and payable within their notice periods, inter alia, deferred bonus shares vesting on 1 January 2019 and in some instances contractually agreed sign-on and other bonuses. None of these individuals retained any rights to future LTIP awards.
2. Mr S Price and Mr B Schluep resigned with effect from 30 April 2018 and 1 May 2018 respectively, while Mr AA Darfoor's employment was terminated on 25 September 2018. Ms N Ford-Hoon resigned with effect from 14 December 2018 while Mr L Greyling and V Naicker resigned with effect from 1 January 2019. Both Ms S Reddy and Mr T Powis resigned with effect from 31 January 2019.
3. Mr T Powis received a deferred sign-on bonus amount of R1.2 million that was paid during the year.
4. The total for the year excludes transactions with Mr M Weiss (former group head of strategy and operations) who ceased to be a prescribed officer in the current year; however, he remains in the employ of the group. The total amount for Mr M Weiss for the current year is R5.9 million comprising his salary (R3.4 million), bonus (R1 million), benefits and allowances (R103 000), retirement fund contributions (R51 000), LTIPs (R1.3 million) and dividends received (R115 000). The total amount in the prior year is R3.5 million comprising his salary (R1.7 million), bonus (R627 000), benefits and allowances (R94 000), retirement fund contributions (R376 000) and LTIPs (R672 000).

42. Related party disclosure (continued)

42.2 Summary of related party transactions (continued)

Transactions with key management (continued)

Long-term incentive plan (LTIP)

The LTIP applies to executive directors, executive management and senior management. The share-based LTIPs are governed by rules as approved by shareholders. Non-executive directors are not eligible to receive LTIPs or any performance incentives. The aim of the LTIP is to align the interests of executives and senior managers with those of shareholders and link reward to performance and value creation over the longer term. The share awards under the LTIP are subject to achieving certain performance and vesting conditions, as well as continued employment over the vesting period.

These awards are made on a sliding scale and set by reference to individual salaries, grade and performance as well as the company's retention requirements and market benchmarks.

In terms of the scheme rules two types of awards may be allocated under the LTIP at the discretion of the remuneration committee, as follows: the conditional share plan (CSP) and the forfeitable share plan (FSP). Refer to note 22 for further details.

In August 2018 the company disclosed on its website the details of the Executive Long-term Incentive Plan (Ambition 2022 Executive LTIP) that was approved in June 2018.The Ambition 2022 Executive LTIP focused on members of the group executive committee of the company. The first Ambition 2022 Executive LTIP was awarded in July 2018 and with a subsequent award in November 2018. Following the strategy reset and engagement with shareholders, the remuneration committee approved the conversion of the awards issued under the Ambition 2022 Executive LTIP to align with the existing CSP awards. The conversion is applicable to Ms L Stevens and Mr DJ de Villiers.

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

Number of LTIP awards at 31 March 2019 ('000)	2018 tranche	2017 tranche	2016 tranche
Conditional shares			
DJ de Villiers (chief executive officer and interim executive: investments)	1 951[1]	–	–
CH Wessels (executive: legal, governance and compliance)	89	165[2]	–
B Mokoena (chief executive officer: emerging markets)	71	226	250
L Stevens (executive: marketing and customer)	511	79	160
	2 622	470	410
Forfeitable shares			
DJ de Villiers (chief executive officer and interim executive: investments)	1 868[3]	–	–
CH Wessels (executive: legal, governance and compliance)	96	119[4]	–
B Mokoena (chief executive officer: emerging markets)	71	57	–
L Stevens (executive: marketing and customer)	51	20	–
	2 086	196	–

As part of their employment contract Messrs DJ de Villiers and BP Bydawell were awarded shares within the AF LTIP scheme. The number of shares awarded are 3 818 320 and 304 815, respectively. Mr BP Bydawell's shares were awarded post year-end.

Total shares held by key management ('000)	2019
BP Bydawell (chief financial officer)	**50**
CH Wessels (executive: legal, governance and compliance)	**438**
B Mokoena (chief executive officer: emerging markets)	**52**
L Stevens (executive: marketing and customer)	**65**
	605

1. These shares were accepted on 13 December 2018 at a grant date fair value of R5.15 per share and vest on 1 July 2022.
2. These shares were awarded on 23 June 2017 at a grant date fair value of R6.30 per share and vest on 23 June 2020.
3. These shares were accepted on 13 December 2018 at a grant date fair value of R5.15 per share and vest on 1 November 2021.
4. These shares were awarded on 23 June 2017 at a grant date fair value of R6.30 per share and vest in two tranches (78 030 shares vesting on 26 March 2020 and 41 270 shares vesting on 24 July 2020).

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

42. Related party disclosure (continued)

42.2 Summary of related party transactions (continued)

Other transactions with key management

Members of key management has personal investments in AF Investments through the Alexander Forbes retirement funds amounting to R18 million (2018: R6 million). Certain members also insure their personal assets through Alexander Forbes Insurance. These transactions are all concluded at market rates on an arm's length basis.

Non-executive directors' fees and remuneration

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

Independent non-executive directors (R'000)		2019	2018
MD Collier		**2 076**	2 030
RM Head		**1 111**	226
T Dloti	Appointed 01/08/2018	**475**	–
N Nyembezi (chairman)		**2 122**	536
BJ Memela-Khambula		**984**	914
M Ramplin		**2 621**	1 271
NG Payne	Appointed 01/05/2018	**2 013**	–
		11 402	4 977

Non-executive directors' fees consist of a combination of standard fees plus additional fees for committee or subcommittee membership. During the year Ms M Ramplin acted as chief executive officer between 25 September 2018 and 1 November 2018 during which she received a salary amounting to R426 000 included in the amount above.

43. Insurance risk

43.1 Overview

Insurance contracts are issued by the group's insurance subsidiary companies, namely Alexander Forbes Insurance, Alexander Forbes Life and Alexander Forbes Insurance Namibia, as detailed below. These insurance companies are authorised and regulated by the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA) in South Africa, the Namibian Financial Institutions Supervisory Authority (NAMFISA) in Namibia, and the Guernsey Financial Services Commission (GFSC) and the Financial Conduct Authority (FCA) in the United Kingdom.

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

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

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

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

Name of subsidiary company (and country of incorporation)	Nature of insurance operations
Alexander Forbes Insurance Company Namibia Limited (Namibia)	Personal and commercial lines short-term insurance (non-life insurance), cell-captive and contingency short-term insurance, as well as motor-related short-term insurance products.
Alexander Forbes Insurance Company Limited (South Africa)	Personal lines short-term insurance (non-life insurance) as well as commercial short-term insurance.
Alexander Forbes Life Limited (South Africa)	Short-term insurance (non-life insurance), writing of retail long-term insurance (life insurance) policies was ceased during the year.

43.2 Assets and liabilities under insurance contracts

Rm	2019	2018
43.2.1 Insurance contract liabilities of insurance subsidiaries included in the statement of financial position (by nature of liability)		
Net unearned premium provision from short-term insurance (non-life insurance) contracts	**14**	14
Gross unearned premium provision	**40**	41
Less: Reinsurers' share of unearned premium provision	**(26)**	(27)
Net outstanding claims provision from short-term insurance (non-life insurance) contracts	**50**	26
Gross outstanding claims provision	**220**	230
Less: Reinsurers' share of outstanding claims provision	**(170)**	(204)
Net IBNR provision from short-term insurance (non-life insurance) contracts	**18**	18
Gross IBNR provision	**67**	65
Less: Reinsurers' share of IBNR provision	**(49)**	(47)
Policyholder liability under long-term insurance (life insurance) contracts (group life)	**159**	78
Gross policyholder liability	**690**	545
Less: Reinsurers' share of policyholder liability	**(531)**	(467)
Net liabilities under insurance contracts	**241**	136

43.2.2 Reinsurance contract assets

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

Rm	2019	2018
IBNR	**34**	31
Annuity claims in payment	**435**	384
Pending annuity claims	**39**	34
Notified annuity claims	**23**	18
Reinsurance assets	**531**	467

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

43. Insurance risk (continued)

43.3 General management of insurance risk

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

Risk and audit committees

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

The audit committees serve to satisfy the group and subsidiary boards of directors that adequate internal and financial controls are in place, that material financial risks are managed appropriately and that there is integrity in the financial accounting and reporting processes.

Heads of Actuarial Function (HAFs)

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

Solvency capital requirements

In terms of the Insurance Act, 2017, which came into effect on 1 July 2018, the PA prescribed updated methodology for South African insurers to use in calculating their available capital and solvency capital requirement. Available capital is the amount by which the value of the assets exceeds the value of liabilities, both measured on a prescribed prudential basis. The group ensures that available capital is of suitable quality and is accessible when required. The capital buffer is the amount by which available capital exceeds the regulatory capital requirement for the group. The capital buffer is managed to support risk target levels, strategic initiative requirements and the dividend policy of the group. The group's dividend policy takes cognisance of capital requirements at a group level.

Rm	2019	2018
Long-term insurance (life insurance)		
Alexander Forbes Life Limited		
Solvency capital requirements	**635**	619
Times cover	**1.51**	1.15

A solvency capital requirement has been established in accordance with the Act and the PA's Financial Soundness Standards.

43. Insurance risk (continued)

43.3 General management of insurance risk (continued)

Rm	2019	2018
Short-term insurance (non-life insurance)		
Alexander Forbes Insurance		
Solvency capital requirement	**162**	155
Own funds	**356**	356

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

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

43.4 Personal lines short-term insurance (non-life insurance)

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

Risks that arise from insurance contracts
This business activity is to accept the risk of loss from insured events and charge a premium commensurate to this risk. As such, the subsidiary is exposed to uncertainty surrounding the timing, severity and frequency of claims under insurance contracts.

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

Except as stated below there is no significant concentration of risk as the subsidiary's risks are adequately spread geographically, as well as across the major classes of insurance risk.

Exposure to catastrophe risk is estimated by analysing the motor and property book to identify areas of concentration. The subsidiary's concentration exposure for its personal lines book is considered to be in the Johannesburg area and the event has been identified as a possible earthquake or a severe hailstorm. This assessment is done annually at renewal of the catastrophe programme and reinsurance protection is purchased on a non-proportional basis accordingly, thereby limiting the exposure to the subsidiary. The current gross exposure is R4 million (2018: R4 million). Current net exposure is R1 million (2018: R1 million).

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

43. Insurance risk (continued)

43.5 Long-term insurance (life insurance)

Terms and conditions of insurance contracts

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

Risks that arise from insurance contracts

The group's insurance business is subject to mortality and morbidity risk. Since the term of a group policy is typically one year and upfront costs are limited, the risk of non-recoupment of expenses as a result of withdrawals is limited.

An individual insurance product was launched during the 2006 financial year. A level premium version of the individual life product was introduced during the 2015 financial year. As at 31 March 2019 it remains a relatively immaterial part of the overall long-term insurance (life insurance) exposure. The product is subject to mortality, morbidity, withdrawal and expense risk. A decision was taken by the board to discontinue issuance of individual life policies and as such the retail life business is currently in run-off.

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

As at 31 March 2019 the group had exposure with the supporting actuarial reserves of approximately R158 million (2018: R95 million) in group insurance business. The individual life business has limited exposure and due to the closure of new business which led to an increase in unit costs the negative actuarial reserve asset of R18 million in 2018 has become an actuarial liability of approximately R2 million.

Mitigation of insurance risk

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

In respect of individual insurance business the major risks are mortality, morbidity, withdrawal and expense. Premiums on this business line are differentiated by age, gender and smoker status. Stringent socio-economic qualification criteria apply. Future premium rates are also not guaranteed and may be adjusted if mortality and morbidity experience deteriorates. Market pressures and delays in implementing changes could, however, counter this mitigating effect. Expense risk is mitigated through detailed analysis of costs in determining the expense assumptions in the valuation, as well as ongoing expense management. As the retail life portfolio is currently in run-off there are heightened expense risks, as higher-than-expected lapses would result in an inability to recoup costs. Expenses and lapse assumptions on the retail life portfolio are monitored on a frequent basis.

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

Sensitivity analysis

The most critical assumption underlying the liabilities relating to group risk insurance is the rate of recovery from illness or disability associated with claims in payment. The sensitivity to a recovery rate 10% lower than assumed is R137.2 million (2018: R89.5 million). The sensitivity to assumptions on negative liabilities comprising mortality, withdrawal and renewal risks arising from the individual insurance contracts is currently insignificant.

44. Financial risk

Introduction

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

Credit risk

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

Liquidity risk

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

Market risk

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

Interest rate risk

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

Currency risk

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

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

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

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

(iii) general operations including consulting operations; employee benefit consulting, administration and management operations; and insurance operations conducted by the group's short-term insurance lines insurer, Alexander Forbes Insurance, and the group's life insurer, Alexander Forbes Life.

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

Nature of financial assets and liabilities

(i) Multi-manager investment operations

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

(ii) Insurance cell-captive facilities

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

(iii) General operations

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

44. Financial risk (continued)

Nature of financial assets and liabilities (continued)

(iii) General operations (continued)

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

Financial assets and liabilities of the group

Rm	Notes	2019	2018
Assets			
Financial assets held under multi-manager investment contracts			
Fair value through profit or loss	10	**294 080**	288 871
Cash and cash equivalents – fair value through profit or loss	10	**5 772**	–
Loans and receivables		**–**	7 887
Financial assets of insurance cell-captive facilities			
Fair value through profit or loss	11	**–**	178
Balances relating to insurance contracts – carried at fair value	11	**–**	168
Loans and receivables	11	**–**	6
General operations			
Financial assets			
Available for sale	17	**–**	14
Fair value through profit or loss	17	**59**	264
Fair value through other comprehensive income	17	**13**	82
At amortised cost	17	**36**	–
Loans and receivables	17	**–**	85
Insurance receivables			
Balances relating to insurance contracts – carried as loans and receivables	18	**–**	1 339
Trade and other receivables			
At amortised cost	19	**241**	–
Loans and receivables	19	**–**	224
Cash and cash equivalents			
At amortised cost	20	**4 399**	–
Loans and receivables	20	**–**	5 794
Fair value through profit or loss		**642**	–
Total financial assets		**305 242**	304 912
Liabilities			
Financial liabilities held under multi-manager investment contracts			
Fair value through profit or loss – designated	23	**299 885**	296 825
Financial liabilities of insurance cell-captive facilities			
Fair value through profit or loss – designated	24	**–**	352
General operations			
Borrowings – financial liabilities held at amortised cost	25	**719**	719
Insurance payables – financial liabilities held at amortised cost	31	**1 689**	3 572
Trade and other payables – financial liabilities held at amortised cost	32	**480**	510
Finance lease liability – financial liabilities held at amortised cost	29	**–**	51
Total financial liabilities		**302 773**	302 029

For financial assets and financial liabilities not measured at fair value, the amortised cost value approximates the fair value due to the short-term nature of the instrument.

44. Financial risk (continued)

44.1 Credit risk

44.1.1 Objectives, policies and process to manage credit risk

(i) *Multi-manager investment operations*

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

(ii) *General operations*

Financial assets
The financial assets designated as fair value through profit or loss are actively managed by multiple investment managers and placed with high credit-rated financial institutions. Industry specialists as well as the group's panel of investment managers are invited to the quarterly meetings.

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

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

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

44.1.2 Exposure to credit risk

(i) *Multi-manager investment operations*

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

Analysis of financial assets held under multi-manager investment contracts

	Financial assets	
Institution where held	**Rm**	**%**
2019		
Between Aaa and A3[1]	**428**	**0.14**
Between Baa1 and B3[1]	**60 586**	**20.21**
Remainder includes equity securities and other assets with no specific credit risk rating	**238 838**	**79.65**
	299 852	**100.00**
2018		
Between Aaa and A3[1]	700	0.24
Between Baa1 and B3[1]	67 691	22.81
Remainder includes equity securities and other assets with no specific credit risk rating	228 367	76.95
	296 758	100.00

1. Ratings per Moody's credit ratings agency.

(ii) *General operations*

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

Financial assets mainly comprise preference shares, premium finance receivables, discounted debtors, loan notes and equity housing loans.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

44. Financial risk (continued)

44.1 Credit risk (continued)

44.1.2 Exposure to credit risk (continued)

Analysis of financial assets

Rm	2019	2018
Financial assets classified as available for sale		
ASISA investment	**–**	14
Financial assets at fair value through profit or loss		
Money market instruments	**33**	80
Collective investment schemes	**26**	142
Bonds/debt securities	**–**	42
Financial assets at amortised cost		
Equity housing loans	**32**	–
Other loans	**4**	–
Financial assets classified as loans and receivables		
Equity housing loans	**–**	29
Other loans	**–**	56
Financial assets at fair value through other comprehensive income – designated		
Forward exchange contract	**–**	82
ASISA investment	**13**	–
	108	445

Trade and other receivables

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

Top 20 clients

The group's top 20 clients' overall revenue represent approximately 3% (2018: 2%) of operating income net of direct expenses and the total of this amount is aged within three months. No single client contributes more than 1% (2018: 0.2%) of the group's operating income net of direct expenses.

Impairment of financial assets

The group has four types of financial assets that are subject to the expected credit loss model:

- trade receivables;
- other receivables;
- accrued income; and
- long-term loans.

While some of the cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and accrued income

The group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and accrued income.

To measure the expected credit losses, trade receivables and accrued income have been grouped based on shared credit risk characteristics and the days past due. The accrued income relates to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the accrued income.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 March 2019 or 1 April 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified GDP, inflation, global outlook on emerging markets, major rating agencies' outlook and the unemployment rate in South Africa and other emerging markets in which it sells its services to be the most relevant factors and accordingly adjusts the historical loss rates based on expected changes in these factors.

44. Financial risk (continued)

44.1 Credit risk (continued)

44.1.2 Exposure to credit risk (continued)

Trade receivables (accrued income expected credit losses are regarded as immaterial)

Maximum exposure and age analysis of financial assets

Rm	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
31 March 2019					
Expected loss rate	**0.6%**	**1.2%**	**2.4%**	**55.6%**	**7.8%**
Gross carrying amount – trade receivables	**135**	**18**	**4**	**27**	**184**
Accrued income	**21**	**–**	**–**	**–**	**21**
Loss allowance	**(1)**	**–**	**–**	**(15)**	**(16)**
Total	**155**	**18**	**4**	**12**	**189**
31 March 2018					
As disclosed under IAS 39					
Insurance receivables	1 226	18	27	68	1 339
Trade receivables	126	13	3	25	167
Other receivables	22	1	–	34	57
	1 374	32	30	127	1 563

The closing loss allowance at 31 March 2019 reconcile to the opening loss allowances as follows:

	Trade receivables	
Rm	**2019**	2018
31 March – calculated under IAS 39	**(6)**	(5)
Amounts restated through opening retained earnings	**(11)**	–
Opening loss allowance as at 1 April 2018 – calculated under IFRS 9	**(17)**	(5)
Increase in loan loss allowance recognised in profit or loss for the year	**(1)**	(1)
Recoveries	**2**	–
At 31 March	**(16)**	(6)

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

44. Financial risk (continued)

44.1 Credit risk (continued)

44.1.2 Exposure to credit risk (continued)

Trade receivables are reflected net of an impairment of R16.4 million (2018: R6.4 million). The majority of the trade receivables fall within less than 90 days.

Trade receivables and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the group and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables and accrued income are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables
In the prior year the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The remaining balance of trade receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.

The group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Other financial assets at amortised cost
Other financial assets comprise other receivables and long-term loans.

Long-term loans
The loss allowance for long-term loans at amortised cost as at 31 March 2018 reconciles to the opening loss allowance on 1 April 2018 and to the closing loss allowance as at 31 March 2019 as follows:

	2019	2018
31 March – calculated under IAS 39	**–**	–
Amounts restated through opening retained earnings	**(29)**	–
Opening loss allowance as at 1 April 2018 – calculated under IFRS 9	**(29)**	–
At 31 March	**(29)**	–

Other receivables
Expected credit losses of other receivables are regarded as immaterial.

Cash and cash equivalents
Cash and cash equivalent balances and transactions are limited to high credit-quality institutions. At reporting date the group did not consider there to be a significant concentration of credit risk to cash and cash equivalent balances.

The financial institutions used in the current and prior financial year had ratings of between Aaa and Baa3, as determined by external credit rating agency, Moody's.

During the current year there have been no changes to the fair values of the financial assets of general operations presented above due to changes in the credit risk associated with these assets.

44. Financial risk (continued)

44.2 Liquidity risk

44.2.1 Objectives, policies and process to manage liquidity risk

(i) Multi-manager investment operations

The multi-manager investment operations are conducted through long-term insurance subsidiary companies that issue insurance contracts to policyholders. These long-term insurance companies are registered financial institutions and are required to hold minimum solvency capital to, inter alia, reduce policyholder exposure to the group's liquidity risk. The regulator of insurance companies, the FSCA in South Africa, regularly reviews compliance with these minimum capital requirements. Management monitors compliance with these minimum capital requirements.

In addition, liquidity risk arising from unexpected lapses and withdrawals is limited through policy terms and conditions that restrict claims to the value and timing at which the assets are realised. The maturity analysis of these policyholders' liabilities is detailed in the note to these financial statements, namely financial liabilities held under multi-manager investment contracts and these liabilities are mostly open-ended as per note 23.2.

(ii) General operations

Liquidity risk management implies maintaining sufficient cash and ensuring the availability of funding through an adequate amount of cash resources and credit facilities. Monitoring of budgeted and projected cash flows supports the fact that the group will generate sufficient cash flows from operations to limit the impact of liquidity risk. The group has prescribed authority mandates and borrowing limits.

The group sets limits on the minimum proportion of maturing funds available to meet claims arising from long-term insurance contracts and unexpected levels of demands. Similarly the majority of the assets held to match short-term insurance contracts are in money market instruments which are highly liquid. Net cash flows are monitored closely to ensure claim payments under long-term and short-term insurance contracts can be made when requested. Long-term and short-term insurance subsidiaries are registered financial institutions and are required to hold minimum capital and reduce policyholder exposure to the group's liquidity risk. The regulatory authority in South Africa regularly reviews compliance with these minimum capital requirements. Management monitors compliance with these minimum capital requirements. Assets linked to investments are realisable at short notice.

The group is highly cash generative; a significant portion of revenue is collected within seven days of the month in which the revenue is recognised. This collection is inherent in the insurance premiums and pension fund administrative revenue process. As a result the group is well positioned to engage in shorter-term funding matched to the cash flows in order to ensure maximum efficiency in its funding rates.

44.2.2 Exposure to liquidity risk

(i) Multi-manager investment operations

Liquidity risk arises from unexpected lapses and withdrawals by policyholders. The group is able, in such cases, to transfer ownership of the underlying assets within the policy to the policyholder in order to extinguish its liability.

(ii) General operations

A revolving credit facility of R800 million (2018: R800 million) is in place and is renewable annually with a notice period of three months. The interest rate is JIBAR plus 1.25% payable quarterly. The group's ability to generate cash positions the group well to negotiate annually for the best available terms.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

44. Financial risk (continued)

44.2 Liquidity risk (continued)

44.2.2 Exposure to liquidity risk (continued)

Liquidity analysis of assets and liabilities

Rm	Contractual cash flows (undiscounted)				Undated/ Linked	Total
	0 – 1 year	1 – 3 years	3 – 5 years	>5 years		
2019						
Assets						
Financial assets held under multi-manager investment contracts	–	–	–	–	299 852	299 852
Financial assets	–	–	–	–	95	95
Trade and other receivables	241	–	–	–	–	241
Cash and cash equivalents	5 041	–	–	–	–	5 041
ASISA investment	–	–	–	–	13	13
Total financial assets	5 282	–	–	–	299 960	305 242
Liabilities						
Financial liabilities held under multi-manager investment contract[1]	–	–	–	–	299 885	299 885
Borrowings	719	–	–	–	–	719
Insurance payables	–	–	–	–	1 689	1 689
Trade and other payables	480	–	–	–	–	480
Total financial liabilities	1 199	–	–	–	301 574	302 773

1. Although these financial liabilities are payable on demand they can be settled in cash or by delivery of the underlying assets.

44. Financial risk (continued)

44.2 Liquidity risk (continued)

44.2.2 Exposure to liquidity risk (continued)

Liquidity analysis of assets and liabilities (continued)

Rm	Contractual cash flows (undiscounted)				Undated/ Linked	Total
	0 – 1 year	1 – 3 years	3 – 5 years	>5 years		
2018						
Assets						
Financial assets held under multi-manager investment contracts	–	–	–	–	296 758	296 758
Financial assets of insurance cell-captive facilities	–	–	–	–	352	352
Financial assets	178	–	–	–	170	348
Insurance receivables	370	–	–	–	969	1 339
Trade and other receivables	225	–	–	–	–	225
Cash and cash equivalents	5 794	–	–	–	–	5 794
ASISA investment	–		–	–	14	14
Derivatives assets						
Forward exchange contract	82	–	–	–	–	82
Total financial assets	6 649	–	–	–	298 263	304 912
Liabilities						
Financial liabilities held under multi-manager investment contract[1]	–	–	–	–	296 825	296 825
Financial liabilities of insurance cell-captive facilities[1]	–	–	–	–	352	352
Borrowings	719	–	–	–	–	719
Insurance payables	831	–	–	–	2 741	3 572
Trade and other payables	510	–	–	–	–	510
Finance lease liability	51	–	–	–	–	51
Total financial liabilities	2 111	–	–	–	299 918	302 029

[1] Although these financial liabilities are payable on demand they can be settled in cash or by delivery of the underlying assets.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

44. Financial risk (continued)

44.3 Market risk

44.3.1 Objectives, policies and processes to manage market risk

(i) Multi-manager investment operations

The group has established an investment committee which, in conjunction with the board of directors of the multi-manager investment subsidiary companies, is responsible for setting investment strategies for the various investment portfolios and monitoring compliance therewith.

AF Investments employs a multi-manager investment approach, focusing on reducing risk through optimal layer diversifications. The structure of investment portfolios is based on the contracts entered into and the risk profile selected by the client. Within these parameters, investments are managed with the aim of delivering superior returns, while limiting risk to acceptable levels, within the framework of statutory requirements. Although AF Investments does not make use of derivatives directly, the underlying managers may do so within strict mandate controls to achieve a particular portfolio's investment objective in the most effective manner or to smooth or protect portfolio returns.

(ii) General operations

Interest rate risk

The group does not hedge against the interest rate exposure of fee income derived by the group and the board has accepted that changes in interest rates can result in volatility in the group's earnings. An increase or decrease in interest rates impacts the value of debt securities included in assets from multi-manager investment contracts.

A revolving credit facility of R800 million (2018: R800 million) is in place and is subject to interest at JIBAR plus 1.25% payable quarterly.

Currency risk

The group does not hedge against this currency exposure to earnings and the board has accepted that changes in exchange rates can result in volatility in the group's earnings when reported in rands.

The group does not hedge against the currency exposure to US dollar policy-linked commission and fee income earned by insurance broking activities and the board has accepted that changes in exchange rates can result in volatility in the group's earnings when reported in rands. Changes in currency will impact profit before tax as a result of commission and fee earnings linked to US dollar policies.

Other price risk

The group monitors the risk associated with the fee income attributable to the equity assets under management in the multi-manager investment operations. The exposure to equity markets is monitored and specific advice is taken on the economic outlook with regard to this fee income.

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

44.3.2 Exposure to market risk

(i) Multi-manager investment operations

Policyholders' liabilities are linked to investments in equity securities, preference shares, debt securities, collective investment schemes, mutual funds, cash and other assets. These are valued at ruling market values and are therefore susceptible to daily market fluctuations.

There is no direct significant market risk, either by interest rate, currency or other price risk, to the group on financial assets held in respect of multi-manager investment contracts as the effect of any changes in these market risks is directly attributable to policyholder assets and policyholder assets are directly matched by policyholder liabilities. There are assets held within the policyholder assets which are exposed to currency risk arising from various currency exposures primarily with respect to sterling, euro and the US dollar, but these are matched by policyholder liabilities.

Fee income earned by the group on assets from multi-manager investment operations is based on assets which are exposed to fluctuations in interest rates, foreign currencies and equity prices. The group does not hedge against the interest rate and currency exposures and the board has accepted that changes in interest and exchange rates can result in volatility in the group's earnings.

44. Financial risk (continued)

44.3 Market risk (continued)

44.3.2 Exposure to market risk (continued)

(ii) General operations

Interest rate risk

The group's income and operating cash flows are substantially independent of changes in market interest rates, except for interest costs on provisions for client settlements which are sensitive to short-term interest rates. This impact is off-set by the effect of short-term interest rate movements on interest earned on cash balances. The interest rate on borrowings relates to the revolving credit facility, with interest at JIBAR plus 1.25%. A 1% increase/decrease in JIBAR results in a pre-tax interest charge/saving of R7.7 million (2018: R7.1 million).

As detailed above, fee income derived by the group on assets from multi-manager investment contracts will be impacted by any changes in value of such assets arising from fluctuations in interest rates.

In addition, a portion of fee income earned in the retail business in the financial services operations in South Africa is impacted by changes in interest rates as this income is linked to assets managed by this business.

Currency risk

The group operates primarily in South Africa and has certain operations in other African countries. Approximately 7% (2018: 7%) of the group's operating income net of direct expenses is derived from its operations in Africa outside South Africa.

Fee income derived by the group on assets from multi-manager investment operations will also be impacted by any changes in value of such assets arising from fluctuations in foreign currency exchange rates.

In addition, a portion of fee income earned in the retail business in the financial services operations in South Africa is impacted by changes in foreign currencies as this income is linked to assets managed by this business.

Except for earnings, the group companies are required to hedge their foreign exchange risk exposure using forward contracts transacted with group treasury.

The group's exposure to foreign currency risk at the end of the reporting period expressed was as follows:

	31 March 2019		31 March 2018	
Million	**USD**	**GBP**	USD	GBP
Cash flow hedges	**(2)**	**–**	33	–
Cash and cash equivalent	**–**	**21**	–	29
Trade and other payables	**–**	**1**	–	1

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

44. Financial risk (continued)

44.3 Market risk (continued)

44.3.2 Exposure to market risk (continued)

(ii) General operations (continued)

Amounts recognised in profit or loss and other comprehensive income

During the year the following foreign exchange-related amounts were recognised in profit or loss and other comprehensive income:

Rm	2019	2018
Amounts recognised in profit or loss		
Net loss on foreign currency due to movements in forward points included in finance costs[1]	**(7)**	(17)
Net gains/(losses) recognised in other comprehensive income		
Cash flow hedges	**40**	(37)
Foreign currency translation differences of foreign operations[2]	**44**	(9)
Foreign currency translation reserve of disposed operations reclassified to profit or loss	**(17)**	–

1. Relates to foreign currency risk.
2. Relates to currency translation risk.

Sensitivity

As reflected above, the group is primarily exposed to changes in USD/GBP exchange rates. The sensitivity of other comprehensive income to changes in the exchange rates arises mainly from GBP-denominated financial instruments and the impact on other components of equity arises from foreign forward exchange contracts designated as cash flow hedges denominated in USD:

	31 March 2019		31 March 2018	
Rm	USD	GBP	USD	GBP
ZAR:US/GBP exchange rate – increase 10%[1]	**3.5**	**54**	39.10	47.60
ZAR:US/GBP exchange rate – decrease 10%[1]	**(3.5)**	**(54)**	(39.10)	(47.60)

1. Holding all other variables constant.

Concentration risk

The group is not exposed to any significant concentration risk; however, from a regulatory perspective, AF Life maintains a concentration risk capital charge against exposure to a South African bank. The exposure arises from maintaining the majority of umbrella fund transactional bank accounts with this bank for operational efficiency reasons.

Other price risk

As detailed above, fee income derived by the group on assets from multi-manager investment operations will be impacted by any changes in the value of such assets arising from fluctuations in equity markets.

In addition, a portion of fee income earned in the retail business in the financial services operations in South Africa is impacted by changes in equity markets as this income is linked to assets managed by this business.

There have been no significant changes in market risk exposures since the prior year.

44. Financial risk (continued)

44.4 Fair value hierarchy

A number of the group's accounting policies and disclosures for financial assets and liabilities require the determination of fair value. Fair value measurement is influenced by current market conditions and is subject to the financial risks noted above.

44.4.1 Valuation methods and assumptions for valuation techniques

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

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' also requires significant judgement. The group considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Level 1
Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturities, equity securities and derivative contracts.

Level 2
Level 2 financial assets primarily include government and agency securities and certain corporate debt securities, such as private fixed maturities. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined utilising relevant information generated by market transactions involving comparable securities. They are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security's duration, also taking into consideration issuer-specific credit quality and liquidity. These valuation methodologies have been studied and evaluated by the group and the resulting prices determined to be representative of exit values.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, reported secondary trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. Additional observable inputs are used when available and as may be appropriate.

Derivatives
Derivative contracts are traded in the over-the-counter (OTC) derivative market and are classified in Level 2. The fair values of derivative assets and liabilities traded in the OTC market are determined using quantitative models that require use of the contractual terms of the derivative instruments and multiple market inputs, including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors, which are then applied to value the positions. The predominance of market inputs is actively quoted and can be validated through external sources or reliably interpolated if less observable.

The credit risk of the counterparty and of the group is considered in determining the fair values of all OTC-derivative asset and liability positions, respectively, after taking into account the effects of master netting agreements and collateral arrangements. In each reporting period the group values its derivative positions using the standard swap curve and evaluates whether to adjust the embedded credit spread to reflect change in counterparty or its own credit standing.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

44. Financial risk (continued)

44.4 Fair value hierarchy (continued)

44.4.1 Valuation methods and assumptions for valuation techniques (continued)

Level 3

Level 3 investments primarily include listed and unlisted equity securities and collective investment schemes whose traded prices are not considered liquid enough to justify Level 2 observation. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement. The group applies various due-diligence procedures, as considered appropriate, to validate these non-binding broker quotes for reasonableness, based on its understanding of the markets, including use of internally developed assumptions about inputs a market participant would use to price the security.

The group issues a significant number of investment contracts that are designated at fair value through profit or loss. These investment contracts are not quoted in active markets and their fair values are determined by using valuation techniques. Such techniques (for example, valuation models) are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices. A variety of factors are considered in the group's valuation techniques, including time value, credit risk (both own and counterparty), embedded derivatives (such as unit-linking features), volatility factors (including contract holder behaviour), servicing costs and activity in similar instruments. Since significant inputs are based on unobservable inputs, these investment contract liabilities are classified as Level 3 instruments in the fair value hierarchy.

At 31 March 2019 investments classified at Level 3 comprise approximately 2% (2018: 2%) of Level 3 assets.

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

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

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

44. Financial risk (continued)

44.4 Fair value hierarchy (continued)

44.4.2 Financial assets and liabilities at fair value

Financial assets measured at fair value according to the fair value hierarchy

	Fair value levels			Total
Rm	Level 1	Level 2	Level 3	fair value
2019				
Financial assets held under multi-manager investment contracts				
Equity securities – listed	102 504	7	–	102 511
– unlisted	–	–	737	737
Preference shares – listed	452	–	–	452
Collective investment schemes	76 304	26 346	–	102 650
Debt securities – listed	238	19 014	–	19 252
– government stock	–	22 102	–	22 102
Debentures – listed	681	–	–	681
Policy of insurance	–	19 285	6 307	25 592
Derivative financial instruments	11	–	–	11
Money market instruments – listed	–	20 092	–	20 092
	180 190	106 846	7 044	294 080
General operations				
Financial assets:				
Money market instruments	–	675	–	675
Collective investment schemes	–	26	–	26
ASISA investment	–	–	13	13
	–	701	13	714
Total financial assets measured at fair value	180 190	107 547	7 057	294 794
Expressed as a percentage (%)	61	36	2	100
Cash held under multi-manager investment contracts	–	5 629	143	5 772
Cash held under insurance cell-captive contracts	–	–	–	–
	180 190	113 176	7 200	300 566

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

44. Financial risk (continued)

44.4 Fair value hierarchy (continued)

44.4.2 *Financial assets and liabilities at fair value* (continued)

Financial assets measured at fair value according to the fair value hierarchy (continued)

	Fair value levels			Total
Rm	Level 1	Level 2	Level 3	fair value
2018				
Financial assets held under multi-manager investment contracts				
Equity securities – listed	106 547	–	–	106 547
– unlisted	–	–	84	84
Preference shares – listed	332	–	–	332
Collective investment schemes	66 865	21 075	–	87 940
Debt securities – listed	196	20 308	6	20 510
– government stock	–	20 734	–	20 734
Debentures – listed	3 053	–	–	3 053
Policy of insurance	–	21 843	4 774	26 617
Money market instruments – listed	–	23 054	–	23 054
	176 993	107 014	4 864	288 871
Financial assets of insurance cell-captive facilities				
Money market instruments – listed	178	–	–	178
Balances relating to insurance contracts	–	168	–	168
	178	168	–	346
General operations				
Financial assets:				
Bonds	–	42	–	42
Money market instruments	–	80	–	80
Collective investment schemes	–	142	–	142
Derivative – forward exchange contract	–	82	–	82
ASISA investment	–	–	14	14
	–	346	14	360
Total financial assets measured at fair value	177 171	107 528	4 878	289 577
Expressed as a percentage (%)	61	37	2	100
Cash held under multi-manager investment contracts	–	7 887	–	7 887
Cash held under insurance cell-captive contracts	–	6	–	6
	–	7 893	–	7 893

44. Financial risk (continued)

44.4 Fair value hierarchy (continued)

44.4.2 Financial assets and liabilities at fair value (continued)

Financial liabilities measured at fair value according to the fair value hierarchy (continued)

Rm	Fair value levels			Total fair value
	Level 1	Level 2	Level 3	
2019				
Financial liabilities measured at fair value				
Financial liabilities held under multi-manager investment contracts	**–**	**292 841**	**7 044**	**299 885**
Total financial liabilities measured at fair value	**–**	**292 841**	**7 044**	**299 885**
2018				
Financial liabilities designated at fair value				
Financial liabilities held under multi-manager investment contracts	–	291 937	4 888	296 825
Financial liabilities of insurance cell-captive facilities	–	352	–	352
Total financial liabilities designated at fair value	–	292 289	4 888	297 177

44.4.3 Changes in Level 3 instruments

Summary of changes in group Level 3 instruments

Rm	Financial assets under multi-manager assets	Financial assets of insurance cell-captive facilities	Total
Financial assets			
Opening balance at 1 April 2018	**4 864**	**–**	**4 864**
Total gains recognised in profit or loss	**513**	**–**	**513**
Transfer from loans and receivables	**201**	**–**	**201**
Purchases	**4 874**	**–**	**4 874**
Disposals	**(3 408)**	**–**	**(3 408)**
Closing balance at 31 March 2019	**7 044**	**–**	**7 044**
Opening balance at 1 April 2017	2 771	–	2 771
Total gains recognised in profit or loss	360	–	360
Transfer from loans and receivables	(118)	–	(118)
Purchases	2 115	–	2 115
Disposals	(264)	–	(264)
Closing balance at 31 March 2018	4 864	–	4 864

The financial assets and liabilities of multi-manager investment contracts are linked and all movements in these assets will be met with a converse movement in the liabilities associated. Similarly the cell-owner insurance assets and liabilities are also linked.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

45. Risk and capital management

45.1 Capital management

45.1.1 Capital management strategy

Alexander Forbes employs a disciplined capital management framework in order to maximise shareholder value through a process of planning, allocating and managing capital throughout the group. Capital planning is conducted with the aim of ensuring that the return on investment is higher than the cost of capital, as well as to balance the objectives of achieving stated growth, risk and return expectations in line with the interests of the shareholder. The group aims to ensure a capital structure that enables these aims and delivers on its focus of being a capital-light business.

The group maintains a capital buffer in line with its board-approved risk appetite, indicating the amount of excess assets above liabilities on a statutory basis. AFGH manages these capital buffers for the group, but also for its regulated entities.

While the group takes particular care in ensuring the capital adequacy of its regulated entities, both at solo and group level, the group targets shareholder return through:

- optimising its regulatory capital requirements;
- dividend declarations in line with its dividend policy;
- share repurchase initiatives;
- investment into business; and
- inorganic growth through mergers and acquisitions.

The group manages its capital planning through its board-approved capital management policy.

45.1.2 Available capital resources

The group's available capital and quality thereof is determined on a SAM basis in alignment to its tiering requirements. The group's capital supply (also known as Own Funds) is almost entirely funded by ordinary share capital offering the highest quality of capital to the group. The Group Own Funds are allocated to various tiers detailed below, of which Tier 3 consists of largely net deferred tax assets and the admissible portion of intangible assets.

Tier 1	Tier 2	Tier 3	Eligibility adjustment	Adjustment to Own Funds for pro rata interest	Eligible Own Funds to meet the SCR
2 769	**–**	**259**	**(18)**	**(43)**	**2 967**

While the group does not have any qualifying Tier 2 debt at the reporting date, it does have a revolving credit facility of R800 million of which R719 million is utilised at the reporting date.

45.1.3 Capital adequacy and solvency

Under the Insurance Act, 2017, which came into effect on 1 July 2018, the Prudential Authority prescribed methodology for South African insurers to assess its solvency. The Insurance Act replaced the previous statutory bases for measuring solvency under the Long-Term and Short-term Insurance Acts. The Insurance Act also prescribes the basis for insurers of calculating available capital and the solvency capital requirements for solo insurers as well as designated insurance groups.

Available capital is the amount by which the value of the assets exceeds the value of liabilities, both measured on a prescribed prudential basis. The group ensures that available capital is of suitable quality and is accessible when required. The capital buffer is the amount by which available capital exceeds the regulatory capital requirement for the group. The capital buffer is managed to support risk target levels, strategic initiative requirements and the dividend policy of the group. The group's dividend policy takes cognisance of capital requirements at a group level and the required buffers. Similarly, all dividends sourced from regulated entities are only approved where they do not compromise capital adequacy at each legal entity level.

Entities regulated under regulations other than the Insurance Act in South Africa and/or in foreign jurisdictions are similarly monitored for ongoing compliance under their respective regulatory requirements.

At this stage Alexander Forbes Group Holdings Limited has not been designated as the controlling company of an insurance group.

45. Risk and capital management (continued)

45.1 Capital management (continued)

45.1.3 Capital adequacy and solvency (continued)

Solo supervision

The solo insurance entity solvency on a prudential basis is shown below (31 March 2018 included for comparative purposes):

Regulated entity	31 March 2019 Own Funds	31 March 2019 SCR	31 March 2019 Cover ratio	31 March 2018 Own Funds	31 March 2018 SCR	31 March 2018 Cover ratio
Alexander Forbes Insurance Company Limited	**356**	**162**	**2.20**	264	155	1.70
Alexander Forbes Investments Limited	**618**	**458**	**1.35**	980	450	2.18
Alexander Forbes Life Limited	**956**	**635**	**1.51**	711	619	1.15

All solo entities remain solvent as at 31 March 2019 and maintain buffers in line with their respective risk appetites.

Group supervision

While the group has not been designated as an insurance group under the new Insurance Act, the group manages solvency at group level. The group applies the principles as set out under the Prudential Standards for the group for its various entities to derive the group's regulatory solvency and surplus. The following methodology is applied for various regulated and non-regulated entities:

Capital classification	Entity type
Insurance entities	■ SA regulated insurance (short term and long term) ■ Non-SA regulated insurance (non-equivalent jurisdictions)
Other regulated entities	■ SA regulated financial entities ■ Non-SA regulated financial entity ■ Non-SA regulated financial insurance (equivalent jurisdictions)
13B and FAIS licensed entities	■ Non-regulated entities
Unregulated entities	■ Holding companies

The group maintains a regulatory surplus of R1.115 billion and SCR cover ratio (Own Funds/SCR) of 1.61 as at 31 March 2019, compared to R1.211 billion and 1.74 respectively as at 31 March 2018.

Other regulatory bases

Mannequin Insurance PPC Limited is an insurance cell-captive company registered in Guernsey and regulated under the Guernsey Financial Services Commission. The CAR held by Mannequin Insurance PCC Limited at reporting date was R25.9 million (2018: R29.2 million), representing an excess of assets over liabilities of 6.76 times (2018: 4.19 times).

AF Insurance Namibia is registered as an insurance entity in Namibia and is regulated by NAMFISA. The CAR held by AF Insurance Namibia at reporting date was R24.4 million (2018: R16.6 million), representing an excess of assets over liabilities of 0.94 times (2018: 1.84 times). The entity fell below its regulatory requirement as at 31 March 2019 as a result of a provision being raised relating to a potential competition commission payable. The entity was solvent in the month after the year-end and actions are being taken to further improve the entity's solvency.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2019

45. Risk and capital management (continued)

45.2 Enterprise-wide risk management (EWRM)

Sound risk management is an important enabler of our strategic intent, enhancing our ability to perform against our stated objectives. For us, risk management is about protecting our ability to create value and ensuring we preserve that value for our stakeholders. Our EWRM framework, in co-ordination with our group capital management policy, group risk appetite policy (and supporting policies and tools), informs our disciplined, structured approach and processes towards strengthening the link between strategy, risk, capital and return in our aim to remain sustainable and a responsible corporate citizen. These primary governing documents are currently under review in order to ensure that they are compliant to the Governance and Operational Standards for Insurers as issued by the Prudential Authority under the Solvency Assessment and Management regulatory regime, are business-relevant and practical in application and assessment to the group, and work effectively and efficiently in meeting their objectives.

Role of EWRM

The role of risk management is to help the group evaluate, monitor, oversee and manage risks across the organisation; to support overall confidence in organisational processes, systems and reporting; and to more reliably meet group objectives. In other words, risk management aims to help stakeholders more intelligently take risks; and make agile, informed, risk-based decisions towards improving business performance, building organisational resilience and growing stakeholder value. The group's risk management system extends across all entities under the enterprise's control.

The EWRM system comprises the risk strategy (please note that elements of the risk strategy are still under development), relevant policies, and related procedures and tools for assessing, monitoring, reporting and mitigating material risks to:

- ensure that sufficient risk mitigation is in place to reduce exposures to acceptable levels;
- ensure that the various insurers can meet their obligations to policyholders;
- provide stakeholders with the material information needed to make decisions and to meet group objectives;
- meet regulatory and contractual requirements, as well as evidence good fiduciary conduct.

The group's EWRM system is not currently at the desired level of maturity and, as such, improvements to drive risk maturity are currently under way.

It is also a group board requirement that management implement a system of internal controls to provide reasonable assurance from a control perspective that the group is being operated consistent with group-wide strategies, policies and procedures, which are attaining their intended outcomes. In this respect, the group internal control policy is currently under development and a suitable internal control programme (including management self-assessments of the internal control environment) are expected within the next 12 months.

The group also has in place a comprehensive group insurance programme to mitigate against claims that may arise in the course of trade.

45.2.1 Risk governance

Our risk direction, control and accountability sits with our board, which holds ultimate accountability for responsible risk-taking and conduct. Senior management is responsible for developing and implementing the risk strategy by (among other criteria) putting in place the necessary risk architecture. Risk management is built into decision-making structures and processes at top management levels and, to some extent, at operational levels. Delegations of authority, to better embed risk decision-making, are currently under review. Additionally, decision-making powers within the group are often designated through job descriptions. Decisions around risk mitigation strategies within our risk appetite measures are regularly reviewed by management – the quality, nature, extent and timing of risk mitigation techniques are currently being evaluated across the group to ensure that they remain sufficient and effective, as well as managed within approved risk limits.

45. Risk and capital management (continued)

45.2 Enterprise-wide risk management (EWRM) (continued)

45.2.2 Risk accountability

The group manages risk along three lines of defence:

First – Accountability for risk management
Management holds responsibility and accountability for managing risks on a day-to-day basis. Through various operational committees, management provides oversight on strategy implementation, performance measurement, risk management, company controls and governance processes. It is management's responsibility to ensure that business is conducted in line with approved strategies and business plans and that risk-taking remains within the firm's risk appetite. Management is also responsible for promoting a strong risk culture within the organisation and ensuring that decision-making considers corporate sustainability and organisational resilience.

Second – Accountability for oversight and control
Our enterprise risk management (ERM) framework, including policies and minimum standards, provides the oversight framework for risk-taking across the group. Independent risk and audit committees provide objective oversight. Risks are regularly evaluated to ensure appropriate mitigation through frequent risk assessment and report-back, continuing engagement, monitoring of the environment and challenging of management's approach. As stated above, this remains an area requiring improvement for the group.

Third – Independent assurance
Oversight and assurance are provided by internal audit and external audit on the adequacy and effectiveness of risk management, governance and internal control within the group.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

45. Risk and capital management (continued)

45.2 Enterprise-wide risk management (EWRM) (continued)

45.2.3 Board committee structure

The board committee structure is designed to assist the board of the company in performing its duties and responsibilities, including those for risk, governance and control. Although the board delegates certain functions to these committees, it retains ultimate responsibility for their activities.

The board has seven standing committees:

Committee	Role of the committee
Group nominations committee	The nominations committee makes recommendations to the board on the appointment of new executive, non-executive and independent directors, including making recommendations on the composition of boards in the group generally and on the balance between executive, non-executive and independent directors appointed to the boards.
Group remuneration committee	The role of the remuneration committee is to assist the board to ensure that: ■ the company has a remuneration policy and philosophy that is aligned with its long-term business strategy, its business objectives, its risk appetite and values; ■ the remuneration policy and philosophy is appropriately applied throughout the company and its subsidiaries; ■ the company remunerates directors and members of the group executive committees fairly and responsibly; and ■ the disclosure of remuneration is accurate, complete and transparent.
Group capital oversight committee	The group capital oversight committee's role is to monitor and oversee the capital management of the Alexander Forbes group, so as to assist the board in discharging its fiduciary duty to clients, investors, creditors and to the regulator.
Group acquisitions committee	The acquisitions committee was established on 19 January 2017. The objective of the committee is to review and, if appropriate, recommend acquisitions and disposals to the board.
Group risk and audit committee	The group risk and audit committee's primary objective is to assist the board with its responsibilities for the management of risk; safeguarding of assets; oversight over financial control; and reporting internal controls, shareholder reporting and corporate governance, particularly relating to legislative and regulatory compliance. The audit committee's roles and responsibilities include statutory and regulatory duties as per the Companies Act 71 of 2008 and according to the King IV Report on Corporate Governance for South Africa, 2016.
Group social, ethics and transformation committee	This committee fulfils the functions assigned to it under the Companies Act Regulations, as well as other functions that the board assigns to it, including the fulfilment of the key objectives of transformation and strategies aligned therewith, as well as overseeing and monitoring activities in relation to social and economic development, good corporate citizenship, corporate social responsibility, ethical behaviour and managing environmental impact; consumer relations, and labour and employment development.
Technology modernisation committee	This committee was constituted in November 2017 and supports the group's ambition to strive for excellence across service, operational and technology enablement. This committee also monitors the group's investment in technology to ensure that the group derives the maximum value out of technology investments.

Each board committee is governed by formal written terms of reference that are reviewed annually and, at a minimum, effectively delegate certain of the board's responsibilities. The full terms of reference for each committee are available on our website.

45. Risk and capital management (continued)

45.2 Enterprise-wide risk management (EWRM) (continued)

45.2.4 Risk appetite

Definition

Alexander Forbes' risk appetite – the amount of risk we are willing to accept in pursuit of our objectives – defines the parameters within which we can operate. Our risk appetite stipulates the aggregate levels and types of risk our firm is willing to take within its risk capacity. Our risk appetite therefore serves as a valuable reference point for important business decisions. The group seeks strategic risk and recognises that this may result in losses. The group does not seek strategic risk in excess of the stated tolerances.

Risk appetite statements and measures

The definition of our risk appetite statements and measures has recently evolved. Whereas the group previously had four core measures (capital, earnings, operational and liquidity), our risk appetite is now defined by measures for the most significant types of risk that the group confronts as a consequence of its trade.

There is now more clarity on the risks that the organisation actively seeks, avoids or accepts as well as on the balance between risk and reward.

The new definitions allow us to flag material deviations and identify and mitigate emerging risks timeously. We also have greater flexibility in setting tolerance levels as circumstances and objectives change.

Each risk appetite statement has a set of key metrics that are monitored against set thresholds on a quarterly basis. Additionally, qualitative principles regarding our appetite and expected risk behaviour have been set for each of the risk statements.

In the regulatory risk space, we have made progress in implementing a risk appetite framework for market conduct and financial crime.

Risk type	Risk appetite statements and measures
Strategic risk	The group seeks strategic risk and is willing to accept reasonable losses in pursuit of higher returns. We do not seek strategic risk in excess of our risk-bearing capacity. *Key risk indicators:* ■ Normalised return on equity over a five-year period ■ Growth in revenue ■ Return on capital employed ■ Earnings at risk (deviation from budget) ■ Profit margin ■ Cost-to-income ratio ■ Operating leverage
Operational risk	The group has limited appetite for the failure of people, processes, systems and for the impact of external events. The impacts of operational risk span across the business and will be managed by implementation of the appropriate controls. The group has zero appetite for reputational risk. *Key risk indicators:* ■ Staff turnover ■ System downtime (occurrences on key systems) ■ Errors and omissions ■ Process failures (number of erroneous transactions) ■ Internal fraud ■ External fraud ■ Customer complaints
Regulatory risk	We will avoid situations arising in non-compliance with laws, regulatory requirements and codes of conduct applicable to the industries within which we operate that will result in our business model, objectives, reputation and financial soundness being compromised. The group will specifically focus on minimising its market conduct, financial crime and privacy risks. *Key risk indicators:* ■ Group solvency capital requirement ■ Market conduct ■ Financial crime

Discussion on credit risk, market risk and liquidity risk can be found under note 44: Financial risk. Further, a discussion on insurance-related risks can be found under note 43: Insurance risk.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

45. Risk and capital management (continued)

45.2 Enterprise-wide risk management (EWRM) (continued)

45.2.5 EWRM processes

Our EWRM processes are continual and comprise the following phases that are ongoing: risk identification, measurement, prioritisation, treatment and monitoring. Established risk categories consider what the organisation wants to include in its discussion of risk and how they are defined. Risk categorisation assists in grouping risks in a structured risk management process that then allows the group to more intelligently address different risk categories. This includes the building of strategies to avoid or minimise impact. Risk category examples include business, market, credit, liquidity, operational, underwriting, etc.

45.2.6 Risk taxonomy

In this section we highlight how the group exercises oversight and manages each Level 1 risk category.

Operational risk

Operational risk is the risk of loss owing to factors such as inadequate systems, management failure, inadequate internal controls, fraud or human error. The group mitigates these risks through sound risk management framework, systems of internal controls, internal audit and compliance functions, and other measures such as backup procedures, contingency planning and insurance.

Managing and mitigating operational risk

Operational risks are managed through the business processes by business unit management, and maintained within limits deemed appropriate for the business. Line management are the primary assurance providers on operational risk, with second-line defence consisting of a group operational risk oversight and third-line defence comprising assurance by internal and external audit.

Operational risks are typically mitigated through the implementation of appropriate controls. The group's common risk language is set out in the group-wide risk taxonomy, including the various operational risk subtypes. Formal processes have been established to facilitate the identification of operational risk which is inherent within all key processes in the group, across all geographical areas. Risk assessments are produced by business line management for key processes with key risks and associated controls. These risks and controls as identified are classified, evaluated and periodically monitored. Where specified tolerance levels are breached, remedial actions are implemented, tracked and reported on.

Internal and external audit evaluate the assessment of key operational controls cyclically and provide formal opinions on the management of key controls. These opinions are expressed in formal reports to the relevant executive and board committees. Operational risk events are also reported and managed by business areas. Appropriate key indicators are monitored across the group to ensure trends are identified and acted upon in good time. Periodic assessments are also conducted by risk specialists to obtain a group view by sub-risk types. Remedial actions are implemented, tracked and reported on to various risk committees and subcommittees of the board. Results of regular stress testing and scenario analyses are reported to senior management, control functions and the board.

Business risk

Business risk relates to the potential revenue shortfall compared to the cost base due to strategic and/or reputational reasons. From an economic capital perspective, business risk capital requirements are calculated as the potential loss arising over a one-year time frame, within a certain level of confidence, as implied by the group's chosen target rating. The group's ability to generate revenue is impacted by, among others, the external macroeconomic environment, its chosen strategy and its reputation in the markets in which it operates.

Managing and mitigation business risk

Business risks are managed during the strategic and financial planning processes where the board and executive management continuously predict the likely changes to the macroeconomic and socio-political environment, together with the industry outlook and the impact it will have on returns to shareholders.

45. Risk and capital management (continued)

45.2 Enterprise-wide risk management (EWRM) (continued)

45.2.6 Risk taxonomy (continued)

The following actions are undertaken consistently to mitigate against business risk:

- The key response is the wider AF group strategy to diversify its source of revenue by growing its retail, institutional and emerging markets business lines.
- Investment performance controls to reduce risk of underperformance include:
  - Clearly defined and implemented investment philosophy and process
  - Investment committee in place to oversee investment decision-making process
  - Well-resourced and experienced investment team with succession planning in place
- Controls to reduce possible loss of new and existing business include:
  - Treating customers fairly initiatives
  - Strong new business team
  - Development of new products
  - Running plausible scenario analysis

Strategic risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organisation's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory and other environmental changes.

Managing and mitigating strategic risk

The management team in the various businesses and the group exco and group board continue to monitor these risks and seek to respond appropriately and manage them against predetermined strategic outcomes. A strategic risk profile is determined, monitored and reported upon at business unit level.

Continuous assessments are conducted by the group exco and the board on the group strategy to assess how well it is tracking against plan. Strategic risks deemed to be outside the predetermined limits are either mitigated or escalated to the board for consideration. The implementation of mitigating actions is informed by an early warning system consisting of key risk indicators which are used to understand the levels at which concern is raised to ensure management actions are implemented in a timely manner.

Legal and regulatory risk

The group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations, in the conduct of its ordinary course of business. The directors are satisfied, based on present information and the assessed probability of claims eventually, that the group has adequate insurance programmes and provisions in place to meet such claims. However, like all businesses of our type, the risk exists that significant adverse developments in past claims, or a significant increase in the frequency of severity of future claims for errors and omissions, could have a material effect on the group's reported results. Details of the structure of the group's errors and omissions insurance programme are provided in note 28.2 to these financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

45. Risk and capital management (continued)

45.2 Enterprise-wide risk management (EWRM) (continued)

45.2.7 Own risk and solvency assessment (ORSA)

The own risk and solvency assessment (ORSA) process is an ongoing internal process whereby the group assesses the adequacy of its enterprise risk management framework and the capital it is required to hold for its risks to remain solvent under normal and severe stress scenarios.

Alexander Forbes Group Holdings Limited (group) is required to complete and submit an annual Group ORSA report in accordance with the Governance and Operational Standards for Insurers as issued by the Prudential Authority under the governance standards of the Insurance Act. The insurance licensed entities, Alexander Forbes Insurance Company Limited, Alexander Forbes Life Limited and Alexander Forbes Investments Limited, have each received an exemption from tendering a solo ORSA report in favour of a consolidated group ORSA report being delivered. This exemption is annually reviewed.

We define our strategy over the business planning period through a rigorous budgeting process. The results form the basis of the ORSA analysis of future projected solvency. These solvency results then undergo stress testing to determine the robustness of the business and its various contributing entities, and to determine the maturity of its risk management practices. The ORSA process and risk management responsibilities are then monitored and embedded through the ongoing and recurring ERM processes.

The ORSA process continues to mature every year in the group and will continue to deliver value through enhanced embedment. This maturity is assessed each year together with actions identified to enhance the ORSA in the following year. This process enables enhancement of our ORSA each year and the ability to better assess risk, solvency and capital.

45.2.8 EWRM outlook

Looking forward, we will continue to evolve our approach to determining appropriate risk and reward to allow for enhanced decision-making. The focus will be on strengthening and embedding risk management further into the first line, paying particular attention to the changing targeted strategic ambition, the evolving regulatory environment and growing regulatory expectations and placing focus on both quantitative and qualitative aspects of risk, governance and control. In doing so we will also look to improve our risk monitoring tools, and grow and deepen the frequency and quality of reporting to the various governance structures within the group.

46. Consolidated and unconsolidated entities

46.1 Consolidated entities

Material subsidiaries and associates in which the group has a financial interest

	Entity	Nature of business	Year-end date	Economic interest 2019 %	Economic interest 2018 %
1.	**Holding companies above the operational Alexander Forbes Limited group**				
	Alexander Forbes Acquisition Proprietary Limited	Holding company	31 March	**100**	100
	Alexander Forbes International Limited	Ultimate holding company for international group	31 March	**100**	100
2.	**Holding companies within the Alexander Forbes Limited group**				
	Alexander Forbes Limited	Holding company	31 March	**90**	90
	Alexander Forbes Investments Holdings Limited	Holding company for multi-manager investment	31 March	**100**	100
	Alexander Forbes Emerging Markets Investments Proprietary Limited	Holding company for African operations	31 March	**100**	100
3.	**Operational companies within the Alexander Forbes Limited group**				
	Alexander Forbes Administration Services Proprietary Limited	Administration functions and risk-related services	31 March	**100**	100
	Alexander Forbes Direct Proprietary Limited	Direct marketing	31 March	**100**	100
	Alexander Forbes Financial Planning Consultants Proprietary Limited	Financial planning	31 March	**100**	100
	Alexander Forbes Financial Services Holdings Proprietary Limited	Provision of financial services	31 March	**100**	100
	GMA Subsidiary Trading 16 Proprietary Limited	Technology services	31 March	**100**	100
	Alexander Forbes Group Services Proprietary Limited	Administration and support services	31 March	**100**	100
	Alexander Forbes Health Proprietary Limited	Healthcare, wellness and related consulting, broking and actuarial services	31 March	**100**	100
	Alexander Forbes Individual Client Administration Services Proprietary Limited	Financial services administration	31 March	**100**	100
	Alexander Forbes Insurance Company Limited	Short-term personal lines insurer	31 March	**100**	100
	Alexander Forbes Life Limited	Long-term insurer	31 March	**100**	100
	Alexander Forbes Retail Client Administration Services Proprietary Limited	General trading and investment	31 March	**100**	100
	Alexander Forbes Retail Holdings Proprietary Limited	Holding company for retail business	31 March	**100**	100
	Caveo Fund Solutions Proprietary Limited	Hedge fund management company	31 March	**100**	100
	Faranani Risks Solutions Proprietary Limited	Insurance broking and related services	31 March	**100**	100
	Alexander Forbes Investments Holdings Limited	Multi-manager investment	31 March	**100**	100
	Alexander Forbes Investments Limited	Multi-manager investment	31 March	**100**	100
	Alexander Forbes Investments Administration Services Proprietary Limited	Investment administrative services provider	31 March	**100**	100
	Alexander Forbes Investments Unit Trusts Limited	Unit trust management	31 March	**100**	100
	AF Investments Global Alternatives Limited	Multi-manager investment	31 March	**100**	–
	Seniors Finance Proprietary Limited	Equity housing finance	31 March	**76.5**	86.7

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

46. Consolidated and unconsolidated entities (continued)

46.1 Consolidated entities (continued)

	Entity	Nature of business	Year-end date	Economic interest 2019 %	Economic interest 2018 %
4.	**Rest of Africa**				
	Alexander Forbes Financial Services (Botswana) Limited	Financial services (Botswana)	31 March	**67**	67
	Alexander Forbes Assets Consultants Proprietary Limited	Financial services (Botswana)	31 March	**74**	74
	Alexander Forbes Financial Services Uganda Limited	Financial services (Uganda)	31 December	**51**	51
	Alexander Forbes Financial Services (Kenya) Proprietary Limited	Financial services (Kenya)	31 March	**–**	40
	Alexander Forbes Insurance Company Namibia Proprietary Limited	Cell-captive life assurance (Namibia)	31 March	**75**	75
	Alexander Forbes Investments Namibia Limited	Multi-manager investment (Namibia)	31 March	**75**	75
	Alexander Forbes Consulting Actuaries Nigeria Limited	Financial services (Nigeria)	31 March	**100**	100
	Zamara Actuaries, Administrators and Consultants Limited[1]	Financial services (Kenya)	31 March	**–**	40
5.	**United Kingdom/Europe**				
	Alexander Forbes Channel Islands Limited	Financial services	31 March	**100**	100
	Alexander Forbes Group Jersey Limited	Holding company in Jersey	31 March	**100**	100
	Investment Solutions (Jersey) Limited	Multi-manager investment	31 March	**100**	100
6.	**Associates**				
	Alexander Forbes Risk and Insurance Brokers Kenya Limited[1]	Risk services (Kenya)	31 March	**–**	40
	Alexander Forbes Financial Services Zambia	Financial services (Zambia)	31 December	**49**	49
	KIN Digital Proprietary Limited	Fintech	31 March	**40**	–

1. Disposed of during the current year.

46.2 Unconsolidated structured entities

While the group consolidates certain structured entities, other structured entities are not consolidated due to the group not having an exposure to variability in returns and the power to govern the activities that affect this exposure.

The unconsolidated structured entities in which the group has an interest are:

- Alexander Forbes Staff Share Trust
- Certain Collective Investment Schemes of which the group is the fund manager and has an investment
- The Alexander Forbes Community Trust

Alexander Forbes Staff Share Trust (the Staff Share Trust)
The Staff Share Trust was formed to provide a vehicle for employee investment in the ordinary shares of AFGH. While the trust is not consolidated, the group had historically invested in preference shares of R34 million issued by the trust, which were redeemed in the prior financial year. The group provides no financial assistance to the trust nor are there any contractual obligations to provide assistance to the trust. The trust is finalising settlements to beneficiaries and will be deregistered on completion of this exercise.

Unconsolidated Collective Investment Schemes
The group manages nine collective investment schemes (2018: eight) as fund manager which are not consolidated. It also invests certain policyholder assets with these trusts. The value of these investments at 31 March 2019 is R163 million (2018: R158 million) (2.04% of the total assets in the schemes [2018: 1.97%]), included in financial assets of multi-manager investment contracts on the statement of financial position. The group provides no financial assistance to the schemes nor is there any contractual obligation to provide assistance to the scheme.

47. Subsidiaries with material non-controlling interest and associates

47.1 Subsidiaries with material non-controlling interest

The group consolidates certain entities with material subsidiaries and equity accounts associates. The summarised financial information of these entities is disclosed below.

The information represents 100% of the entity's results and has not been adjusted for the non-controlling interest share. Intercompany transactions and balances have not been eliminated.

	Alexander Forbes Insurance Company Namibia Limited[1]		Alexander Forbes Investment Solutions Namibia Limited		Alexander Forbes Financial Services (Kenya)[2] Proprietary Limited		Alexander Forbes Limited	
Rm	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Balance sheet information								
Total assets	**1 007**	809	**3 598**	3 745	**–**	63	**6 141**	7 520
Total liabilities	**(993)**	(769)	**(3 588)**	(3 728)	**–**	(12)	**(1 373)**	(1 239)
Total net assets	**14**	40	**10**	17	**–**	51	**4 768**	6 281
Summarised income statement								
Revenue	**57**	61	**20**	20	**–**	81	**6 880**[3]	467
Profit before tax	**7**	21	**11**	12	**–**	19	**(1 497)**	522
Tax expense	**(4)**	(7)	**–**	–	**–**	(3)	**(16)**	(21)
Profit after tax	**3**	14	**11**	12	**–**	16	**(1 513)**	501
Other comprehensive income	**–**	–	**–**	–	**–**	–	**–**	4
Total comprehensive income	**3**	14	**11**	12	**–**	16	**(1 513)**	505
Dividends paid to non-controlling interest	**–**	8	**8**	–	**–**	4	**–**	–
Summarised cash flows								
Cash from operating activities	**(78)**	37	**1**	2	**–**	4	**28**	120
Cash from investing activities	**–**	(1)	**–**	–	**–**	–	**(256)**	18
Cash from financing activities	**18**	9	**(7)**	(1)	**–**	–	**786**	(97)
Net increase/(decrease) in cash and cash equivalents	**(60)**	45	**(6)**	1	**–**	4	**558**	41
Cash and cash equivalents at beginning of the year	**72**	27	**15**	14	**–**	11	**172**	131
Cash and cash equivalents at year-end	**12**	72	**9**	15	**–**	15	**730**	172

1. These entities are included in discontinued operations in the current year.
2. The Kenyan operations were disposed of during the current year.
3. Alexander Forbes Limited earns dividend revenue as a result of the legal entity rationalisation.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

47. Subsidiaries with material non-controlling interest and associates (continued)

47.2 Interests in associate

The group entered into an arrangement with a private consortium of shareholders. This arrangement is housed under a newly formed fintech entity, KIN Digital Proprietary Limited (KIN). KIN's principal place of business is South Africa. The group has a 40% ownership interest in KIN and, as a result, applied equity accounting to the results of this associate.

Summarised financial information for associate

The tables below provide summarised financial information for KIN. The information disclosed reflects the amounts presented in the financial statements of KIN and not the group's share of those amounts. They have been amended to reflect adjustments made by the group when using the equity method, including modifications for differences in accounting policy.

Rm	2019	2018
Summarised balance sheet information		
Non-current assets	**11**	–
Current assets	**3**	–
Total assets	**14**	–
Total liabilities[1]	**–**	–
Net assets	**14**	–
Opening balance	**–**	–
Capital contribution	**28**	–
Losses for the period	**(14)**	–
Net assets	**14**	–

1. Amounts to R387 308 of current liabilities.

Rm	2019	2018
Summarised statement of comprehensive income		
Losses for the period	**(14)**	–
Total comprehensive income	**(14)**	–

48. Restatement of comparative information

As part of the ongoing financial statements enhancement process and in line with guidance published by the JSE proactive monitoring panel, management has identified two classification errors on the 2018 statement of cash flows that require restatement. The first relates to dividends paid to a non-controlling interest (NCI) which were previously classified under cash flows from financing activities while dividends to shareholders were classified under cash flows from operating activities. In line with the JSE's recommendation, management has now reclassified dividends paid to the NCIs out of cash flows from financing activities into cash flows from operating activities. In addition, the group previously reflected cash transactions relating to treasury shares (held under policyholder investments) under cash flows from operating activities. Management has now reclassified those cash transactions relating to treasury shares (held under policyholder investments) out of cash flows from operating activities into cash flows from financing activities.

48. Restatement of comparative information (continued)

GROUP STATEMENT OF CASH FLOWS
for the year ended 31 March 2019

Rm	Restated 2018	Adjustment	Discontinued	As reported 2018
Cash flows from operating activities				
Cash generated from operations	861	–	(152)	1 013
Interest received	213	–	(17)	230
Interest paid	(78)	–	1	(79)
Taxation paid	(333)	–	–	(333)
Dividends paid to equity holders	(829)	–	–	(829)
Net cash flow received from insurance and policyholder contracts	348	–	–	348
Net cash flows paid to policyholder investment contracts	(1 982)	(62)	–	(1 920)
Dividends paid to non-controlling interests	(14)	(14)	–	–
Cash flows from operating activities – discontinued operations	184		168	16
Net cash outflow from operating activities	(1 630)	(76)	–	(1 554)
Cash flows from investing activities				
Acquisition of intangible asset	(3)	–	–	(3)
Payments for financial assets	(258)	–	–	(258)
Proceeds from disposal of financial assets	113	–	–	113
Payments for capital expenditure net of proceeds on disposal	(317)	–	4	(321)
Cash flows from investing activities – discontinued operations	(4)	–	(4)	–
Net cash outflow investing activities	(469)	–	–	(469)
Cash flows from financing activities				
Payments of lease liabilities	(9)	–	–	(9)
Purchase of shares in terms of share buy-back transaction	(276)	–	–	(276)
Purchase of shares in terms of share incentive schemes	(57)	–	–	(57)
Net proceeds from sale of treasury shares held by policyholder investments	62	62	–	–
Purchase of treasury shares held under policyholder investments	(47)	(47)	–	–
Disposal of treasury shares held by policyholder investments	109	109	–	–
Dividends paid to non-controlling interests	–	14	–	(14)
Net cash outflow from financing activities	(280)	76	–	(356)
Decrease in cash and cash equivalents	(2 379)	–	–	(2 379)
Cash and cash equivalents at the beginning of the year	16 087	–	–	16 087
Foreign subsidiaries exchange differences	(6)	–	–	(6)
Cash and cash equivalents at the end of the year	13 702	–	–	13 702

48. Restatement of comparative information (continued)

Rm	Restated 2018	Adjustment	Discontinued	As reported 2018
Analysed as follows:				
Cash and cash equivalents of continuing operations	5 794	–	–	5 794
Cash held under multi-manager investment contracts	7 887	–	–	7 887
Cash held in insurance cell-captive facilities	6	–	–	6
Cash and cash equivalents of discontinued operations	15	–	–	15
	13 702	–	–	13 702

49. Events after reporting period

No matter which is material to the financial affairs of the company has occurred between the balance sheet date and the date of approval of the financial statements.

COMPANY INCOME STATEMENT

for the year ended 31 March 2019

Rm	Notes	2019	2018
Dividend revenue	1	**520**	732
Operating expenses		**(21)**	(9)
Operating profit		**499**	723
Non-trading and capital items		**–**	5
Investment income	2	**2**	1
Finance costs		**(5)**	–
Profit before taxation		**496**	729
Income tax expense		**(7)**	–
Profit for the year		**489**	729

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2019

Rm	2019	2018
Profit for the year	**489**	729
Other comprehensive profit for the year (net of income tax)	**–**	–
Total comprehensive profit for the year (net of income tax)	**489**	729

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2019

Rm	Share capital	Non-distributable reserves	Accumulated profit/(loss)	Total equity
At 1 April 2017	6 192	(131)	2	6 063
Dividends paid	–	–	(841)	(841)
Movement in share-based payment reserve	–	8	–	8
Settlement of share-based payment reserve[1]	–	(39)	–	(39)
Transfer to accumulated profits	–	178	(178)	–
Profit for the year	–	–	729	729
At 31 March 2018	**6 192**	**16**	**(288)**	**5 920**
Dividends paid	**–**	**–**	**(552)**	**(552)**
Movement in share-based payment reserve[2]	**–**	**39**	**–**	**39**
Settlement of share-based payment reserve[3]	**–**	**(12)**	**–**	**(12)**
Profit for the year	**–**	**–**	**489**	**489**
Balance at 31 March 2019	**6 192**	**43**	**(351)**	**5 884**

1. Shares amounting to R39 million relating the 2014 tranches of the conditional share scheme (R26 million) and the forfeitable share scheme (R13 million) were settled in the prior year.
2. Movement in share-based payment reserves of R39 million relates to charges to subsidiaries amounting to R8 million for the forfeitable share scheme and R21 million for the retention share scheme.
3. Shares amounting to R2 million relating to the 2015 tranche of the forfeitable share scheme was settled. In addition, R10 million relating to the 2018 retention share scheme was also settled.

COMPANY STATEMENT OF FINANCIAL POSITION

at 31 March 2019

Rm	Notes	2019	2018
ASSETS			
Investment in subsidiary	3	**5 748**	5 748
Receivables from group companies		**–**	114
Cash and cash equivalents		**154**	59
Total assets		**5 902**	5 921
EQUITY AND LIABILITIES			
Share capital	4	**6 192**	6 192
Non-distributable reserves		**43**	16
Accumulated loss		**(351)**	(288)
Total equity		**5 884**	5 920
Liabilities			
Other payables		**6**	1
Tax liability		**12**	–
Total liabilities		**18**	1
Total equity and liabilities		**5 902**	5 921

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2019

Rm	Notes	2019	2018
Cash flows from operating activities			
Cash utilised in operations	5	**(14)**	(11)
Interest received	2	**2**	1
Dividend received	1	**506**	719
Dividends paid		**(552)**	(841)
Net cash outflow from operating activities		**(58)**	(132)
Cash flows from investing activities			
Cash inflow to group companies	6.2	**153**	210
Settlement of share incentive schemes		**–**	(26)
Net cash inflow from financing activities		**153**	184
Increase in cash and cash equivalents		**95**	52
Cash and cash equivalents at the beginning of the period		**59**	7
Cash and cash equivalents at the end of the period		**154**	59

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2019

Rm	2019	2018
1. Dividend revenue		
Dividends received from subsidiary	**506**	719
Dividend in specie	**14**	13
	520	732
2. Investment income		
Interest income	**2**	1
3. Investment in subsidiary		
Carrying value	**5 748**	5 748

The investment in subsidiary relates to Alexander Forbes Acquisition Proprietary Limited and is carried at cost.

	2019	2018
4. Share capital		
Share capital at no par value	**6 192**	6 192

	2019		2018	
	Number of shares ’000	**Share capital at no par value Rm**	Number of shares ’000	Share capital at no par value Rm
4.1 Share capital				
Authorised				
Ordinary shares at no par value	**2 500 000**	**–**	2 500 000	–
Non-convertible redeemable B preference shares	**45 000**	**–**	45 000	–
Issued				
Ordinary shares at no par value	**1 341 427**	**6 192**	1 341 427	6 192
	1 341 427	**6 192**	1 341 427	6 192
4.2 Movement in share capital				
Opening balance	**1 341 427**	**6 192**	1 341 427	6 192
Shares issued to the Employee Share Option Plan[1]	**–**	**–**	–	–
Closing balance	**1 341 427**	**6 192**	1 341 427	6 192

1. Refer to note 4.3 below.

4.3 BEE Employee Share Option Plan (ESOP)

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

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

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

The shares are entitled to 30% of the dividends distributed to ordinary shareholders. The trust is restricted from disposing of or encumbering these shares during the term of the trust. Dividends distributed by the trust are treated as employee benefits. Dividend income earned by the trust and subsequently distributed to qualifying employees was R3.9 million (2018: R6 million) during the current financial year.

The trust is restricted from disposing or encumbering the shares held. AFGH has a call option in terms of which the shares may be repurchased under specific criteria relating to change in control, change in BEE rating and various other provisions. The repurchase price will be calculated in terms of a repurchase formula specifically defined in the agreements.

4.4 Non-distributable reserve

Rm	Notes	2019	2018
Share-based payment reserve	4.4.1	**43**	16

4.4.1 Share-based payment reserve

Rm		2019	2018
Opening balance		**16**	47
Charged to group entities	6.2	**39**	8
Settlement of share incentive schemes		**(12)**[2]	(39)[1]
Cash settlement		**–**	(26)
Settlement in shares received in specie		**(12)**	(13)
Closing balance		**43**	16

1. Shares amounting to R39 million relating the 2014 tranches of the conditional share scheme (R26 million) and the forfeitable share scheme (R13 million) were settled in the prior year.
2. Shares amounting to R2 million relating to the 2015 tranche of the forfeitable share scheme was settled. In addition R10 million relating to the 2018 retention share scheme was also settled.

5. Cash utilised in operations

Rm	2019	2018
Profit before taxation	**496**	729
Items disclosed separately:		
Investment income	**(2)**	(1)
Dividends received	**(520)**	(732)
Finance costs	**5**	–
Adjusted for non cash items		
Other non-cash items	**2**	–
Movement in working capital balances		
Payables	**5**	(7)
	(14)	(11)

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2019

6. Related party disclosure

List of related party relationships

Major shareholders

The owners of the company are detailed in Annexure A.

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

Subsidiaries

The company has a 100% interest in Alexander Forbes Acquisition Proprietary Limited.

Consolidated structured entities

The company consolidates certain structured entities due to having an exposure to variability in returns and the power to govern the activities that affect this exposure.

The consolidated structured entities in which the company has an interest are:

- Alexander Forbes Forfeitable Share Plan Trust; and
- Alexander Forbes Isilulu Trust.

Key management personnel

Details of key management personnel are included in the group financial statements.

6.1 Summary of related party transactions

Transactions between related parties comprise non-interest-bearing loans.

6.2 Transactions with subsidiaries

Rm	2019	2018
Loan balances classified as intercompany loans		
Opening balance	**114**	316
Cash (inflow)/outflow to group companies	**(153)**	(210)
Cash transferred (from)/to group companies	**(114)**	(276)
Loan advanced to group companies	**–**	88
Share-based payments settlement	**(39)**	(22)
Share-based payments	**39**	8
Closing balance	**–**	114

7. Events after reporting period

No matter which is material to the financial affairs of the company has occurred between the balance sheet date and the date of approval of the financial statements.

ANNEXURE A – SHAREHOLDING INFORMATION

Analysis of the shareholding at 31 March 2019

	2019	
	Analysis of shareholders	Number of shares as a % of total
Beneficial shareholders holding 5% or more of the company's listed ordinary share capital		
Mercer Africa Limited	442 801 129	33.01
African Rainbow Capital	119 357 139	8.90
Government Employees Pension Fund	81 145 539	6.05
	643 303 807	47.96
Investment management interests above 3% of the company's listed ordinary share capital		
Visio Capital Management Proprietary Limited	99 502 779	7.42
Abax Investments Proprietary Limited	91 402 602	6.81
Public Investment Corporation Limited	82 596 446	6.16
Allan Gray Proprietary Limited	64 440 776	4.80
GIC Private Limited	58 481 700	4.36
	396 424 303	29.55

Shareholding spread at 31 March 2019

Size of holding	Number of shareholders	% of total	Number of shares	% of total
1 – 1 000	2 752	64.91	456 758	0.03
1 001 – 10 000	731	17.24	2 605 934	0.19
10 001 – 100 000	418	9.86	15 957 149	1.19
100 001 – 1 000 000	240	5.66	84 252 830	6.28
1 000 001 +	99	2.33	1 238 154 292	92.31
	4 240	100.00	1 341 426 963	100.00

Shareholder type at 31 March 2019

	Shareholders and percentage of issued share capital		
	Number of shareholders	Number of shares	% of total
Public	4 231	781 549 206	58.26
Non-public	9	559 877 757	41.74
Mercer Africa Limited	1	442 801 129	33.01
Alexander Forbes Acquisition Proprietary Limited	1	57 031 869	4.25
Alexander Forbes Isilulu Trust	1	39 070 700	2.91
Alexander Forbes FSP Trust	1	15 917 806	1.19
Alexander Forbes Community Trust	1	4 451 126	0.33
Executive directors and officers	4	605 127	0.05
Total	4 240	1 341 426 963	100.00

ANNEXURE A – SHAREHOLDING INFORMATION (CONTINUED)

Analysis of the shareholding at 31 March 2018:

	2018	
	Analysis of shareholders	Number of shares as a % of total
Beneficial shareholders holding 5% or more of the company's listed ordinary share capital		
Mercer Africa Limited	442 801 129	33.01
African Rainbow Capital	119 357 139	8.90
Government Employees Pension Fund	81 675 139	6.09
	643 833 407	48.00
Investment management interests above 3% of the company's listed ordinary share capital		
Public Investment Corporation Limited	74 422 014	5.55
Allan Gray Proprietary Limited	73 390 678	5.47
GIC Private Limited	69 726 731	5.20
Abax Investments Proprietary Limited	65 485 372	4.88
STANLIB Asset Management Limited	64 151 999	4.78
Visio Capital Management Proprietary Limited	43 198 650	3.22
Kagiso Asset Management Proprietary Limited	40 757 181	3.04
	431 132 625	32.14

Shareholding spread at 31 March 2018

Size of holding	Number of shareholders	% of total	Number of shares	% of total
1 – 1 000	1 576	52.43	432 767	0.03
1 001 – 10 000	717	23.85	2 629 247	0.20
10 001 – 100 000	368	12.24	13 590 247	1.01
100 001 – 1 000 000	247	8.22	82 377 314	6.14
1 000 001 +	98	3.26	1 242 397 388	92.62
	3 006	100.00	1 341 426 963	100.00

Shareholder type at 31 March 2018

	Shareholders and percentage of issued share capital		
	Number of shareholders	Number of shares	% of total
Public	3 001	808 756 783	60.29
Non-public	5	532 670 180	39.71
Mercer Africa Limited	1	442 801 129	33.01
Alexander Forbes Isilulu Trust	1	39 070 700	2.91
Alexander Forbes Acquisition Proprietary Limited	1	40 073 351	2.99
Alexander Forbes FSP Trust	1	6 273 874	0.47
Alexander Forbes Community Trust	1	4 451 126	0.33
Total	3 006	1 341 426 963	100.00

GLOSSARY

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

Consulting — Includes actuarial consulting, healthcare actuarial and consulting, as well as fund administration and consulting to standalone retirement funds.

Cost-to-income ratio — The cost-to-income ratio is measured as the operating expense (which may be calculated as the difference between operating income and operating profit before non-trading items) divided by the operating income net of direct expenses.

Dividend cover — The dividend cover reflects the number of times that the earnings of the group will cover the final declared dividend for the period. The cover ratio may be calculated by dividing the normalised headline earnings per share by the interim and final dividend declared for the period.

EBITDA — The group calculates EBITDA by taking operating profit and adding back the depreciation and amortisation of tangible and intangible assets (including the impairment of goodwill and software intangible assets).

JIBAR — Johannesburg Interbank Average Rate

Retirements — Includes fund administration and consulting to umbrella retirement funds and beneficiary funds.

Group risk — Group risk and disability insurance through Alexander Forbes Life provided to corporates and retirement funds.

Wealth and investments — The Wealth and investments segment of the retail business is focused on generating revenue through the offering of financial advice, and the administration and management of investments. This segment incorporates financial planning consultants (FPCs), AF Individual Client Administration (AFICA), AF Preservation Fund and the retail assets under management in investments.

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

Total shareholder return — The principle of total shareholder return is to measure the return that would be achieved by a shareholder who invests in the group on the first day of the financial year and disinvests on the last date of the year. The return includes any cash flows received by the shareholder during this period.

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

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

- Accounting for property lease
- Amortisation of intangible assets arising from business combination
- Reported loss arising from accounting for policyholder investment in treasury shares
- Professional indemnity insurance cell-captive results
- Investment income and taxation payable on behalf of policyholders

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, B Radebe

Executive directors

DJ de Villiers (chief executive officer)
BP Bydawell (chief financial officer) (appointed effective 1 April 2019)

Executive: legal, governance and compliance (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

Alexander Forbes Group Holdings Limited

(the company)

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