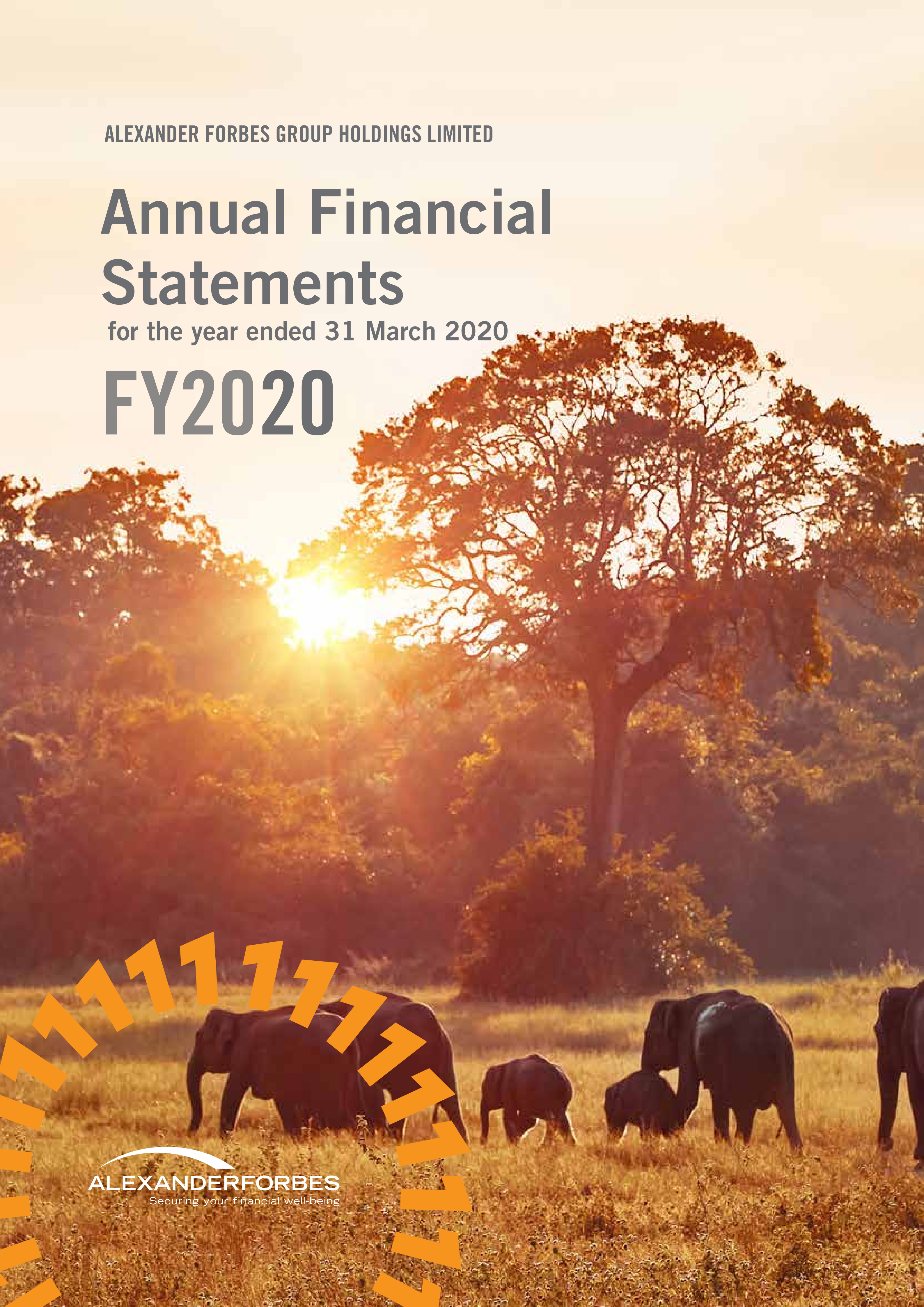
ALEXANDER FORBES GROUP HOLDINGS LIMITED

Annual Financial Statements

for the year ended 31 March 2020

FY2020



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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 the 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. In our response to the unprecedented events arising from the COVID-19 pandemic, the uncertain economic environment and financial market volatility, the board of directors has paid specific attention to the judgements, estimates and assumptions which are detailed on pages 14 to 17. Any forecast financial information contained herein has not been separately reviewed or reported on by the company's external auditor.

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.

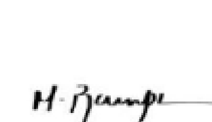
The directors are ultimately responsible for the internal controls of the group. To enable the directors to meet these responsibilities, management designs and implements standards and systems of internal control to provide reasonable, but not absolute, assurance as to the integrity and reliability of 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 provided 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 8 June 2020 and are signed on their behalf by:



M Ramplin
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 2020, 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: governance, legal and compliance (company secretary)

Directors' report

For the year ended 31 March 2020

The directors have pleasure in submitting their report for the year ended 31 March 2020.

Nature of business

Alexander Forbes is a specialised financial services company headquartered in South Africa providing a broad range of employee benefits solutions, retirements, consulting, investments and wealth management solutions to both corporate clients and individuals. 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 and members.

Alexander Forbes is 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 34 to 39. The segmental analysis is included on pages 40 to 43.

Current year key areas of focus in the preparation of the financial statements

In the preparation of the financial statements, the board of directors have paid specific attention to areas of critical estimates and judgements. These included the following matters, amongst others:

- Solvency assessment as a result of the COVID-19 pandemic (noted below)
- Goodwill write-off and related impairment of intangible assets (noted below)
- Provision for client settlements – Enhanced Transfer Value (ETV)
- Errors and omissions in the ordinary course of business
- Developed computer software impairments
- Deferred tax assets arising from assessed losses
- Fair value measurement of financial assets and liabilities
- Assets and liabilities of disposal groups classified as held for sale

For further details, refer to the critical assumptions and judgements section in the accounting policies on pages 14 to 17.

Solvency assessment and going concern

The economic pressure, market disruption and volatility resulting from the COVID-19 pandemic has created uncertainty in our operating environment. This uncertainty requires an in-depth analysis of our solvency and the assertion that the group is able to continue operating as a going concern in the future. Under the direction of the board, management performed scenario testing for solvency and liquidity; these scenarios have informed the management actions required to ensure the sustainability of the business through the difficult period ahead. It is important to note that the stress testing and risk management procedures provided sufficient support for the going concern assumption under which the financial statements have been prepared. Refer to critical estimates and judgements on page 14 for more detail.

Goodwill write-off and related impairment of intangible assets

The group recorded significant goodwill (and intangible assets) upon its reorganisation in 2007 in terms of IFRS 3. For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs). Goodwill is assessed annually for impairment and this evaluation is based on the estimation of future cash flows and discount rates.

In the current year's analysis, the impact of the COVID-19 pandemic has been considered. The scenario testing concluded as part of our solvency assessment was used for the purposes of the goodwill impairment testing. Despite the solvency assessment indicating that we remain sufficiently solvent, the reduced operating income (net of direct expenses), which is theoretically projected in each scenario, resulted in lower future projected cash flows from each CGU. Based on the economic uncertainty arising from the COVID-19 pandemic, the board has decided to write down the carrying amount of each CGU to its recoverable amount. This approach has resulted in the write-off of goodwill amounting to R1 145 million. Details of the approach and assumptions used in this calculation are given in note 12.

Dividends to shareholders

Interim

The directors approved an interim gross ordinary dividend of 18 cents per ordinary share (2019: 18 cents per ordinary share) from profits. The dividend was paid on 13 January 2020 to shareholders registered on 10 January 2020.

Final

The directors have approved a final gross ordinary dividend of 12 cents per ordinary share (2019: 12 cents per ordinary share). The source of such dividends will be from income reserves. The dividend will be payable on 27 July 2020 to shareholders registered on 24 July 2020.

Special

The directors have approved a special gross cash dividend of 50 cents per ordinary share (2019: 30 cents per ordinary share), subject to approval by the Financial Surveillance Department of the South African Reserve Bank (SARB). The source of such dividends will be from income reserves. The dividend will be payable on 27 July 2020 to shareholders registered on 24 July 2020, 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 ordinary share capital of the group as at 31 March 2020 is set out in note 22. In August 2019, the company cancelled 53 568 809 ordinary shares, which reduced the issued share capital. Between the period 13 February 2020 and 31 March 2020, Alexander Forbes Acquisition Proprietary Limited (AF Acquisition), a wholly owned subsidiary of Alexander Forbes Group Holdings Limited, purchased 4 336 492 treasury shares (0.34% of issued ordinary

Directors' report continued

For the year ended 31 March 2020

shares) at an average price of 4.61 cents per share, which were held as treasury shares as at year-end. The repurchases were made in terms of the general authority granted by shareholders at the previous Annual General Meeting. Subsequent to year-end, the company issued 113 683 255 new ordinary shares as detailed in the 'Events occurring after reporting period' paragraph below.

Share incentive schemes

Information relating to the share incentive schemes is set out on pages 68 to 71.

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

The following changes to the board were announced through the year:

- Ms NB Radebe resigned as director on 28 November 2019.
- Ms N Nyembezi resigned as director and chair of the board on 31 December 2019 and was succeeded by Ms M Ramplin.
- Mr MD Collier resigned as director on 31 December 2019.

Subsequent to year-end, Mr DJ Anderson resigned as director on 6 May 2020, which is the day following the completion of the ARC acquisition of Mercer shares. Mr Anderson's resignation is in accordance with the Amended and Restated Relationship Agreement and as detailed in the Alexander Forbes SENS announcement on 22 January 2020.

Ms MR Nkadimeng was appointed as a non-executive director on 3 June 2020.

The board expresses its sincerest appreciation for the dedication, effort and tremendous contribution of Mses Nyembezi and Radebe as well as Messrs Collier and Anderson and wishes them well for the future.

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 occurring after reporting period

Subsequent to the year-end the company has, in compliance with the national state of disaster, had all of our employees working from home. The change to the remote working environment has been well managed and all client services continue to be delivered.

COVID-19 was declared a pandemic on 11 March 2020. The group has considered and accounted for the impacts of COVID-19 in the measurement of assets and liabilities as at year end and up to the date of approval of the financial statements.

Sale of Alexander Forbes Insurance Company Namibia

On 14 April 2020, the group entered into a binding agreement with Momentum Short Term Insurance (Namibia) Limited, a subsidiary of Momentum Metropolitan Holdings Limited, for the sale of Alexander Forbes Insurance Company Namibia Limited. This transaction is awaiting regulatory and Competition Commission approval and is anticipated to close in the first half of the new financial year. The business was classified as a discontinued operation in the group financial statements for the year ended 31 March 2019. This is in line with the previously announced intention to dispose of the group's insurance cluster and further delivering on the implementation of the advice-led and capital-light strategy.

Shareholder reorganisation

On 5 May, ARC completed the acquisition of 198 000 000 ordinary shares from Mercer, following which Mercer decreased its shareholding to 15.6% and ARC increased its holding to 28.6%. At the general meeting of shareholders held on 31 March 2020, a requisite majority of independent shareholders approved a mandatory offer waiver resolution. Following the adoption of the mandatory offer waiver resolution, the Takeover Regulation Panel (TRP) granted a waiver exemption to ARC, exempting ARC from the obligation to make a mandatory offer to remaining shareholders.

The Company issued 118 019 747 ordinary shares to ARC comprising 4 336 492 treasury shares and a new listing of 113 683 255 ordinary shares on 13 May 2020. This transaction was concluded pursuant to an agreement between, the Company, Alexander Forbes Limited (AFL) and ARC on 28 September 2016 in terms of which ARC would exchange its 10% shareholding in AFL for shares in the Company (Flip-Up). This transaction was approved by shareholders on 20 January 2017. As a result of the Flip-Up, ARC has increased its holding in the Company to 35.1%. Mercer's holding has resultantly decreased to 14.3% of the issued ordinary shares.

Reinsurance recovery

At 31 March 2020, the long-term insurance business received notification of the repudiation of a claim submitted to one of its reinsurance providers. A provision for the repudiated amount is recorded in the operating income of discontinued insurance operations. On 18 May 2020, the group received notification of a settlement offer of R33 million from one of the reinsurance providers. The recovery amount of R33 million will be recorded in the 2021 financial year.

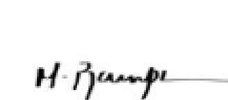
Repayment of Revolving Credit Facility (RCF)

The group repaid the outstanding balance of R101 million and cancelled the RCF subsequent to year end.

Corporate governance

The company's application of the principles contained in the King IV Report on Corporate Governance for South Africa (King IV™[1]) is disclosed in the King IV report available on the company's website. Disclosure in respect of the current year will be available no later than 31 July 2020.

On behalf of the board of directors



M Ramplin
Non-executive chair

DJ de Villiers
Chief executive officer

8 June 2020

[1] *Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.*

Audit and risk committee report

The committee is pleased to present its report for the financial year ended 31 March 2020. This report is the same report as included in the corporate governance 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, 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).

In line with the ongoing process to simplify and integrate the governance structures within the company, most subsidiary audit and risk committees have been absorbed into the group committee. For the financial year, the combined insurance audit and risk committee remained in place, but once approval is obtained from the Prudential Authority (in accordance with the company's licencing as an insurance group), this committee will also be absorbed into the group committee. It is anticipated that the bespoke Alexander Forbes Investments Limited and combined insurance audit and risk committees will likely be terminated by the second quarter of financial year 2021 and absorbed into this audit and risk committee.

As indicated in the prior year, the information technology governance, and in December 2019 also absorbed the capital oversight committee.

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. In March 2020, amended terms of reference were approved to formally incorporate the previous information technology governance committee and capital oversight committee aspects. The committee is satisfied that it complied with its legal, regulatory and other responsibilities during the financial year ended 31 March 2020.

The committee's primary objective is to assist the board with its responsibilities for the management of risk, safeguarding of assets, solvency and liquidity and oversight over financial control and reporting internal controls, stakeholder 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*, King IV, the *Insurance Act 18 of 2017*, JSE Limited Listings Requirements (JSE Listings Requirements) and Prudential Standards.

The committee comprises three independent members (independence in accordance with the holistic King IV definition and not merely that of the *Companies Act*) who are elected by shareholders annually. The board chair and all non-committee member directors, chief executive officer, chief financial officer, heads of control functions, executive: governance, legal and compliance, cluster chief financial officers, information technology representative, head of capital and external auditor are standing invitees. The committee, however, debates matters without the permanent invitees present, as and when required. The committee meets between four and six times annually, with two of those meetings arranged as bespoke risk-focused sessions. Two closed 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.

Composition and attendance

Committee	Member	Attendance
Audit and risk committee	**Current**	
	NG Payne*	6/6
	RM Head	6/6
	T Dloti[1]	1/1
	Previous	
	MD Collier[2]	5/5
	M Ramplin[3]	5/5
Information technology governance committee	RM Head*	1/1
	WS O'Regan	1/1
	NG Payne	1/1
	DJ de Villiers	1/1
Capital oversight committee	RM Head*	3/3
	DJ Anderson	2/3
	T Dloti	2/3
	NG Payne	2/3
	NB Radebe[4]	1/2
	M Ramplin	2/3

* *Chair of meeting.*

[1] *Appointed with effect from 1 January 2020.*

[2] *Resigned with effect from 31 December 2019.*

[3] *Resigned with effect from 31 December 2019 on appointment as Board Chair with effect from 1 January 2020.*

[4] *Resigned with effect from 28 November 2020.*

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 2020, 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 statements to the board of directors. The committee believes that they present a balanced view of the group's performance for the year under review and that they comply with International Financial Reporting Standards.

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

The committee deliberated on the expertise and experience of the chief financial officer Mr BP Bydawell and is satisfied that he has the requisite expertise and experience to execute his designated functions. The committee has also considered and satisfied itself of the appropriateness of the expertise, experience and adequacy of the resources of the finance function and the adequacy of financial reporting procedures in the preparation of financial statements.

Audit and risk committee report continued

Key items of focus during the year

The committee also considered the following key items during the year under review (which included the information technology governance and capital oversight committees' objectives for the financial year, which were also achieved, either by that bespoke committee or by this committee following integration):

- Significant oversight over errors and omissions, ETV and progress with payment of historic bulking proceeds to closed funds.
- Sale of the short-term insurance business and the optimal application of the proceeds (also a focus area for the capital oversight committee), as well as the resultant impact on the solvency capital requirements and stranded costs.
- Progress on the regulatory programme established to effectively implement financial crime control, market conduct and privacy-related legislation and regulation, as well as overall compliance progress and maturity.
- Implications of and proper accounting for IFRS 16 Leases.
- Risk management strategy and risk appetite, including debate of the improved risk reporting from the management risk committee.
- Initially, in collaboration with the capital oversight committee, significant progress was made in embedding an improved own risk and solvency assessment (ORSA) process and ultimate approval of the ORSA scenarios and report.
- Information technology governance maturity and progress against identified deficiencies, including the rationalisation of systems, appropriate and fit-for-purpose systems improvements, better alignment between information technology capital allocation and overall group strategic direction, as well as improved cyber security.
- Approval of and oversight over the successful conversion of 12 retirement funds from being underwritten to privately administered funds, significantly mitigating the long-term Standard Bank concentration risk charge and leading to a regulatory capital reduction in excess of R400 million.
- General disaster recovery processes and readiness received regular debate. In the final weeks of the financial year and as a subsequent event, the committee specifically considered the impact of COVID-19, initially focused on the company's disaster recovery responses and later the group's out-of-cycle ORSA scenarios and the proposed remedial steps to mitigate against those scenarios. The committee focused on key risks including liquidity risk considering the group's investment portfolios and the potential for large withdrawals, supply chain risk to ensure no disruption to our services and the increased risk of attempted fraud through our internet connectivity due to the work-from-home requirements.

External audit

The group's independent external auditor is Pricewaterhouse-Coopers Incorporated (PwC). Fees paid to the auditor are disclosed in note 3 of the group annual financial statements for the year ended 31 March 2020. During the year under review fees paid to PwC amounted to R29 million (2019: R28 million), which included R25 million (2019: R24 million) for statutory audit and related activities as well as R4 million (2019: R4 million) for preapproved non-audit services.

The committee is satisfied with the level and extent of non-audit services rendered during the year by PwC and that such did not impact on their independence.

The committee annually assesses the independence of PwC and again completed such assessment at its meeting on 2 June 2020. 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
- they remain independent, as required by section 94(7)(a) of the *Companies Act* 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 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 financial year 2021. Shareholders will therefore be requested to re-elect PwC as independent external auditor, with Ms A du Preez as designated auditor, for the financial year 2020 at the annual general meeting on 2 September 2020.

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 and the Enhanced Transfer Value (ETV) and related reimbursement asset
- recoverability of deferred tax assets on assessed losses

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 cooperation 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 prior year.

In addition to reporting to this committee, the internal audit function also reports to the relevant subsidiary audit and risk committees (where applicable) with responsibility for reviewing and providing assurance on the adequacy of the internal control environment

Audit and risk committee report continued

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 respective audit and risk committees.

Internal controls

Based on its oversight and monitoring of the group's system of internal financial controls throughout the year, as well as 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 is effective, in all material respects, and forms a basis for the preparation of reliable financial statements.

Going concern

Despite reporting during times of heightened economic uncertainty, 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 annual financial statements.

Financial year 2021 committee objectives

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

- further entrenching the responsibilities of the information technology governance and capital oversight committees' responsibilities to ensure efficacy is maintained and enhanced
- financial soundness and sustainability (cost containment, revenue strength) in the context of extreme economic challenges and market volatility
- further business continuity, internal control, risk and compliance maturity improvement

Nigel Payne
Committee chair

Sandton

8 June 2020

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 2020, 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 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 128 comprise:

- the group and company statements of financial position as at 31 March 2020;
- 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 notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

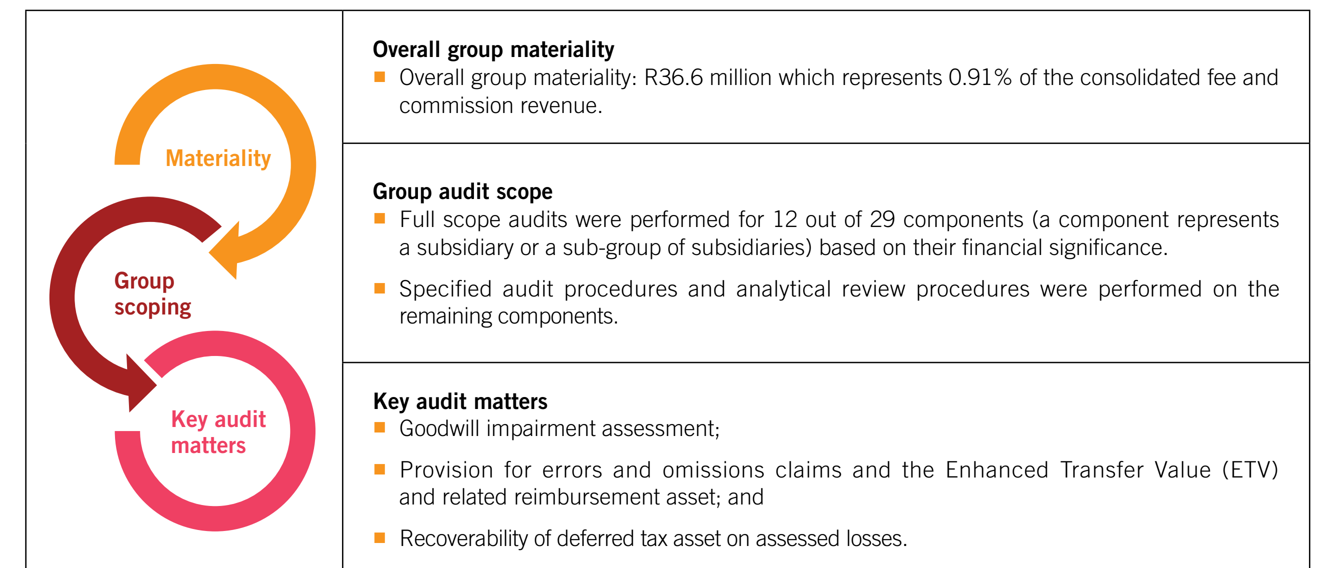
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

Our audit approach



Overall group materiality

- Overall group materiality: R36.6 million which represents 0.91% of the consolidated fee and commission revenue.

Group audit scope

- Full scope audits were performed for 12 out of 29 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; and
- Recoverability of deferred tax asset on assessed losses.

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	R 36.6 million.
How we determined it	0.91% of consolidated fee and commission revenue.
Rationale for the materiality benchmark applied	The benchmark for materiality was set at 0.91% of the consolidated fee and commission revenue of the Group due to the Group experiencing unprecedented volatility in their profit for the year that is not reflective of operational results. In this time of volatility, the consolidated fee and commission revenue of the Group is considered to be the most appropriate benchmark as it is the best reflection of the Group's strategy announced in the prior year and is closely aligned to cash inflows.

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 a full scope 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 and foreign components (Botswana and Namibia), we inspected audit working papers;
- 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.

Independent auditor's report continued

To the shareholders of Alexander Forbes Group Holdings Limited

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment The Group's goodwill that arose upon its reorganisation when the entity relisted is R1,4 billion as at 31 March 2020 (2019: R2,5 billion), including an impairment charge of R1.1 billion during the year. Goodwill is tested annually for impairment and whenever there is an impairment indicator identified by management. For the year ended 31 March 2020, management performed an impairment assessment over the CGU by calculating the recoverable amount as the higher of fair value less costs to sell and value in use for each CGU. Management assessed the goodwill balance allocated to each CGU for impairment based on the value in use using a discounted cash flow model. Value in use describes 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, discount rates, terminal growth rates, under realisation of cost containment measures and investment returns on the Assets Under Management (AUM) 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. The outbreak of the Coronavirus (COVID 19) including the resultant lockdown in South Africa required a detailed reassessment of key assumptions applied in the above projected cash flow forecasts and created significant estimation uncertainty not previously observed. The directors' assessment considered three different scenarios that are reflective of the best, moderate or worst-case scenarios that the impact of COVID 19 may have on the revenue generation and related expense management over the next five years. In addition, the Group transitioned into a new Target Operating Model (TOM) to simplify its business model which resulted in a change in the cash generating units that are allocated goodwill at 31 March 2020. The above is detailed in the Group's accounting policies and note 12 for the disclosure and measurement of goodwill, which includes the disclosures made by the directors on the critical assumptions, significant estimates and judgements in respect of the goodwill impairment assessment We 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 including the estimation uncertainty around the assumptions applied.	We obtained a detailed understanding of the impact of the announced strategy and Target Operating Model (TOM) on the goodwill valuation model (the model) prepared by the Group on 31 March 2020. We assessed the revised CGUs identified within the model against the requirements of International Accounting Standard 36 - Impairment of Assets, and the new TOM and segment reporting against the requirements of International Financial Reporting Standard 8 - Operating Segments. We performed the following procedures to test the model: - We tested the mathematical accuracy of the calculations in the model. No material exceptions were noted. - On a sample basis, we tested the accuracy of inputs to the model to source documentation such as the board approved budgets and key COVID-19 assumptions presented to the Board. We found no material differences. - Making use of our IT expertise, we tested the access, change and maintenance controls of the budget information technology (IT) program to assess its reasonability. We tested key assumptions used in the model, in particular those relating to the discount rates, the terminal growth rates, investment returns on AUM and the under realisation of cost containment measures as follows: - 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 considered the Group's chief economist expert's judgment in setting these assumptions and compared these to our own independent assessments. - Evaluated management's plans and actions to achieve the under realisation of cost measures against actual costs incurred and Board of directors approvals. Based on our work performed, we accepted management's plans. - Tested the sensitivity of the model to key assumptions such as discount rates, terminal growth rate, investment returns on the AUM and the under realisation of cost containment measures. We noted that there was head room identified from this analysis. We verified that the net asset value of each CGU after impairment was less than the value in use calculated for each CGU and note that no further impairment indicators were identified.

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 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 International Accounting Standard 37 - Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The Group has recognised a provision for errors and omissions claims of R56 million (2019: R38 million) and an ETV provision of R273 million. (2019: R197 million). A reimbursement asset is also recognised relating to the ETV provision of R221 million (2019: R 122 million). R30 million of the ETV provision has not been covered under an insurance policy, and as a result, has been recognised as an expense in the Group income statement, and disclosed as a contingent asset in note 28. 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, the ETV reimbursement asset and ETV contingent asset. The recognition of the provisions is determined to be a matter of most significance to our audit 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 matter of most significance to our audit as judgment was required to assess whether the recoverability of the asset is "virtually certain", as defined by the accounting standards.	We performed the following procedures to evaluate the provision for errors and omissions: ■ Evaluated the conclusions made by management on the likelihood and potential magnitude of a sample of claims, and considered whether the accounting for the provision for errors and omissions claims in terms of the Group's accounting policies and IFRS was correct. ■ 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 inspecting the documentation relating to the assigned risk rating for a sample of claims. No exceptions were noted. ■ 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. We observed that management's provisioning process predicted the outcome within an acceptable range. ■ 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 additional liabilities that should have been raised. ■ Assessed the impact of subsequent events through inquiry with management and updating the assessment of key inputs for developments in the claims that occurred between the financial year end and the date the financial statements were approved for issue. No further claims that required recognition were identified. 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 management experts. ■ We assessed the Group's application of the requirements of IAS 37 to the ETV claim based on this understanding, and found no material deviations. ■ Obtained the latest Skilled Person Report, which includes a calculation of the provision determined by experts appointed by the Financial Conduct Authority in the UK. Obtained a confirmation from independent management experts, appointed by the Company, detailing the critical aspects of the calculation, including areas of judgment 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 Report and by performing a sensitivity analysis on the critical areas of judgement in relation to the number of expected redress cases and the average redress value. We found the calculations to be consistent with each other and to be within an acceptable range determined by the Skilled Person Report.

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 Enhanced Transfer Value (ETV) and related reimbursement asset	■ Evaluated the impact of COVID 19 on the ETV claim liability by assessing the Group's assumptions on the average redress value that is based on the Skilled Person Report and assessing the impact of market volatility on the Occupational Pension Fund Scheme. Performed a sensitivity analysis on the average redress value and found that the stressed claims amounts fell within our range of acceptable values. ■ Assessed the competence and objectivity of management's expert through the inspection of their findings reports, the results of which were included in Board submissions. We also assessed the reputation of the expert in the industry by way of market research. ■ Tested management's calculation of the provisions relating to the ETV claim for accuracy. No exceptions were noted. ■ 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. ■ Assessed the recognition of the reimbursement 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 to support the assessment that the recovery is virtually certain. ■ We evaluated management's disclosure in the financial statements on the contingent asset raised for the ETV claim provision amount that exceeded the limit in the primary layer and recognised in the income statement.

Key audit matters	How our audit addressed the key audit matters
Recoverability of deferred tax asset on assessed losses A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which a deductible temporary difference or unused tax losses or tax credits can be utilised. The carrying value of the deferred tax asset recognised on assessed losses as at 31 March 2020 was R80 million. Management has assessed the future profitability of the entity to which these losses applied, and concluded that the deferred tax asset will be recoverable using the estimated future taxable income based on approved business plans and budget. Refer to the Group's accounting policies and note 27 for disclosures of deferred tax asset recognised. We considered the recoverability of deferred tax assets to be a matter of most significance to our audit as a result of the judgement applied by management in assessing the recoverability with reference to future profitability.	We compared the cash flows in management's recoverability assessment to the five year cash flow forecast, approved business plan and the most likely scenario in the Own Risk Self Assessment (ORSA) assessment. We reperformed the assessment of the recoverability and noted that the forecast reflects that that the full deferred tax asset will be utilised in the forecast period. We assessed management's ability to perform reasonable forecasts by comparing previous budgets to actual results. We performed a sensitivity analysis by adjusting the key assumptions to determine whether it would affect the utilisation of the deferred tax asset. The results of the adjustment still allowed for the assessed loss to begin to be utilised within the forecasted period.

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 document titled "Alexander Forbes Group Holdings Limited Annual Financial Statements financial year 2020", 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 auditor's report, and the other sections of the document titled "Alexander Forbes Group Holdings Limited Integrated Annual Report 2020", which is expected to be made available to us after that date.

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

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

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

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

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

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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably

Independent auditor's report continued

To the Shareholders of Alexander Forbes Group Holdings Limited

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 46 years.

PricewaterhouseCoopers Inc.
Director: Alsue Du Preez
Registered Auditor

Johannesburg
8 June 2020

Accounting policies

For the year ended 31 March 2020

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 2020.

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 South African Institute of Chartered Accountants 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*.

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

- Financial instruments (including derivative 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 South African 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.

Critical assumptions and judgements

The significant market disruption caused by the COVID-19 pandemic has created uncertainty in our operating environment. This increased uncertainty impacts on our critical accounting assumptions and judgements and as a result we have increased the depth and extent of our sensitivity testing in order to ensure a robust understanding of the impact that these assumptions may have on our financial reporting. Specifically the scenario testing performed for solvency and liquidity informed the assessment for the value in use of the cash generating units (CGUs) and the related assessment and impairment of goodwill and intangible assets. Elements of the management actions taken under these scenarios were used to inform and support the assessment of deferred tax asset. In addition, the stress testing and risk management discussions provided sufficient support for the going concern assumption under which the financial statements have been prepared.

1. Solvency assessment

The group has a policy to assess the risks and solvency of the consolidated entity on an annual basis and, if needed,in times where significant events occur or material decisions are required. This Own Risk and Solvency (ORSA) process is in line with the prudential standards for insurance groups. As a result of the COVID-19 pandemic the group has prepared various scenarios and projected the impact of these, profitability, cash flow, liquidity and solvency. The expected scenarios, management actions and results were discussed and approved by the board. The out-of-cycle ORSA will be submitted to the Prudential Authority following board approval in June.

Considered three scenarios in the ORSA process, these scenarios reflected three sets of assumptions on the basis that they demonstrate a range of best estimates and more severe financial impacts to the group when aggregated across the various entities. The three scenarios were informed by:

- A V-shaped recovery with COVID-19 controlled by the end of H1 2020 and a limited recession. The spread of the coronavirus is contained by the end of H1 2020 and the global economy gradually picks up. The significant stimulus quickly results in a rise in demand by Q3 2020. Global economic growth contracts in financial year 2021 and returns to positive growth in financial year 2022. South Africa's economic growth contracts in financial years 2021 and 2022 before returning to positive growth in financial year 2023.
- A U-shaped recovery with COVID-19 controlled, but new infections resurface and lead to a longer and greater recession. Countries remain in lockdown, though partially, until the end of 2020. Global economic growth contracts for two consecutive years before returning to a small positive growth in financial year 2023. South Africa's economic growth contracts from financial years 2021 to 2023 and only returns to positive growth in financial year 2024.
- L-shaped recovery with loss of control of COVID-19 and a greater economic depression. Countries around the world see a resurfacing of new infections with the resulting burden on health systems. The continued lockdowns result in global growth contracting for three consecutive years in what will be a greater depression. South Africa's economic growth contracts from financial years 2021 to 2024 and only returns to positive territory in financial year 2025.

Under each of these scenarios, assumptions defining the economic impact, impact on equity and bond markets, employment statistics and insolvencies were projected by the Alexander Forbes group chief economist. These assumptions were translated into the group's key revenue drivers including the assets under management, cash flows, advice and investment fees, active membership under administration, and new and lost business expectations.

The board and management have concluded that the most likely scenario is expected to be scenario two, the U-shaped recovery. This scenario assumes the long-term effects of shutdowns linger despite monetary and fiscal stimulus. Specifically gross domestic product (GDP) growth is expected to be negative for three years ranging between -6% to -2% and unemployment rises to 37% over this period. The markets are expected to fall by 10% in South Africa and globally for financial year 2020 and recover in the following

Accounting policies continued

For the year ended 31 March 2020

year before resuming our original growth expectations. Business defaults are expected to rise by 30% in the year ahead.

As a result of the scenario two change assumption above, the group operating income net of direct expenses, given the assumptions, is expected to decline between 3% and 15% from the financial year 2020 reported result. The most significantly impacted revenue lines are the fees earned on assets under management and the multicarrier fees earned within the retirements consulting segment. The sharp decline in the markets in March 2020 resulted in a 9% decline in the opening balance of the assets under management to R310 billion. This decline impacts our projected revenue by R168 million for the financial year 2021. The expected decline in members under administration results in an impact on fees of R144 million in the employee benefits business. The projected years thereafter show marginal improvement with compound growth between 1% and 5% for financial year 2025 off the financial year 2020 base. The impact of this resulted, amongst others, in a goodwill impairment as noted in section 2.

Given these projected outcomes, management has implemented a number of cost containment actions with immediate effect including reduced discretionary spend, a review and limitation on outsourced contracts and a freeze on new employment positions. These cost containment actions are aimed at reducing both external addressable spend and personnel costs. We will take measures to protect and safeguard our employees and ensure that jobs are preserved through this difficult period.

The group liquidity and solvency position at 31 March 2020 is strong with available cash of R1 599 million and surplus own funds of R2 060 million, 2.6 times above the solvency capital requirement. It is the group policy to maintain a solvency capital ratio of 1.5 times. In each scenario above, the expected solvency ratio remained above 2 following the related management actions, while the liquidity position remains positive with available cash remaining above R1 500 million.

2. Goodwill

The group recorded significant goodwill (and intangible assets) upon its reorganisation in 2007 in terms of IFRS 3. Goodwill is assessed annually for impairment. For purposes of impairment testing goodwill is allocated to cash-generating units (CGUs). This evaluation is based on the estimation of future cash flows and discount rates. 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.

In the current year's analysis, the impact of the COVID-19 pandemic was considered, specifically the U-shaped recovery scenario for the goodwill impairment. This scenario, concluded as part of our solvency assessment, was used for the purposes of the goodwill impairment testing. Despite the solvency assessment indicating that the group remains sufficiently solvent, the reduced operating income (net of direct expenses), which is theoretically projected in each scenario, resulted in lower projected cash flows from each CGU. In the retirements, health, individual and multinational consulting CGUs that have lower margins, the impact on the value-in-use was such that the goodwill balances were not supported and indicated impairment.This approach has resulted in the impairment of goodwill amounting to R1 145 million. Details of the assumptions used in this calculation are given in note 12.4.

3. Provision for client settlements – Enhanced Transfer Value (ETV)

The ETV matter, which was disclosed in prior years, is being reviewed by a foreign regulator in respect of a legacy subsidiary business that was sold inclusive of certain warrantees. The liability for the potential claim is calculated using certain assumptions based on a sample of the total number of cases that may require redress. During the current year the process for investigating and establishing the right course of action for each case has progressed. Key assumptions used in estimating the year end provision consist of the expected number of cases requiring redress and the expected average redress cost per case. Details on the sensitivity of these assumptions are contained in note 28.3. The assumptions used for the estimated liability have been modified according to the additional information available.

The group is adequately insured for claims as a result of such errors and omissions. The provision for the outstanding liability as at 31 March 2020 amounts to R273 million (financial year 2019: R197 million), of which R22 million has been provided for in terms of the Mannequin policy while the remaining R251 million is covered as part of the market policy (refer to note 28.3).

Management has obtained confirmation from the insurance underwriters for our primary insurance layer, covering R221 million of the liability, indicating that the event is covered in terms of the policy. For this portion of the liability it is considered virtually certain that an inflow of economic benefits will arise from this layer of the insurance programme; as a result, the reimbursement insurance asset (refer to note 19) and related income are recognised (refer to note 21.3). As the above estimated liability will require a recovery from the first excess layer in the amount of R30 million of the insurance programme, and management has not received confirmation from the lead underwriter for this recovery, the recognition of the related insurance asset of the first excess layer is not possible.

Accordingly, there is an impact to the group's income statement in the amount of R30 million for the current year relating to this mismatch. The recovery of the insurance from the first excess layer in future years will result in the recovery being recorded as income at the time when recovery becomes virtually certain.

4. 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.

5. 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 may include employee costs and relevant associated overheads. All other costs associated with developing or maintaining computer software programmes are recognised in profit or loss as incurred.

Accounting policies continued

For the year ended 31 March 2020

Expenditure, which enhances and extends the benefits of computer software programmes beyond their original specifications and lives, is recognised as a capital improvement and added to the original cost of the software. Refer to note 15.

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.

As a result of the changes to working conditions under the COVID-19 lockdown a number of strategic developments were stopped. A reassessment of strategic projects has been completed with only essential projects being continued. Software in development which had been capitalised 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 12.3 for key assumptions and sensitivity thereof.

6. Deferred tax assets

The deferred tax assets include amounts relating to a subsidiary company that has recently made losses owing to an inability to fully recover operating costs. The group has assessed the future profitability of this entity 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 subsidiary. The impact of COVID-19 on the overall South African economy required budgets to be revised to take into account the prevailing economic conditions. In addition, sensitivity analyses have been performed to evaluate the effect of COVID-19 on the entity's future taxable income under various scenarios. While the economic fallout resulting from the COVID-19 pandemic is likely to extend the duration over which the subsidiary will realise the deferred tax asset, the company is still expected to generate taxable income from financial year 2021 onwards, thus judgement is applied with regard to the timing of the utilisation of the deferred tax assets. The losses can be carried forward indefinitely and have no expiry date.

7. Fair value measurement of financial assets and liabilities

The group holds a number of financial assets to support liabilities in respect of contracts with policyholders. These financial assets and financial liabilities are designated at fair value through profit or loss to reduce the accounting mismatch that would arise otherwise. Financial instruments are classified as level 3 where valuation techniques used incorporate significant inputs that are not based on observable market data. The significant unobservable inputs used by the group include internally developed assumptions on the inputs that a market participant would use to price the instrument including determining the appropriate risk-adjusted discounts rates, interest rates and other macroeconomic indicators. Consequently, the determination of the fair value of financial instruments disclosed as level 3 instruments requires greater judgement and introduces a higher level of estimation uncertainty. Refer to note 43.

8. Employment benefit obligations

The present value of the post-employment medical benefit obligations and the defined benefit pension funds are determined on an actuarial basis using various assumptions. The assumptions used in determining the net cost (income) for the post-employment medical benefit obligations and the defined benefit pension funds include, the discount rate which is used to determine the present value of estimated future cash outflows expected to settle the obligations. 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 obligations 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. Any changes in these assumptions will impact the carrying amount of post-employment medical benefit obligations and defined benefit pension funds.

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

In the prior year, the insurance operations of the group (both short-term insurance and group risk) as well as sub-scale African operations were classified as discontinued operations. The sale of the short-term insurance business in South Africa was concluded on 31 January 2020. The group entered into a binding agreement for the disposal of the Namibian short-term insurance business on 14 April 2020. The transaction is subject to regulatory and Namibian Competition Authorities approval, and is expected to close in the first half of the new financial year. The group risk business remains classified as held for sale at the end of the financial year. Despite the volatility and uncertainty in both local and global markets resulting from the COVID-19 pandemic, the board remains committed to the disposal of this operation and intends to continue to market this business at a reasonable price. The board expects that the conclusion of the disposals will be effected in financial year 2021.

10. IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 is effective for accounting periods beginning on or after 1 January 2019 and clarifies the application of the recognition and measurement requirements of IAS 12 where there is uncertainty over income tax treatments, including the accounting for income tax treatments that have yet to be accepted by tax authorities. The interpretation requires the group to measure the effect of uncertainty on income tax positions using either the most likely amount or the expected value amount depending on which method is expected to better reflect the resolution of the uncertainty. The group has applied the principles of the interpretation in reassessing its tax provisions for uncertainty and no material impact on the group have been identified. However, the application of tax law requires interpretation, involves the application of judgement and is open to challenge by the relevant tax authorities, which gives rise to a level of uncertainty. In performing these assessments, the group has utilised specialist in-house tax expertise, while also taking into

Accounting policies continued

For the year ended 31 March 2020

consideration specialist tax advice from third-party advisers on specific items. Consequently, no adjustments have been made to the group's existing income tax positions as a result of the adoption of IFRIC 23.

11. Discontinued operations

Included in policyholder liabilities in respect of life insurance contracts and the ultimate liability arising from claims under short term contracts are revisions of lapses and other related assumptions as a result of the potential impacts of the COVID-19 pandemic.

Valuation of policyholder assets and liabilities in respect of life insurance contracts

The actuarial value of policyholder assets and liabilities arising from life insurance contracts is determined using the financial soundness valuation method as described in SAP 104 of the Actuarial Society of South Africa. The method requires a number of assumptions as inputs to the valuation model. The process followed to determine the valuation assumptions is outlined in note 29: Insurance payables.

Ultimate liability arising from claims under short-term contracts

The estimation of the ultimate liability arising from claims under non-life 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 29: Insurance payables.

Consolidation

1. 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.

2. 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.

3. 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.

4. 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.

Accounting policies continued

For the year ended 31 March 2020

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.

5. 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)
- 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% threshold, it is accounted for as an investment and recorded at fair value through profit or loss.

Foreign currency

1. 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.

2. Foreign exchange gains and losses arising in entity accounts

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

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

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

Translation differences on monetary items, such as financial assets held at fair value through profit or loss (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, are included in other comprehensive income.

3. 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 foreign 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 foreign 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 foreign 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.

Accounting policies continued

For the year ended 31 March 2020

Property and equipment

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

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

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

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

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

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

Goodwill

Goodwill arises on the acquisition of subsidiaries and associates.

The group measures goodwill at the acquisition date as:

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

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

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

Intangible assets

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

1. 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 the specific software into use. 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 that 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 programmes are recognised in profit or loss as incurred.

Expenditure, which enhances and extends the benefits of computer software programmes 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.

2. 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.

3. 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.

Accounting policies continued

For the year ended 31 March 2020

Financial instruments

The group applies IFRS 9 *Financial Instruments* to the recognition, classification and measurement, and derecognition of financial instruments, and the impairment of financial assets. The group continues to apply IAS 39 *Financial Instruments: Recognition and Measurement* for hedge accounting purposes.

Initial recognition

Financial instruments are recognised in the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument. The group recognises (derecognises) financial assets on trade date, the date on which the group commits to purchase/(sell) the asset.

All financial instruments are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability (other than financial assets and financial liabilities at fair value through profit or loss). Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

1. Financial assets

(i) Classification and measurement

The classification of financial assets is based on two criteria:

- the group's business model for managing the financial asset
- the contractual cash flow characteristics (whether the cash flows represent solely payments of principal and interest (SPPI)).

The business model assessment is performed at a portfolio level to reflect how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The group classifies its financial assets into the following measurement categories:

- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)
- amortised cost

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.

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. 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. The main classes of financial assets included under this category 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 investments in equity instruments that are not held for trading, this will depend on whether the group may make an irrevocable election at the time of initial recognition (on an instrument-by-instrument basis) to account for the equity investment at FVOCI.

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

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's debt instruments are held for collection of contractual cash flows, which represent solely payments of principal and interest, and debt instruments are classified into the at amortised cost category. 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. Impairment losses are presented as separate line items in the statement of profit or loss.

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 other comprehensive income, 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.

Financial liabilities measured subsequently 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 measured subsequently 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.

(ii) Derecognition and modification

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.

Where an existing financial asset is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset are substantially modified, such an exchange or modification is treated as a derecognition. If the terms are not substantially different, the renegotiation or modification does not result in derecognition of that financial asset and the group recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Accounting policies continued

For the year ended 31 March 2020

(iii) Impairment

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 30 days past due.

Simplified method

For trade receivables and contract assets, the group applies the simplified approach in accordance with IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. See note 43 for further detail.

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 original 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
- 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)
- 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, and the amortised cost is presented on the face of the statement of financial position.

2. Financial liabilities

(i) Classification and measurement

The group classifies its financial liabilities in the following categories:

- financial liabilities at FVTPL
- financial liabilities measured subsequently 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 at FVTPL

This category has two subcategories:

- financial liabilities held for trading
- 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 at FVTPL.

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

Financial liabilities measured subsequently 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 measured subsequently 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.

Accounting policies continued

For the year ended 31 March 2020

(ii) Derecognition and modification

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Derecognition of financial liabilities includes a situation of substantial modification of the terms and conditions of an existing financial liability, that is, 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.

3. Derivative financial instruments and hedging

The group holds derivative financial instruments to manage its exposure to foreign exchange risks. Derivatives are initially recognised at fair value on the date 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.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other gains/ (losses).

The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or
- hedges of 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.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. The entire instrument is classified and subsequently measured as either amortised cost or fair value as appropriate.

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.

Impairment

Impairment of financial assets

The group assesses on a forward-looking basis the ECLs associated with its financial assets measured at amortised cost, debt instruments carried at FVOCI and lease receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For more detail on the impairment of financial assets, refer to the accounting policy on financial instruments.

Impairment of non-financial assets

At each reporting date, the group reviews the carrying amounts of its non-financial assets (other than contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful life are tested annually for impairment.

1. Goodwill

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 CGUs represents a grouping of assets no larger than an operating segment as used for segmental reporting purposes in the group financial statements.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses relating to goodwill are not reversed.

2. Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to 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
- 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.

Contract assets

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 43.1.2).

Equity

1. 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.

2. 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.

3. 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.

4. 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.

1. 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.

2. 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.

Accounting policies continued

For the year ended 31 March 2020

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.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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 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.

8. 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.

9. 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.

10. 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.

Accounting policies continued

For the year ended 31 March 2020

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.

Deferred acquisition costs

Incremental costs directly attributable to securing rights to receive fees for multi-manager investment services sold with investment contracts are capitalised as 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.

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
- 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

1. Pension obligations

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

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

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

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

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

Accounting policies continued

For the year ended 31 March 2020

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.

2. 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.

3. 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.

4. 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)
- 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

The group assesses whether a contract is, or contains a lease, at inception of the contract. A lease is, or contains a lease, if the contract conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition the group assesses whether the contract meets three key evaluations which are whether:

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For the year ended 31 March 2020

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the group
- the group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use
- considering its rights within the defined scope of the contract the group has the right to direct the use of the identified asset throughout the period of use

The group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use. The group has applied this approach for any new contracts entered into on or after 1 April 2019.

The group as a lessee

At lease commencement date, the group recognises a right-of-use asset and a lease liability on the balance sheet, except for leases of low-value assets (such as office equipment and office furniture), and short-term leases of 12 months or less which are recognised as an expense on a straight-line basis over the lease term.

The lease liability is measured at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the lessee's incremental borrowing rate specific to the term, country and currency in which the lease payments are denominated. Generally, the group uses the incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments
- variable payments based on an index or rate initially measured using the index or rate at commencement
- amounts expected to be payable under a residual value guarantee
- payments arising from options reasonably certain to be exercised

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments with a corresponding adjustment to the right-of-use asset, or recorded in profit and loss if the right-of-use asset is already reduced to nil.

The right-of-use asset is measured at cost, comprising the initial measurement of the lease liability, adjusted for any lease payments made in advance of the lease commencement, plus initial direct costs incurred and an estimate of any costs to dismantle and remove or restore the underlying asset at the end of the lease, less any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The group also assesses the right-of-use asset for impairment when such indicators exist.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities are presented as a separate line item. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The group has used this practical expedient.

The group as a lessor

Leases for which the group is a lessor are classified as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

When the group is an intermediate lessor, it accounts for its interest in the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the group applies the exemption, it classifies the sublease as an operating lease. Under IAS 17, the head lease and sublease contracts were classified as operating leases and this classification has not changed on reassessment and transition to IFRS 16.

Rental income received under operating leases is recognised on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Rental income is presented on the statement of profit or loss as part of other income.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of the leases.

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.

Revenue from general operations

The group provides consulting, actuarial and administration related financial services to retirement funds and corporates. From these services, the group generates the following streams of revenue:

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

The above services are considered separate performance obligations, which may however be governed by a single legal contract for practical expedience. The practical expedient not to disclose information on contracts with a duration of one year or less has also been taken. Revenue recognition for each of the revenue streams is as follows:

1. 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

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For the year ended 31 March 2020

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.

- *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.

2. 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.

Revenue 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.

Revenue 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.
- 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. 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 and fair value losses on financial assets. 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.

1. 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.

2. 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, whose operating results are reviewed regularly by the group's chief operating decision maker (the group executive committee, ultimately overseen by the board of directors) to make decisions about resources to be allocated to each segment and assess its performance, and for which discrete financial information is available.

Reportable segments are operating segments that either meet the thresholds and conditions set out in IFRS 8 or are considered by the group executive committee, having assessed economic characteristics, to be appropriately designated as reportable segments. 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 results) directly attributable to a segment. All transactions between business segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated.

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

Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered – primarily through sale rather than through continuing use – are classified as held for sale. The assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group 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.

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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 has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations or is part of a single coordinated plan to dispose of such a line of business or area of operations.

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.

Standards, amendments and interpretations effective in 2020

The following standards, amendments and interpretations have been adopted by the group for the first time for the financial year ended 31 March 2020. The adoption of these amendments did not have a significant impact on the current period or any prior period except for IFRS 16 *Leases*.

Effective date	Standard, amendment or interpretation
1 January 2019	IFRS 16 *Leases*
	Amendments to IFRS 9, Financial instruments – Prepayment features with negative compensation
	Amendments to IAS 28, Investments in associates – Long term interests in associates and joint ventures
	Amendments to IAS 19, Employee benefits – Plan amendment, curtailment or settlement
	Interpretation 23 *Uncertainty over Income Tax Treatments*
	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 2020 reporting periods and have not been early adopted by the group.

The following amended standards and interpretations that are not yet effective are not expected to have a significant impact on the group's consolidated financial statements:

- IFRS 17 *Insurance Contracts* – IFRS 17 is mandatory for financial years commencing on or after 1 January 2023. The insurance results are classified as discontinued operations, and consequently, this new accounting standard is not applicable and will have no impact on the group.
- Amendments to References to Conceptual Framework in IFRS Standards.
- Amendments to IFRS 3, Business Combinations – Definition of a Business.
- Amendments to IAS 1 and IAS 8 – Definition of Material

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.

Changes in significant accounting policies

This note explains the impact of the adoption of IFRS 16 *Leases* on the group's financial statements and discloses the new accounting policies that have been applied from 1 April 2019, where they are different to those applied in prior years under the predecessor standard, IAS 17 *Leases*. A number of other new amendments to standards and interpretations are also effective from 1 January 2019 but they did not affect the group's previously reported financial results, disclosures or accounting policies and did not impact the group's results upon transition.

IFRS 16 *Leases*

IFRS 16 is mandatory for accounting periods beginning on or after 1 January 2019 and the group has applied the standard under the full retrospective approach, using the practical expedient to not separate contracts into lease and non-lease components. Accordingly, the information presented for prior periods has been restated. The effect of initially applying this standard has resulted in an increase in property and equipment, and liabilities at 1 April 2019.

The main principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to the accounting treatment for operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases for lessees as either operating or finance leases, as was required by IAS 17, and introduces a single lessee accounting model, where a right-of-use asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. The rental charge is replaced by depreciation of the right-of-use asset and interest on the lease liability.

The group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 *Determining whether an Arrangement Contains a Lease* continues to be applied to leases entered or modified before 1 April 2019. For short-term leases (lease term of 12 months or less) and leases of low-value assets i.e. office equipment and office furniture), the group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The restatement of prior periods for IFRS 16 has resulted in an increase in total assets of R650 million as at 31 March 2019 (2018:

Accounting policies continued

For the year ended 31 March 2020

R832 million) accompanied with an increase in total liabilities of R756 million (2018: R940 million). The IAS 17 straight-lining balance of R199 million at March 2019 was reversed out and the accompanying deferred tax of R56 million restated.

Previously under IAS 17, the group classified lease payments as cash generated from operations in operating activities. With the adoption IFRS 16, the group has classified lease payments as financing activities for the principal portion and operating activities for the interest portion. This resulted in a restatement of the cash flows for the year ending March 2019 with an increase in cash generated from operations of R178 million, accompanied by a corresponding increase in cash outflows from financing activities amounting to R114 million.

The group's lease portfolio consists of premises leased by the group which have various contractual terms ranging from two to 14 years. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised. As the group has adopted the full retrospective approach, the borrowing rate applied is the one applicable at inception of each lease contract. The lease liability relating to the head office building accounts for 83% of the group's lease liabilities and is discounted at an incremental borrowing rate of 8.4%. The remainder of the leases liabilities are discounted at their respective incremental borrowing rates which vary from 3% to 14%, due to the multiple jurisdictions the group operates within.

IFRS 16 did not introduce significant changes for lessors, as a result the accounting policies applicable to the group as a lessor are not different from those under IAS 17. The classification of the group's sub- leases has not changed on reassessment and transition to IFRS 16.

Accounting policies continued

For the year ended 31 March 2020

The table below sets out the impact of IFRS 16 on the comparative period income statement for the year ended 31 March 2019:

Impact on group income statement

for the year ended 31 March 2019

Rm	Notes	Previously reported 2019	IFRS 16 Adjustment	Discontinued operations[1]	Restated 2019
Operating expenses	3	(2 458)	76	–	(2 382)
Rent expense reversal		–	178	–	178
Lease modification		–	6	–	6
Depreciation		–	(111)	–	(111)
Straight-lining reversal		–	3	–	3
Operating expenses excluding IFRS 16		(2 458)	–	–	(2 458)
Profit from operations before non-trading and capital items		**678**	**76**	**–**	**754**
Operating profit		**447**	**76**	**–**	**523**
Finance costs		(89)	(72)	–	(161)
Share of net loss of associates (net of income tax)		(4)	–	4	–
Profit before taxation		**575**	**4**	**4**	**583**
Income tax expense		(238)	(2)	–	(240)
Profit for the period from continuing operations		**316**	**2**	**4**	**322**
Discontinued operations					
Profit on discontinued operations (net of income tax)		72	–	(4)	68
Accumulated profit for the period		**388**	**2**	**–**	**390**

[1] *Refer to note 21.*

For the purpose of comparison, the consolidated statements of financial position for the years ended 31 March 2019 and 31 March 2018 have been restated. The impacts of the restatements are summarised hereafter:

Impact on group statement of financial position

at 31 March 2019 and 31 March 2018

Rm	Previously reported 2019	Adjustments	Restated 2019	Previously reported 2018	Adjustments	Restated 2018
Assets						
Property and equipment	139	592	731	174	790	964
Deferred tax assets	200	38	238	175	42	217
Insurance receivables	–	–	–	1 339	(325)[1]	1 014
Assets and disposal groups classified as held for sale	3 500	(316)[2]	3 184	82	–	82
Equity and liabilities						
Accumulated profit/(loss)	(64)	(106)	61	(61)	(108)	(169)
Lease liabilities	199	734	933	248	940	1 188
Insurance payables	1 689	–	1 689	3 572	(325)[1]	3 247
Liabilities of disposal group classified as held for sale	2 485	(314)[2]	2 171	14	–	14

[1] *Restatement to correct prior period error of R325 million relating to insurance receivable and reinsurance payable balances not correctly eliminated. Refer to note 21.6.*

[2] *Included in this adjustment is a correction of R336 million relating to insurance receivable and reinsurance payable balances not correctly eliminated in 2019. Refer to note 21.6.*

Accounting policies continued

For the year ended 31 March 2020

The table below sets out the impact of IFRS 16 on the comparative period statement of cash flows for the year ended 31 March 2019:

Impact on group statement of cash flows

for the year ended 31 March 2019

Rm	Notes	Previously reported 2019	IFRS 16 Adjustment	Discontinued operations[1]	Restated 2019
Cash flows from operating activities					
Cash generated from operations		821	178	4	1 003
Finance costs paid on property leases		–	(72)	–	(72)
Cash flows from operating activities - discontinued operations		292	8	(4)	296
Other cash flows from operating activities		(1 129)	–	–	(1 129)
Net cash outflow from operating activities		**(2 048)**	**114**	**–**	**(1 934)**
Cash flows from investing activities					
Payments to investment in associate		(23)	–	23	–
Cash flows from investing activities - discontinued operations		(6)	–	(23)	(29)
Net cash outflow from investing activities		**(29)**	**–**	**–**	**(29)**
Cash flows from financing activities					
Payments of lease liabilities		(51)	(106)	–	(157)
Cash flows from financing activities - discontinued operations		–	(8)	–	(8)
Net cash outflow from financing activities		**(176)**	**(114)**	**–**	**(290)**

[1] *Refer to note 21.*

Group income statement

For the year ended 31 March 2020

Rm	Notes	2020	Restated 2019[1]
Continuing operations			
Fee and commission revenue	1	4 022	4 058
Fee and commission expenses		(869)	(922)
Operating income net of direct expenses		**3 153**	**3 136**
Other income	2	46	–
Operating expenses	3	(2 442)	(2 382)
Profit from operations before non-trading and capital items		**757**	**754**
Non-trading and capital items	4	(1 283)	(231)
Operating (loss)/profit		**(526)**	**523**
Investment income	5	155	213
Finance costs	6	(143)	(161)
Reported profit arising from accounting for policyholder investments as treasury shares	10.3	–	8
(Loss)/profit before taxation		(514)	583
Income tax expense	7	(250)	(261)
Income tax expense relating to group profits		(253)	(240)
Income tax credit/(expense) relating to policyholder investment returns		3	(21)
(Loss)/profit for the year from continuing operations		**(764)**	**322**
Discontinued operations			
Profit from discontinued operations (net of tax)	21.1	810	68
Profit for the year		**46**	**390**
(Loss)/profit attributable to:			
Owners of the company		(145)	336
Non-controlling interest	8	191	54
		46	390
Basic (loss)/earnings per share (cents)			
Continuing operations		(67.1)	22.1
Discontinued operations		55.3	5.1
Total operations	9	**(11.8)**	**27.2**
Diluted (loss)/earnings per share (cents)			
Continuing operations		(67.1)	21.9
Discontinued operations		54.1	5.0
Total operations	9	**(11.8)**	**26.9**

[1] *Restated for the retrospective adoption of IFRS 16 and effects of discontinued operations, refer to changes in significant accounting policies and note 21.*

Group statement of comprehensive income

For the year ended 31 March 2020

Rm	Notes	2020	Restated 2019[1]
Profit for the year		46	390
Other comprehensive income:			
Foreign currency translation differences – foreign operations		49	44
Foreign currency translation reserve reclassified to profit or loss on loss of control		–	(17)
Cash flow hedge	22.5	(4)	40
Other comprehensive income for the year that may be reclassified to profit or loss[2]		**45**	**67**
Remeasurement of post-employment benefit obligations[2]	26.2	14	–
Other comprehensive income that will not be reclassified to profit or loss[2]		**14**	–
Total comprehensive income for the year		**105**	**457**
Total comprehensive income attributable to:			
Owners of the company		(89)	396
Non-controlling interest		194	61
Total comprehensive income for the year		**105**	**457**

[1] *Restated for the retrospective adoption of IFRS 16 and effects of discontinued operations, refer to changes in significant accounting policies and note 21.*
[2] *Net of related taxes.*

Group statement of financial position

At 31 March 2020

Rm	Notes	2020	Restated 2019[1]	Restated 2018[1]
Assets				
Financial assets held under multi-manager investment contracts	10	272 585	299 852	296 758
Financial assets of insurance cell-captive facilities	11	–	–	352
Goodwill	12	1 392	2 537	3 038
Intangible assets	13	219	323	390
Property and equipment	14	624	731	964
Purchased and developed computer software	15	132	151	400
Investment in associates	16	–	24	–
Deferred tax assets	27	228	238	217
Financial assets	17	95	108	445
Insurance receivables	18	–	–	1 014
Tax assets	40	7	4	15
Trade and other receivables	19	527	415	284
Cash and cash equivalents	20	3 959	5 041	5 794
Assets of disposal group classified as held for sale	21	2 285	3 184	82
Total assets		**282 053**	**312 608**	**309 753**
Equity and liabilities				
Share capital		5 874	6 192	6 192
Treasury shares		(196)	(497)	(392)
Other reserves		179	120	41
Accumulated loss		(1 051)	(170)	61
Owners of the company	22	4 806	5 645	5 902
Non-controlling interest		297	299	287
Total equity		**5 103**	**5 944**	**6 189**
Financial liabilities held under multi-manager investment contracts	23	272 612	299 885	296 825
Financial liabilities of insurance cell-captive facilities	24	–	–	352
Borrowings	25	101	719	719
Employee benefits	26	132	154	162
Deferred tax liabilities	27	85	113	119
Provisions	28	461	369	304
Lease liabilities	32	822	933	1 188
Insurance payables	29	–	1 689	3 247
Trade and other payables	30	599	611	585
Tax liabilities	40	10	20	49
Liabilities of disposal group classified as held for sale	21	2 128	2 171	14
Total liabilities		**276 950**	**306 664**	**303 564**
Total equity and liabilities		**282 053**	**312 608**	**309 753**

[1] *Restated for the retrospective adoption of IFRS 16 and effects of discontinued operations, refer to changes in significant accounting policies and note 21.*

Group statement of cash flows

For the year ended 31 March 2020

Rm	Notes	2020	Restated 2019[1]
Cash flows from operating activities			
Cash generated from operations	34	936	1 003
Interest received	35	155	189
Interest paid	36	(143)	(161)
Net cash flows paid to insurance and policyholder contracts	38	(1 720)	(215)
Net cash flows received from/(paid to) policyholder investment contracts	39	148	(2 121)
Taxation paid	40	(622)	(383)
Dividends paid		(750)	(531)
Payments made to non-controlling interests		(234)	(11)
Cash flows from operating activities – discontinued operations		209	296
Net cash outflow from operating activities		**(2 021)**	**(1 934)**
Cash flows from investing activities			
Payments for financial assets		(2)	(31)
Proceeds from disposal of financial assets		18	367
Payments for capital expenditure incurred on property, equipment and computer software		(51)	(113)
Proceeds from sale of subsidiaries and businesses	21	2 043	15
Cash flows from investing activities – discontinued operations		(644)	(29)
Net cash inflow from investing activities		**1 364**	**209**
Cash flows from financing activities			
Repayment of borrowings	25	(614)	–
Payments of lease liabilities		(112)	(157)
Purchase of shares in terms of share buy-back transaction		(41)	(151)
Proceeds from sale of treasury shares held by policyholder investments		7	26
Purchase of treasury shares held by policyholder investments		(3)	(17)
Disposal of treasury shares held by policyholder investments		10	43
Cash flows from financing activities – discontinued operations		(8)	(8)
Net cash outflow from financing activities		**(768)**	**(290)**
Decrease in cash and cash equivalents		(1 425)	(2 015)
Cash and cash equivalents at the beginning of the year		11 751	13 702
Effects of exchange rate changes on cash and cash equivalents		50	64
Cash and cash equivalents at the end of the year		**10 376**	**11 751**
Analysed as follows:			
Cash and cash equivalents of disposal group classified as held for sale	21	490	938
Cash and cash equivalents of continuing operations	20	3 959	5 041
Cash held under multi-manager investment contracts[2]	10.2	5 927	5 772
		10 376	**11 751**

[1] *Restated for the retrospective adoption of IFRS 16 and effects of discontinued operations, refer to changes in significant accounting policies and note 21.*

[2] *This amount relates to cash and cash equivalents held for short-term commitments within the multi-manager investment portfolios.*

Group statement of changes in equity

For the year ended 31 March 2020

Rm	Share capital	Treasury shares	Other reserves	Accumulated loss	Total equity holders' funds	Non-controlling interest	Total equity
At 31 March 2018 (restated)[1]	**6 192**	**(392)**	**41**	**61**	**5 902**	**287**	**6 189**
IFRS 9 transition adjustment[2]	–	–	–	(36)	(36)	(4)	(40)
At 1 April 2018 (restated)	**6 192**	**(392)**	**41**	**25**	**5 866**	**283**	**6 149**
Total comprehensive income	–	–	60	336	396	61	457
Profit for the year	–	–	–	336	336	54	390
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 and share incentive schemes[3]	–	(151)	–	–	(151)	–	(151)
Settlement of share incentive schemes[4]	–	20	(20)	–	–	–	–
Movement of treasury shares in policyholder assets	–	26	–	–	26	–	26
Dividends paid	–	–	–	(531)	(531)	(11)	(542)
Movement in share-based payment reserve	–	–	39	–	39	–	39
Other movements in non-controlling interest[5]	–	–	–	–	–	(34)	(34)
At 31 March 2019 (restated)	**6 192**	**(497)**	**120**	**(170)**	**5 645**	**299**	**5 944**
Total comprehensive income	–	–	42	(131)	(89)	194	105
Profit for the year	–	–	–	(145)	(145)	191	46
Other comprehensive income	–	–	42	14	56	3	59
Total transactions with owners of the company	(318)	301	17	(750)	(750)	(196)	(946)
Shares cancellation[6]	(318)	318	–	–	–	–	–
Shares purchased in terms of share buy-back programme[7]	–	(41)	–	–	(41)	–	(41)
Settlement of share incentive schemes[8]	–	17	(17)	–	–	–	–
Movement of treasury shares in policyholder assets	–	7	–	–	7	–	7
Dividends paid	–	–	–	(750)	(750)	(234)	(984)
Movement in share-based payment reserve	–	–	34	–	34	–	34
Other movements in non-controlling interest[9]	–	–	–	–	–	38	38
At 31 March 2020	**5 874**	**(196)**	**179**	**(1 051)**	**4 806**	**297**	**5 103**

[1] *Restated on adoption of IFRS 16 (net of tax). Refer to changes in significant accounting policies on page 33.*

[2] *The group recognised R40 million (R29 million relating to a loan receivable and R11 million in relation to a trade receivable) as an IFRS 9 transition adjustment.*

[3] *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.*

[4] *Shares amounting to R4 million relating to the 2015 tranche of the forfeitable share scheme were settled. Further shares amounting to R16 million relating to the 2018 tranche of the retention share scheme were also settled..*

[5] *This amount relates to changes in non-controlling interests following the disposal of the group's Kenyan operations.*

[6] *The group cancelled 53 568 809 shares which were withdrawn on the JSE on 26 August 2019.*

[7] *The group purchased AFH shares to the value of R20 million, at an average price of R4.61 per share, in a general buy-back approved by shareholders. In addition, shares to the value of R21 million were purchased for shareholder-approved share incentive schemes.*

[8] *Shares amounting to R6 million relating to the forfeitable share scheme were settled. In addition, R11 million relating to the 2018 retention share scheme was also settled.*

[9] *This amount relates to changes in non-controlling interests following the disposal of the group's Zambian and Ugandan operations.*

Group segmental income and profit analysis

For the year ended 31 March 2020

Rm	Retirements consulting		Healthcare consulting		Investments		Individual consulting		Multinational consulting		**Total Consulting**		Investments, Products & Enablement (IP&E)		Client Services & Business Optimisation (CSBO)		**Group total**	
	2020	Restated 2019[1]	2020	Restated 2019[1]	2020	Restated 2019[1]	2020	Restated 2019[1]	2020	Restated 2019[1]	2020	Restated 2019[1]	2020	Restated 2019[1]	2020	Restated 2019[1]	2020	Restated 2019[1]
Continuing operations																		
Fee and commission revenue	908	943	289	269	1 909	1 948	640	622	276	262	4 022	4 044	–	–	–	14	4 022	4 058
Fee and commission expenses	(13)	(13)	–	(2)	(636)	(691)	(198)	(192)	(22)	(24)	(869)	(922)	–	–	–	–	(869)	(922)
Operating income net of direct expenses	**895**	**930**	**289**	**267**	**1 273**	**1 257**	**442**	**430**	**254**	**238**	**3 153**	**3 122**	**–**	**–**	**–**	**14**	**3 153**	**3 136**
Other income	–	–	–	–	–	–	–	–	–	–	–	–	–	–	46	–	46	–
Operating expenses	(850)	(866)	(232)	(224)	(841)	(905)	(395)	(406)	(244)	(232)	(2 562)	(2 633)	–	–	43	178	(2 519)	(2 455)
Operating expenses before recoveries	(212)	(195)	(108)	(104)	(76)	(60)	(161)	(183)	(209)	(208)	(766)	(750)	(170)	(108)	(1 679)	(1 789)	(2 615)	(2 647)
Recoveries from IP&E	(13)	(15)	(16)	(9)	(124)	(78)	(14)	(5)	(3)	(1)	(170)	(108)	170	108	–	–	–	–
Recoveries from CSBO	(625)	(656)	(108)	(111)	(641)	(767)	(220)	(218)	(32)	(23)	(1 626)	(1 775)	–	–	1 626	1 775	–	–
Recoveries from discontinued operations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	96	192	96	192
Normalised profit from operations before non-trading and capital items	**45**	**64**	**57**	**43**	**432**	**352**	**47**	**24**	**10**	**6**	**591**	**489**	**–**	**–**	**89**	**192**	**680**	**681**
Normalised non-trading and capital items	–	(3)	–	–	–	–	–	–	(3)	1	(3)	(2)	–	–	(25)	(198)	(28)	(200)
Normalised operating profit	**45**	**61**	**57**	**43**	**432**	**352**	**47**	**24**	**7**	**7**	**588**	**487**	**–**	**–**	**64**	**(6)**	**652**	**481**
Normalised investment income	10	39	1	2	4	11	9	8	2	1	26	61	–	–	132	131	158	192
Normalised finance cost	–	(5)	(31)	(34)	–	(11)	(15)	(16)	–	–	(46)	(66)	–	–	(23)	(23)	(69)	(89)
Normalised profit before taxation	**55**	**95**	**27**	**11**	**436**	**352**	**41**	**16**	**9**	**8**	**568**	**482**	**–**	**–**	**173**	**102**	**741**	**584**
Normalised income tax expense	(20)	(41)	(10)	(5)	(159)	(150)	(15)	(7)	(3)	(3)	(207)	(206)	–	–	(63)	(43)	(270)	(249)
Normalised profit for the year from continuing operations	**35**	**54**	**17**	**6**	**277**	**202**	**26**	**9**	**6**	**5**	**361**	**276**	**–**	**–**	**110**	**59**	**471**	**335**
Normalised profit from discontinued operations (net of tax)	–	–	–	–	–	–	–		–	–	–	–	–	–	809	69	809	69
Normalised profit for the year	**35**	**54**	**17**	**6**	**277**	**202**	**26**	**9**	**6**	**5**	**361**	**276**	**–**	**–**	**919**	**128**	**1 280**	**404**
Normalised adjustments	**(287)**	**–**	**(240)**	**–**	**–**	**–**	**(646)**	**–**	**(19)**	**(1)**	**(1 192)**	**(1)**	**–**	**–**	**(42)**	**(13)**	**(1 234)**	**(14)**
Accounting for property leases	–	–	–	–	–	–	–	–	–	(1)	–	(1)	–	–	3	2	3	1
Accounting for property leases – discontinued operations	–	–	–	–	–	–	–		–	–	–	–	–	–	1	(1)	1	(1)
Amortisation of intangible assets arising from business combination	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(66)	(67)	(66)	(67)
Professional indemnity insurance cell-captive result	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3	36	3	36
Reported profit arising from accounting for policyholder investments in treasury shares	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	8	–	8
Investment income on behalf of policyholders	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(3)	21	(3)	21
Goodwill and intangible assets arising from business combination written off	(287)	–	(240)	–	–	–	(646)	–	(19)	–	(1 192)	–	–	–	–	–	(1 192)	–
Tax effects on adjustments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	20	(12)	20	(12)
Profit for the year	**(252)**	**54**	**(223)**	**6**	**277**	**202**	**(620)**	**9**	**(13)**	**4**	**(831)**	**275**	**–**	**–**	**877**	**115**	**46**	**390**
Normalised basic earnings per share (cents)																	88.7	28.1
Normalised headline earnings per share (cents)																	38.7	45.0
Normalised weighted average number of shares in issue (millions)																	1 228	1 246

[1] *The prior year has been restated to align the segment report to the strategy change in accordance with IFRS 8 in addition to the retrospective adoption of IFRS 16 and effects of discontinued operations, refer to changes in significant accounting policies and note 21.*

Group segmental income and profit analysis continued

For the year ended 31 March 2020

The analysis by business segment is presented in accordance with IFRS 8 *Operating Segments*, on the basis of those segments whose operating results are regularly reviewed by the group executive committee.

In 2019, the group had three operating segments: Institutional Clients, Retail Clients and Emerging Markets. The group revised its strategy and developed a future growth vision that entails providing best advice for clients and measurable client benefits, a Pan-African solution, a focused business model and a capital-light operation. This required an operating model in which a client-centric, 'one-company' approach is strengthened through integration of different business lines, which should result in increased resource allocation toward client engagement, improved operational performance and better long-term value for all stakeholders. Following this decision, which was announced on 26 March 2019, the 2020 segmental analysis has been presented on a consistent basis with the new structure.

The change in the operating structure and the reallocation of certain business lines have resulted in the restatement of the comparative figures for the prior period.

Under the operating model, the business is organised into three distinct platforms:

1) a client-facing team under the *Consulting* platform,

2) a hub for innovative solutions and product enablement under the (IPE) *Investments, Product & Enablement* platform

3) a joint platform for services, including fund administration and shared services under the (CSBO) Client Services & Business Optimisation platform.

The group has five consulting segments, which are its reportable segments. These segments offer different products and services, and are managed separately because they require different technology and marketing strategies. The group's reportable segments under IFRS 8 are set out as follows:

Consulting

– This includes:

Retirements consulting – includes actuarial consulting, fund administration, consulting to standalone retirement funds, fund administration and consulting to umbrella retirement funds and beneficiary funds. This also includes revenue earned from clients where we earn fees only based on administration services.

Healthcare consulting – includes healthcare consulting and actuarial services.

Investments includes both individual and corporate client offerings of financial advice, administration and management of investments.

Individual consulting Incorporates Financial Planning Consultants (FPCs), AF Individual Client Administration (AFICA), and AF Preservation Fund.

Multinational consulting comprises consulting activities where we have physical offices in areas outside South Africa (Botswana, Namibia and the Channel Islands), and the consulting advice is provided through the ARRIVE solution.

In terms of IFRS 8 *Operating Segments*, support functions would generally not be operating segments as the revenues earned and expenses incurred are only incidental to the entity's business. These activities only arise to support the main business units.

The IP&E and CSBO platforms are not segments as defined, however, financial information relating to these platforms is regularly reviewed by management.

Investments, product & enablement comprises the investment management team, research and best practice academy, product management and other strategic units such as strategic insights, chief economist, digital analytics and client services. The costs of this platform are allocated to the segmented business units above in the group's segmental reporting.

Client services & business optimisation includes our operations, technology and shared services units. The costs of this platform are allocated to the segmented business units above in the group's segmental reporting.

Each reportable segment includes the direct operating expenses related to the segment. The direct operating expenses for the IP&E and CSBO platforms are allocated to reportable segments using various allocation methods specific to the actual costs.

Direct recoveries include:

- cost for administration services for administering funds in the retirements consulting business
- IT costs directly attributable to the segments, including software licence fees, hardware and depreciation. Part of these costs have been allocated based on headcount
- Premises costs are directly related to space used that are allocated based on square metres occupied

Apportioned recoveries based on trading profit include:

- IP&E costs related to product enablement, research and development
- other shared services functions including HR, finance, compliance, internal audit, legal, marketing and Corporate

Normalised segmental results

The financial performance of our businesses is presented in accordance with IFRS 8 and consistently with the basis on which performance is communicated to the group executive committee each month, that is, segmental results are reflected to include the normalised results, which are 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 and write off of intangible assets arising from business combination – Non-trading and capital items include the ongoing accounting amortisation of intangible assets as well as goodwill and intangible assets written off in the current year. The capitalisation of intangible assets, including goodwill, 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 are included in the operating

Group segmental income and profit analysis continued

For the year ended 31 March 2020

expenses of each segment. The group is required to consolidate the financial results of the cell-captive amounting to a profit of R3 million for the year ended 31 March 2020 (2019: R36 million) which are recorded in the non-trading and capital items.

Accounting for property lease – The group previously isolated and removed the accounting impact, under IAS 17, for property leases from the normalised results to afford a better comparison and to reflect the true premises cost over the long term. The introduction of new leases standard, IFRS 16, results in the recognition of a right-of-use asset as well as lease liabilities resulting in depreciation and finance costs being recognised in the income statement. In order to ensure comparability and to again reflect the true premises cost, adjustments amounting to R77 million (2019: R73 million) have been effected to profit before non-trading and capital items in addition to finance costs of R74 million (2019: R72 million) resulting in a net adjustment of R3 million (2019: R1 million) to profit before tax. The group has applied IFRS 16 retrospectively.

Reported profit or 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 licenced entity. The recognition of the recovery of this tax expense is included in the group's investment income. The normalised results exclude the policyholder tax expense and the related investment income which directly offset this tax expense.

Notes to the group financial statements

For the year ended 31 March 2020

1. 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 involving the transfer of services at a point in time and over time. If the services rendered exceed the payment, a contract asset is recognised. If payments exceed the services rendered, a contract liability is recognised.

Disaggregation of revenue

	Retirements consulting		Healthcare consulting		Investments		Individual consulting		Multinational consulting		Other		Group Total	
Rm	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue by type														
Consulting and advice fees	175	168	53	52	32	31	496	494	109	103	–	14	865	862
Administration fees	658	696	–	–	–	–	144	128	130	122	–	–	932	946
Commission	75	79	236	217	–	–	–	–	11	9	–	–	322	305
Investment management fees	–	–	–	–	1 877	1 917	–	–	26	28	–	–	1 903	1 945
Total	**908**	**943**	**289**	**269**	**1 909**	**1 948**	**640**	**622**	**276**	**262**	**–**	**14**	**4 022**	**4 058**
Revenue by region														
South Africa	908	943	289	269	1 909	1 948	640	622	–	–	–	14	3 746	3 796
Namibia	–	–	–	–	–	–	–	–	108	106	–	–	108	106
Botswana	–	–	–	–	–	–	–	–	102	92	–	–	102	92
Jersey and Channel Islands	–	–	–	–	–	–	–	–	58	58	–	–	58	58
Other	–	–	–	–	–	–	–	–	8	6	–	–	8	6
Total	**908**	**943**	**289**	**269**	**1 909**	**1 948**	**640**	**622**	**276**	**262**	**–**	**14**	**4 022**	**4 058**
Timing of revenue recognition														
Products transferred at a point in time	18	21	6	6	–	–	54	51	2	–	–	–	80	78
Services transferred over time	890	922	283	263	1 909	1 948	586	571	274	262	–	14	3 942	3 980
Total	**908**	**943**	**289**	**269**	**1 909**	**1 948**	**640**	**622**	**276**	**262**	**–**	**14**	**4 022**	**4 058**

[1] *The prior year has been restated to reflect change in segments affected in the current year.*

2. Other income

Rm	2020	2019
Sub-rental income	28	–
Technology fees	18	–
Total other income	**46**	**–**

The group subleases additional office space to external parties. Further details on these subleases are included in note 32.2. Technology fees relate to IT support services rendered to an external third party.

Notes to the group financial statements continued

For the year ended 31 March 2020

3. Operating expenses

Rm	Notes	2020	2019
Operating expenses classified by nature are as follows:			
Amortisation – purchased and developed computer software[1]	15	(28)	(40)
IT maintenance and support[1]		(313)	(261)
Depreciation[1]	14	(161)	(165)
Right-of-use assets – Buildings		(111)	(111)
Leasehold improvements		(3)	(3)
Computer equipment[1]	14	(39)	(43)
Furniture fittings, office equipment and other assets		(8)	(8)
External auditor's remuneration		(29)	(28)
Audit service – fees for audit		(25)	(24)
Non-audit service		(4)	(4)
Professional fees		(142)	(157)
Regulatory and compliance		(17)	(20)
Insurance costs[1]		(74)	(63)
Premises' operating costs[2]		(72)	(65)
Expenses relating to short-term and low value leases		(1)	(1)
Staff costs[3]		(1 466)	(1 442)
Salaries, wages and other benefits		(1 309)	(1 252)
Share-based payments		(29)	(41)
Termination benefits		(14)	(30)
Retirement benefit contributions – defined contribution plans		(9)	(8)
Other staff costs		(105)	(111)
Travel and conference costs		(34)	(41)
Marketing and communications		(76)	(93)
Termination of IT contract		–	(50)
Claims and bad debts		(29)	(50)
Other operating expenses[1]		(96)	(98)
Recovery from discontinued operations		96	192
Total operating expenses[4]		**(2 442)**	**(2 382)**

[1] *These expenses include reclassification for the effect of discontinued operations.*
[2] *Restated for the retrospective adoption of IFRS 16. Refer to changes in significant account policies.*
[3] *Staff costs include executive directors' and non-executive directors' remuneration. Refer to note 41 for a detailed analysis.*
[4] *Total operating expenses exclude non-trading and capital items that are disclosed in note 4.*

4. Non-trading and capital items

Rm	Notes	2020	2019
Costs relating to strategic consulting engagement		(3)	(34)
Software written off[1]		(26)	(150)
Other		1	(16)
Normalised non-trading and capital items		**(28)**	**(200)**
Professional indemnity insurance cell-captive result		3	36
Amortisation of intangible assets arising from business combination		(66)	(67)
Intangible assets arising from business combination written off – trade names[2]	13	(47)	–
Goodwill written off[2]	12	(1 145)	–
Total non-trading and capital items		**(1 283)**	**(231)**

[1] *Software in development amounting to R26 million was written off in the current period. The prior year write-off resulted from a thorough review of the strategic roadmap and related projects within the IT programme by management and the termination of the contract with the primary implementation partner.*
[2] *The group's goodwill balance is evaluated for impairment on an annual basis. In the current year's analysis the impact of the COVID-19 pandemic was considered and resulted in the write off of goodwill amounting to R1 145 million and trade names of R47 million. Refer to note 12.*

Notes to the group financial statements continued

For the year ended 31 March 2020

5. Investment income

Rm	2020	2019
Interest income	148	178
Investment and dividend income	10	14
	158	192
Multi-manager operations		
Investment (losses)/returns linked to policyholder tax expense	(3)	21
Total investment income	**155**	**213**
Investment income is derived from the following categories of financial assets:		
Amortised cost	148	178
Financial assets at fair value	7	35
Total investment income	**155**	**213**

6. Finance costs

Rm	2020	2019
Interest on lease liabilities[1]	(74)	(72)
Interest on revolving credit facility[2]	(54)	(59)
Cost of hedging[3]	(1)	(7)
Other interest	(14)	(23)
Total finance costs	**(143)**	**(161)**

[1] Restated for the effects of IFRS 16 Leases. Refer to note 32.1.

[2] R614 million of the revolving credit facility was repaid during the second half of the financial year. The remaining amount of the facility was settled subsequent to year-end. refer to note 25.

[3] 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	2020	2019
South African income tax		
Current tax	(238)	(281)
Current year	(240)	(281)
Prior years	2	–
Deferred tax	11	67
Current year	18	66
Prior years	(7)	1
Foreign income tax	**(17)**	**(14)**
Current tax	(17)	(14)
Foreign withholding tax	**(5)**	**(4)**
Securities transfer tax	**(4)**	**(8)**
Income tax expense relating to corporate profits	**(253)**	**(240)**
Income tax (expense)/credit on policyholder investment returns[2]	**3**	**(21)**
Current tax – current year	(7)	(7)
Deferred – current year	10	(14)
Income tax expense	**(250)**	**(261)**

[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 2020

7. Income tax expense continued

%	2020	2019
The standard South African income tax rate for companies is reconciled to the group's actual tax rate as follows:		
South African income tax rate for companies	28.0	28.0
Adjusted for the effects of:		
Foreign withholding tax	(0.9)	0.6
Policyholder tax	0.6	3.6
Unutilised tax losses (net of prior year assessment loss utilised)	(7.8)	0.8
Exempt income	(1.1)	1.5
Disallowed expenses		
Legal fees	–	3.3
Donations	(0.4)	0.3
Unrealised investment losses	(0.2)	–
Software impairment	(1.4)	5.8
Fair value adjustment of treasury shares	–	(0.4)
Goodwill impairment	(64.7)	–
Sundry items	(0.9)	0.7
Difference in foreign tax rates from other tax jurisdictions	1.9	(3.0)
Securities transfer tax	(0.7)	–
Prior year underprovision (net of prior year overprovision)	(1.0)	–
Adjustment for capital gains included in taxable income	–	0.2
Effective tax rate per income statement	**(48.6)**	**44.8**

8. Profit attributable to non-controlling interest

The profit attributable to non-controlling interest in the current year largely comprise amounts due to African Rainbow Capital Financial Services Holdings (Pty) Limited (ARC) that held a 10% shareholding in Alexander Forbes Limited at year end. Subsequent to year end, ARC ceased to be a non-controlling interest in the group (refer to note 47). Details of non-wholly owned subsidiaries are provided in note 45: Consolidated and unconsolidated entities.

Rm	2020	2019
Profit attributable to non-controlling interest (Rm)	191	54

Notes to the group financial statements continued

For the year ended 31 March 2020

9. Earnings per share

9.1 Basic earnings per ordinary 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 ordinary share

Headline earnings per share is calculated by excluding applicable non-trading and capital gains and losses from the profit attributable to ordinary shareholders and dividing the resultant headline earnings by the weighted average number of ordinary shares in issue during the year. Headline earnings is defined in Circular 1/2019 issued by the South African Institute of Chartered Accountants.

9.3 Diluted earnings per ordinary share

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

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.

9.5 Number of shares

Millions	2020	Restated 2019
Weighted average number of shares	1 310	1 341
Weighted average shares held by policyholders classified as treasury shares	(6)	(9)
Weighted average treasury shares	(82)	(95)
Weighted average number of shares in issue (net of treasury shares)	1 222	1 237
Dilutive shares	27	14
Diluted weighted average number of shares	1 249	1 251
Actual number of shares in issue	1 288	1 341
Actual treasury shares	(70)	(118)
Shares in issue net of treasury shares	1 218	1 223
Normalised number of shares		
Weighted average number of shares in issue	1 222	1 237
Shares held by policyholders classified as treasury shares	6	9
Normalised number of shares in issue	1 228	1 246

Notes to the group financial statements continued

For the year ended 31 March 2020

9. Earnings per share continued

9.6 Calculation of basic and headline earnings from total operations (Rm)

Rm		2020	2019[1]
(Loss)/profit attributable to owners of the company		(145)	336
Adjusting items:			
Goodwill written off – continuing operations		1 145	–
Intangible assets arising from business combinations – continuing operations		47	–
Software written off – continuing operations		26	150
Software written off – discontinued operations		–	140
Profit on disposal of subsidiaries – discontinued operations		(863)	(56)
IFRS 5 impairment – KIN Digital – discontinued operations		44	–
IFRS 5 impairment – short-term insurance business in Namibia – discontinued operations		62	–
Tax and non-controlling interest impact on above items		117	(23)
Headline earnings for the year		**433**	**547**
Earnings per share from total operations[2]			
Basic (loss)/earnings per share	(cents)	(11.8)	27.2
Headline earnings per share	(cents)	35.4	44.2
Diluted basic (loss)/earnings per share	(cents)	(11.8)	26.9
Diluted headline earnings per share	(cents)	34.7	43.7

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 group has issued shares to African Rainbow Capital subsequent to year end, refer to note 47. These shares have an immaterial anti-dilutive impact and are accordingly not included in the diluted number of shares above.

1 Restated for the retrospective adoption of IFRS 16 and effects of discontinued operations, refer to changes in significant accounting policies and note 21.
2 Amounts computed using unrounded numbers.

Notes to the group financial statements continued

For the year ended 31 March 2020

9. Earnings per share continued

9.7 Calculation of normalised earnings from total operations (Rm)

Rm		2020	2019[1]
Normalised profit for the year per the group segmental income and profit analysis		1 280	404
Less: profit attributable to non controlling interests		(191)	(54)
Normalised profit attributable to owners of the company		**1 089**	**350**
Adjusting items:			
Software written off – continuing operations		26	150
Software written off – discontinued operations		–	140
Profit on disposal of subsidiaries – discontinued operations		(863)	(56)
IFRS 5 impairment – KIN digital – discontinued operations		44	–
IFRS 5 impairment – short-term insurance business in Namibia – discontinued operations		62	–
Tax and non-controlling interest impact on above items		117	(23)
Normalised headline earnings for the year		**475**	**561**
Normalised earnings per share[2]			
Normalised basic earnings per share	(cents)	88.7	28.1
Normalised headline earnings per share	(cents)	38.7	45.0

9.8 Calculation of basic and headline earnings from continuing operations (Rm)

Rm		2020	2019[1]
(Loss)/profit after tax from continuing operations		(764)	322
Less: profit attributable to non controlling interests		(57)	(49)
(Loss)/profit attributable to owners of the company		**(821)**	**273**
Adjusting items:			
Goodwill written off		1 145	–
Intangible assets arising from business combination written off		47	–
Software written off		26	150
Tax and non-controlling interest impact on above items		(3)	(15)
Headline earnings from continuing operations		**394**	**408**
Earnings per share from continuing operations[2]			
Basic (loss)/earnings per share from continuing operations	(cents)	(67.1)	22.1
Headline earnings per share from continuing operations	(cents)	32.2	32.9
Diluted basic (loss)/earnings per share from continuing operations	(cents)	(67.1)	21.9
Diluted headline earnings per share from continuing operations	(cents)	31.6	32.6

[1] Restated for the retrospective adoption of IFRS 16 and effects of discontinued operations, refer to note changes in significant accounting policies and note 21.
[2] Amounts computed using unrounded numbers.

Notes to the group financial statements continued

For the year ended 31 March 2020

9. Earnings per share continued

9.9 Calculation of basic and headline earnings from discontinued operations (Rm)

Rm		2020	2019[1]
Profit after tax from discontinued operations		810	68
Less: profit attributable to non controlling interests		(134)	(5)
Profit from discontinued operations attributable to owners of the company		676	63
Adjusting items:			
Profit on disposal of subsidiaries		(863)	(56)
IFRS 5 impairment – KIN Digital		44	–
IFRS 5 impairment – short-term insurance business in Namibia		62	–
Software written off		–	140
Tax and non-controlling interest impact on above items		120	(8)
Headline earnings from discontinued operations		**39**	**139**
Earnings per share from discontinued operations[2]			
Basic earnings per share from discontinued operations	(cents)	55.3	5.1
Headline earnings per share from discontinued operations	(cents)	3.2	11.3
Diluted basic earnings per share from discontinued operations	(cents)	54.1	5.0
Diluted headline earnings per share from discontinued operations	(cents)	3.1	11.1

[1] Restated for the retrospective adoption of IFRS 16 and effects of discontinued operations, changes in significant accounting policies and note 21.
[2] Amounts computed using unrounded numbers.

Notes to the group financial statements continued

For the year ended 31 March 2020

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	2020	2019
A reconciliation between financial assets held under multi-manager and unit trust investment contracts:		
Opening balance	299 852	296 758
Movement during the year [1]:		
Premium inflow	51 413	48 714
Withdrawals	(57 809)	(64 672)
Investment returns after tax	(18 895)	21 064
Policyholder fees charged/investment portfolio expenses	(1 975)	(2 029)
Other	(1)	17
Closing balance[2]	**272 585**	**299 852**

[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 (2019: 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

Rm	2020	2019
An analysis of the aggregate financial assets of multi-manager and unit trust investment contracts is set out below:		
Financial assets at fair value through profit or loss		
Equity securities – listed	75 916	102 511
– unlisted	1 073	737
Preference shares – listed	411	452
Collective investment schemes	101 499	102 650
Debt securities – listed	18 606	19 252
– government stock	24 468	22 102
Debentures – listed	1 944	681
Policy of insurance	23 151	25 592
Cash and deposits	1 658	1 874
Bonds and debentures	6 964	8 853
Equities	12 975	12 548
Unlisted equities	418	463
Other portfolio assets	1 136	1 854
Derivative financial instruments	–	11
Money market	19 141	20 092
Unsettled trades	449	–
Cash and cash equivalents – cash	5 927	5 772
Total financial assets held under multi-manager investment contracts	**272 585**	**299 852**

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 2020

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 impact on profit in the current year was nil (2019: loss of R8 million) and 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	2020	2019
Total financial assets held under multi-manager investment contracts (per statement of financial position)	272 585	299 852
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	41	47
Financial effects of accounting for policyholder investments as treasury shares – prior year	(14)	(6)
– current year	–	(8)
Total financial liabilities held for policyholders under multi-manager investment contracts	**272 612**	**299 885**

11. Financial assets of insurance cell-captive facilities

In the prior year, the group discontinued its insurance cell-captive operations in the emerging markets (Namibia). The prior year balance consists solely of cell-captive-related financial assets in Namibia. The financial assets carried in these cells are directly matched to linked obligations to the policyholders and cell shareholders of the insurance cell-captive companies.

Rm	Note	2020	2019
Financial assets at fair value through profit or loss			
Money market		–	357
Cash and cash equivalents			
Cash		–	11
Reinsurance assets			
Receivables		–	62
Reinsurers' share of outstanding claims		–	4
Reinsurers' share of unearned premium provision		–	118
Reinsurers' share of incurred but not yet reported (IBNR) provision		–	3
Total financial assets attributable to policyholders and cell shareholders' interests in insurance cell-captive companies		**–**	**555**
Transferred to assets of disposal groups classified as held for sale	21.5	–	(555)
Closing balance		**–**	**–**

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.

Notes to the group financial statements continued

For the year ended 31 March 2020

12. Goodwill

The cash generating units (CGUs) to which goodwill was previously allocated were reorganised to align to the group's revised operating segments under the revised target operating model. The impact of this reorganisation resulted in R228 million goodwill being reallocated out of the previous consulting and retirements CGU into the healthcare consulting CGU.

Rm	2020	2019
12.1 Carrying value	1 392	2 537
12.2 Reconciliation of movement in carrying value		
Opening balance	2 537	3 038
Movement during the year:		
Goodwill written off – retirements consulting (previously part of the consulting an retirements CGU)	(252)	–
Goodwill written off – healthcare consulting (previously part of the consulting an retirements CGU)	(228)	–
Goodwill written off – individual consulting (previously wealth and investments)	(646)	–
Goodwill written off – multinational consulting (previously emerging markets)	(19)	–
Retail insurance – transferred to disposal group classified as held for sale	–	(445)
Emerging markets – transferred to disposal group classified as held for sale	–	(56)
Closing balance	**1 392**	**2 537**
Analysis of goodwill balances per CGU		
Retirements and healthcare consulting (previously consulting and retirements)	–	480
Investments	1 392	1 392
Individual consulting (previously wealth and investments)	–	646
Multinational consulting (previously emerging markets)	–	19
	1 392	**2 537**

12.3 Impairment review of goodwill

For purposes of impairment testing, goodwill is allocated to CGUs. 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. Each CGU goodwill balance is tested for a recoverable amount 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.

In the current year's analysis, the impact of the COVID-19 pandemic was considered as detailed in critical assumptions and judgements. The scenario testing concluded as part of our solvency assessment was used for the purposes of the goodwill impairment testing. Despite the the Own Risk and Solvency Assessment (ORSA) indicating that we remain sufficiently solvent – the reduced operating income (net of direct expenses) that is theoretically projected in each scenario resulted in lower projected cash flows from each CGU. In the retirements, healthcare, individual and multinational consulting CGUs, where we have lower margins, the impact on the value in use was such that the goodwill balances were not supported and indicated impairment.

Based on the economic uncertainty resulting from the COVID-19 pandemic, goodwill amounting to R1 145 million has been written-off.

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

Notes to the group financial statements continued

For the year ended 31 March 2020

12. Goodwill continued

12.3 Impairment review of goodwill continued

Key assumptions used include:

		South Africa		Multinational consulting (previously emerging markets)	
%		2020	2019	2020	2019
Discount rates – weighted average cost of capital		14.8	13.2	14.3	15.0
Terminal growth rate		4.0	4.0	3.4	4.5
Average growth in operating income net of direct expenses					
Investments	(%)	1–5	7–11	–	–
Retirements and health consulting (previously consulting and retirements)	(%)	Written off	8–12	–	–
Individual consulting (previously wealth and investments)	(%)	Written off	8–12	–	–
Retail insurance – reclassified to held for sale	(%)	–	10–14	–	–
Multinational consulting (previously emerging markets)	(%)	Written off	–	Written off	6 – 10
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 was performed for each CGU on each of the base case assumptions used for assessing goodwill, with other variables held constant. These include an increase of the discount rate by 2%, reduction of the terminal growth rate by 1%, a further reduction in estimated assets under management by 10%, and a 20% under-realisation of cost-containment measures using the U-shaped recovery ORSA scenario.

The board has considered the headroom and concluded that there are no reasonably possible changes in key assumptions that may give rise to an additional write-off.

13. 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	2020	2019
13.1 Carrying value		
Cost	939	1 481
Accumulated amortisation and impairment losses	(720)	(1 158)
Balance at 31 March	**219**	**323**
13.2 Analysis of intangible assets		
Customer lists	107	196
Trade names	110	125
Intellectual property	2	2
	219	**323**
13.3 Reconciliation of movement in carrying value		
Opening balance	323	390
Movement during the year:		
Additions	11	–
Amortisation charge	(68)	(67)
Intangible assets arising from business combination written off (refer to note 4)	(47)	–
Closing balance	**219**	**323**

Notes to the group financial statements continued

For the year ended 31 March 2020

14. Property and equipment

Rm	Right-of-use assets – Buildings	Leasehold improvements	Computer equipment	Furniture & fittings, office equipment and other assets	Total
2020					
Carrying value					
Cost	1 326	29	289	60	1 704
Accumulated depreciation and impairments	(835)	(13)	(196)	(36)	(1 080)
Carrying value at 31 March 2020	**491**	**16**	**93**	**24**	**624**
Cost					
Balance at 1 April 2019	1 321	32	225	58	1 636
Additions to enhance existing operations	4	1	55	2	62
Disposals	–	–	(3)	(14)	(17)
Transfer from disposal group held for sale	1	(4)	12	14	23
Balance at 31 March 2020	**1 326**	**29**	**289**	**60**	**1 704**
Accumulated depreciation and impairments					
Balance at 1 April 2019	(729)	(11)	(150)	(15)	(905)
Depreciation charge for the year	(111)	(3)	(40)	(8)	(162)
Continuing operations	(111)	(3)	(39)	(8)	(161)
Discontinued operations	–	–	(1)	–	(1)
Disposals	–	–	2	2	4
Transfer from disposal group held for sale	5	1	(8)	(15)	(17)
Balance at 31 March 2020	**(835)**	**(13)**	**(196)**	**(36)**	**(1 080)**

Notes to the group financial statements continued

For the year ended 31 March 2020

14. Property and equipment continued

Rm	Right-of-use assets -Buildings[1]	Leasehold improvements	Computer equipment	Furniture & fittings, office equipment and other assets	Total
2019					
Carrying value					
Cost	1 321	32	225	58	1 636
Accumulated depreciation and impairments	(729)	(11)	(150)	(15)	(905)
Carrying value at 31 March 2019	**592**	**21**	**75**	**43**	**731**
Cost					
Balance at 1 April 2018	1 421	34	312	80	1 847
Additions to enhance existing operations	11	6	22	6	45
Disposals	(71)	(2)	(7)	(11)	(91)
Transfer to disposal group held for sale	(40)	(1)	(6)	(8)	(55)
Derecognition	–	(5)	(96)	(9)	(110)
Balance at 31 March 2019	**1 321**	**32**	**225**	**58**	**1 636**
Accumulated depreciation and impairments					
Balance at 1 April 2018	(631)	(14)	(212)	(26)	(883)
Depreciation charge for the year	(119)	(3)	(45)	(9)	(176)
Continuing operations	(111)	(3)	(43)	(8)	(165)
Discontinued operations	(8)	–	(2)	(1)	(11)
Disposals	–	–	7	7	14
Transfer to disposal group held for sale	21	1	4	4	30
Derecognition	–	5	96	9	110
Balance at 31 March 2019	**(729)**	**(11)**	**(150)**	**(15)**	**(905)**

[1] During the year ended 31 March 2020, the group recognised cost and related accumulated depreciation in relation to right–of–use assets following the adoption of IFRS 16 fully retrospectively. Right-of-use assets consist of buildings leased by the group. The group does not own any of the buildings, therefore the total amount reflects the leased assets.

Notes to the group financial statements continued

For the year ended 31 March 2020

15. Purchased and developed computer software

During the year under review, software assets were tested for impairment as per IAS 36 *Impairment of Assets*. Computer software amounting to R26 million was written off.

Rm	In use	In development	Total
2020			
Carrying value			
Cost	350	66	416
Accumulated amortisation and impairment losses	(258)	(26)	(284)
Carrying value at 31 March 2020	**92**	**40**	**132**
Cost			
Balance at 1 April 2019	308	83	391
Movement during the year:			
Additions	2	44	46
Disposals	(16)	–	(16)
Transfer to assets held for sale	(5)	–	(5)
Transfers to in use	61	(61)	–
Balance at 31 March 2020	**350**	**66**	**416**
Accumulated amortisation and impairment losses			
Balance at 1 April 2019	(240)	–	(240)
Movement during the year:			
Amortisation for the year	(33)	–	(33)
Continuing operations	(28)	–	(28)
Discontinued operations	(5)	–	(5)
Disposals	15	–	15
Impairment charge through income statement	–	(26)	(26)
Balance at 31 March 2020	**(258)**	**(26)**	**(284)**

Notes to the group financial statements continued

For the year ended 31 March 2020

15. Purchased and developed computer software continued

Rm	In use	In development	Total
2019			
Carrying value			
Cost	308	83	391
Accumulated amortisation and 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)
Derecognition[2]	(84)	(17)	(101)
Balance at 31 March 2019	**308**	**83**	**391**
Accumulated amortisation and 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.*

Notes to the group financial statements continued

For the year ended 31 March 2020

16. Investment in associates

The group previously entered into an arrangement with a private consortium of shareholders which was housed under a fintech entity, KIN Digital Proprietary Limited (KIN). The group held a 40% ownership interest in KIN. In the current year, management decided to exit the associate arrangement with KIN. The assets and liabilities of these operations were classified as held for sale and subsequently impaired. Refer to note 21.

Rm	2020	2019
16.1 Equity-accounted carrying value		
Cost	–	28
Share of cumulative post-acquisition reserves	–	(4)
Closing balance	**–**	**24**
16.2 Reconciliation of movement in equity-accounted carrying value		
Opening balance	24	–
Movement during the year:		
Additions	27	28
Share of loss of discontinued associates	(7)	(4)
IFRS 5 fair value impairment	(44)	–
Closing balance	**–**	**24**

17. Financial assets

Rm	2020	2019
17.1 Total financial assets		
Non-current financial assets	50	49
Current financial assets	45	59
Total financial assets	**95**	**108**
17.2 Analysis of financial assets		
Financial assets at fair value through profit or loss	46	59
Money market instruments	4	33
Collective investment schemes	42	26
Financial assets at fair value through other comprehensive income – designated	13	13
ASISA investment	13	13
Financial assets at amortised cost	36	36
Equity release housing loans	33	32
Other loans	3	4
Total financial assets	**95**	**108**

Notes to the group financial statements continued

For the year ended 31 March 2020

18. Insurance receivables

In the prior year, the group discontinued its short-term and long-term insurance operations. The insurance receivables balance has been transferred to assets of disposal group classified as held for sale. Refer to note 21.

Rm	Note	2020	2019
Insurance brokerage income receivable and other insurance balances		–	409
Reinsurance brokerage income receivables		–	196
Receivables from short-term insurance contracts		–	253
Premium debtors		–	8
Reinsurers' share of unearned premium provision		–	26
Reinsurers' share of outstanding claims provision		–	170
Reinsurers' share of IBNR provision		–	49
Reinsurance recoverable		–	–
Receivable from long-term insurance contracts		–	581
Premium debtors		–	51
Reinsurers' share of policyholder liability (group life)		–	530
Other insurance-related receivables		–	25
		–	1 464
Transferred to assets of disposal group classified as held for sale	21.5	–	(1 464)
Closing balance		**–**	**–**

19. Trade and other receivables[1]

Rm	Note	2020	2019
Financial assets:			
Trade receivables[2]		176	168
Other receivables		44	73
Total financial assets		**220**	**241**
Non-financial assets:			
Accrued and not billed balances		27	21
Reimbursement insurance asset - enhanced transfer value[3]		221	122
Prepayments		59	31
Total trade and other receivables		**527**	**415**

[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 R20.7 million (2019: R16.4 million). Refer to note 43.1 for further detail.*

[3] *The amount relates to a reimbursement insurance asset from the primary insurance market, refer to note 28.3.*

Notes to the group financial statements continued

For the year ended 31 March 2020

20. Cash and cash equivalents

Rm	Note	2020	2019
Total cash and cash equivalents			
Cash and bank balances		2 467	4 508
Short-term deposits		1 492	533
Total cash and cash equivalents		**3 959**	**5 041**

Cash and bank balances and short-term deposits are held in subsidiary companies in compliance with solvency, regulatory capital and liquid asset requirements as required by the Financial Sector Conduct Authority and Prudential Authority. The total consolidated cash and cash equivalents includes cash received and held to meet short-term commitments to settle policyholder liabilities as well as cash held within our cell captive insurance facility. These cash balances are fully available for their earmarked use in these regulated subsidiary companies but are not available for distribution to the holding company.

Cash and cash equivalents held under multi-manager investment contracts and insurance cell-captive contracts are reflected in note 10 and 11 respectively. These investment balances are required by insurance legislation to be specifically held by the insurer. The cash is directly held to back the unit-linked policyholder liabilities. The movement in these cash flows are separately identified on the statement of cash flows.

21. Assets and liabilities of disposal groups 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. The insurance operations of the group (both short-term insurance and group risk) as well as sub-scale African operations were classified as discontinued operations in the prior period. Management decided to exit the associate arrangement with KIN Digital (a fintech start-up aimed at providing a social interface directed at cost sharing arrangements) in the current period. The results of operations of the discontinued entities are reported separately in the income statement with the prior year also being restated.

Sale of businesses

The group finalised the sale of the short-term insurance business in South Africa to Momentum Metropolitan Holdings Limited. The sale was concluded on 31 January 2020 and resulted in proceeds of R2 038 million. The Alexander Forbes East Africa (East Africa) business unit, which was classified as a discontinued operation in prior years was disposed last year for a profit of R56 million (refer to note 9.3).

Other discontinued operations and asset held for sale

KIN Digital was classified as held for sale and remeasured to fair value less cost to sell resulting in a loss of R44 million. Subsequent to year-end the group disposed of KIN Digital at carrying value. The remaining operations classified as discontinued operations in 2019 are:

- the Namibian short-term insurance business – the group announced the disposal of this business in Namibia on 14 April 2020. The transaction remains subject to certain conditions precedent and is expected to be concluded in the first half of the new financial year. Refer to note 47. The prior years' assets and liabilities of this group have been restated; this change had no impact on the net asset value, results of operations or retained earnings of the operations. Details of this error are included in note 21.6.
- the group risk insurance operations which were classified as discontinued in the prior – a binding offer was received prior to year-end, however, both parties mutually agreed to place the transaction on hold due to the market disruption caused by the COVID-19 pandemic. The group intends to continue with the disposal process which is anticipated for the latter part of 2020, should economic conditions improve.

Notes to the group financial statements continued

For the year ended 31 March 2020

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

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

Rm	Notes	2020	2019[1]
Fee and commission revenue		17	79
Insurance revenue	21.2	2 661	2 716
Interest revenue[2] – effective interest method		75	53
Total revenue		**2 753**	**2 848**
Direct expenses attributable to fee and commission revenue		(90)	(103)
Insurance claims, commissions and withdrawals		(1 964)	(1 859)
Net expenses from reinsurance contracts		(152)	(159)
Operating income net of direct expenses[2]		**547**	**727**
Operating expenses		(406)	(497)
Operating expenses from previously discontinued operations		3	7
Profit from operations before non-trading and capital items		**144**	**237**
Add: Profit from operations before non-trading and capital items from previously discontinued operations		(3)	(7)
Non-trading and capital items	21.3	(142)	(149)
Operating (loss)/profit		**(1)**	**81**
Investment income		41	18
Finance costs		(3)	(2)
Share of net loss of associates (net of income tax)		(7)	(4)
Profit before tax		**30**	**93**
Income tax expense		(83)	(81)
(Loss)/profit for the year from discontinued operations		**(53)**	**12**
Profit on disposal of subsidiaries and associate[3]	21.4	863	56
Total profit from discontinued operations		**810**	**68**
Profit attributable to:			
Owners of the company		676	63
Non-controlling interest		134	5
		810	**68[1]**

[1] The comparative has been restated following management's decision to exit the associate arrangement in KIN Digital.

[2] Excluding previously discontinued operations relating to the group's Kenyan and international operations. The Kenyan business unit was disposed of in the prior year.

[3] Profit on disposal of subsidiaries and associate comprises R861 million relating to the disposal of AF Insurance and R2 million from the disposal of the interest in Zambia and Uganda.

Notes to the group financial statements continued

For the year ended 31 March 2020

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

21.2 Net income from insurance operations

Rm	Long-term insurance 2020	Long-term insurance 2019	Short-term insurance 2020[1]	Short-term insurance 2019	Total 2020	Total 2019
Gross earned premiums	903	679	1 758	2 037	2 661	2 716
Gross written premiums	903	679	1 874	2 175	2 777	2 854
Less: Movement in unearned premium provision	–	–	(116)	(138)	(116)	(138)
Reinsurers' share thereof	(566)	(376)	(926)	(1 111)	(1 492)	(1 487)
Net earned premiums	337	303	832	926	1 169	1 229
Investment income from insurance operations	17	10	58	44	75	54
Commission expenses related to insurance operations	(20)	(15)	(22)	(24)	(42)	(39)
Net premium and investment income	**334**	**298**	**868**	**946**	**1 202**	**1 244**
Gross claims and transfers to policyholders' funds	(819)	(553)	(1 102)	(1 269)	(1 921)	(1 822)
Reinsurers' share thereof	488	366	852	963	1 340	1 329
Net claims and transfers to policyholders' funds	**(331)**	**(187)**	**(250)**	**(306)**	**(581)**	**(493)**
Net income from insurance operations	**3**	**111**	**618**	**640**	**621**	**751**

[1] *Includes 10 months results of Alexander Forbes Insurance which was disposed of to Momentum Metropolitan Holdings Limited in the current year.*

21.3 Non-trading and capital items

Rm	2020	2019
IFRS 5 impairments	(106)	–
KIN Digital	(44)	–
Short-term insurance business in Namibia	(62)	–
Software written off	–	(140)
Corporate activity costs on discontinued operations	(6)	–
Costs related to proposed client settlement – enhanced transfer values[1]	(122)	(122)
Reimbursement related to historical client settlement – ETV[1]	92	122
Other	–	(9)
	(142)	**(149)**

[1] *The ETV matter, disclosed in prior years, is being reviewed by a foreign regulator in respect of a legacy subsidiary business that was sold inclusive of certain warrantees. The liability for the potential claim is calculated using certain assumptions based on a sample of the total number of cases that may require redress. During the year the process for investigating and establishing the right course of action for each case has progressed. The assumptions used for the estimated liability have been modified according to the additional information available. Refer to note 28.3.*

Notes to the group financial statements continued

For the year ended 31 March 2020

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

21.4 Disposal of subsidiaries

Rm	2020	Restated 2019
Carrying value of net assets sold	(384)	(70)
Non-controlling interest	–	34
Goodwill disposed of	(445)	–
Foreign currency translation reserve of disposed entities	–	21
Carrying value disposed of	(829)	(15)
Gross proceeds on disposal	2 043	74
Taxes paid – STT and CGT	(314)	–
Other direct costs to sell	(37)	(3)
Profit on disposal of subsidiary	**863**	**56**
Net proceeds on disposal	1 729	71
Less: Proceeds receivable	–	(41)
Net consideration received in cash	1 729	30
Cash and cash equivalents disposed of	(611)	(15)
Net cash inflow	**1 118**	**15**
Effect of disposal on the financial position of the group		
Property and equipment	(18)	(2)
Intangible assets and goodwill	(445)	–
Other assets	(13)	–
Insurance receivables	(289)	(429)
Trade and other receivables	(7)	(8)
Cash & cash equivalents	(611)	(15)
Total assets	**(1 383)**	**(454)**
Employee benefits and provisions	29	2
Lease liabilities	16	–
Insurance payables	401	425
Trade and other payables	108	12
Total liabilities	**554**	**439**
Net assets disposed of	**(829)**	**(15)**

Notes to the group financial statements continued

For the year ended 31 March 2020

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	Group risk	Emerging markets	Total 2020	Total 2019[1]
Assets of insurance cell-captives	11	–	734	734	555
Long-term assets		3	–	3	34
Deferred tax asset		1	–	1	6
Goodwill		–	–	–	501
Insurance receivables	18	981	66	1 047	1 128
Trade and other receivables		2	8	10	22
Cash and cash equivalents		458	32	490	938
Total assets		**1 445**	**840**	**2 285**	**3 184**
Liabilities of insurance cell-captives	24	–	734	734	555
Insurance payables	29	1 239	69	1 308	1 436
Deferred tax liability		–	1	1	1
Provisions – non-current		5	1	6	20
Lease liabilities	32	–	–	–	22
Taxation payables		8	–	8	21
Trade and other payables		67	4	71	116
Total liabilities		**1 319**	**809**	**2 128**	**2 171**
Total equity		**126**	**31**	**157**	**1 013**

[1] *Refer to note 21.6 below..*

21.6 Restatement of comparative information (emerging markets)

In the current year, the group identified an error in the accounting of insurance receivables and insurance payables relating to reinsurance of its short-term insurance business in Namibia. The insurance receivable and reinsurance payable balances were not correctly eliminated when the payments to the reinsurer were "net" settled. Therefore, both balances are overstated equally. In assessing whether the identified adjustment should be processed as a prior period error or recognised in the current period, management considered whether the facts that gave rise to the adjustment existed in prior years, or whether those events only arose due to information that came to light in the current year. The identified error has been corrected by retrospective restatement of the earliest reported prior period, 31 March 2018. The correction has no impact on retained earnings, cash flows and basic and diluted earnings per share.

The error has been corrected by restating each financial statement line item for the prior period as follows:

Impact on the statement of financial position[1]

Rm	Previously reported 2019	Correction of error	Restated 2019	Previously reported 2018	Correction of error	Restated 2018
Insurance receivables	–	–	–	1 339	(325)	1 014
Assets of disposal group classified as held for sale	3 500	(336)	3 164	82	–	82
Total assets	**3 500**	**(336)**	**3 164**	**1 421**	**(325)**	**1 096**
Insurance payables	1 689	–	1 689	3 572	(325)	3 247
Liabilities of disposal group classified as held for sale	2 485	(336)	2 149	14	–	14
Total liabilities	**4 174**	**(336)**	**3 838**	**3 586**	**(325)**	**3 261**

[1] *The correction excludes effects of IFRS 16 retrospective adoption. Refer to changes in significant accounting policies.*

Notes to the group financial statements continued

For the year ended 31 March 2020

22. Equity holders' funds

Rm	Notes	2020	2019
22.1 Total equity holders' funds			
Share capital at no par value	22.2	5 874	6 192
Treasury shares	22.3	(196)	(497)
Other reserves		179	120
Share-based payment reserve	22.4	58	41
Foreign currency translation reserve		126	80
Cash flow hedge reserve	22.5	(2)	2
Other reserves		(3)	(3)
Accumulated loss[1]		(1 051)	(170)
		4 806	**5 645**

[1] *Restated for the retrospective adoption of IFRS 16 and effects of discontinued operations. Refer to changes in significant accounting policies and note 21.*

	2020		2019	
	Number of shares '000	Share capital Rm	Number of shares '000	Share capital Rm
22.2 Analysis of share capital				
Authorised				
Ordinary shares	2 500 000	–	2 500 000	–
Issued				
Ordinary shares	1 287 858	5 874	1 341 427	6 192
	1 287 858	**5 874**	**1 341 427**	**6 192**

Rm	2020	2019
22.3 Treasury shares		
Opening balance	(497)	(392)
Movement during the year:		
Net proceeds on disposal of treasury shares in policyholder assets	7	26
Purchase of shares in terms of share schemes and share buy-back programme	(41)	(151)
Share cancellation[1]	318	–
Settlement of share incentive schemes	17	20
Closing balance	**(196)**	**(497)**

[1] *The group cancelled 53 568 809 shares which were withdrawn on the JSE on 26 August 2019.*

Notes to the group financial statements continued

For the year ended 31 March 2020

22. Equity holders' funds continued

22.3 Treasury shares continued

22.3.1 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 (ESOP) for the benefit of its eligible employees, and particularly qualifying black female employees.

The establishment of the ESOP is intended to help entrench a culture of share ownership among the eligible employees within the group. Furthermore, Alexander Forbes recognises the benefit of aligning the interests of its employees with those of its shareholders by providing for sustainable equity-based participation in the company for all eligible employees, and to attract and retain talented employees and managers.

The Isilulu Trust (the trust) was established as the vehicle through which the ESOP operates. Alexander Forbes issued 39 070 700 ordinary shares in June 2015 to the trust at one cent per share that rank *pari passu* with other ordinary shares, with the exception of dividend rights for these shares. The trust is restricted from disposing of/or encumbering these shares during the term of the trust. This transaction was facilitated by Alexander Forbes through a notional vendor finance (NVF) mechanism in terms of which the shares receive 30 per cent of any dividends distributed to ordinary shareholders, and in turn, be distributed to beneficiaries. The remaining 70 per cent of the dividends is applied against the NVF mechanism.

Dividends distributed by the trust are treated as employee benefits. Dividend income earned by the trust and subsequently distributed to eligible employees was R5.6 million (2019: R3.9 million) during the current financial year. Further details of the ESOP are provided in the remuneration report.

22.4 Share-based payment reserve

Rm	2020	2019
Opening balance	41	22
Expensed to income statement	34	39
Settlement of share incentive schemes	(17)	(20)
Closing balance	**58**	**41**

In terms of the Alexander Forbes Long-term Incentive Plan (LTIP), the group has two types of share awards to executives, senior managers and other key employees of the group (participating employees): the forfeitable share plan awards and the conditional share plan awards. The Alexander Forbes LTIP applies to executive and senior management and has been extended to management. The share-based LTIPs are governed by rules as approved by shareholders.

22.4.1 Forfeitable share plan (FSP) awards issued to staff

Forfeitable shares are awarded to participating employees subject to continued employment, with no performance conditions other than the individual entry performance condition to qualify for an allocation. These awards will vest at a future date if the employee remains employed. These awards are aimed at retention with the 2019 FSP award vesting in two equal tranches at the end of year three and year four, respectively. The employees participate in the economic benefits of the share awarded over the vesting period and are entitled to dividend distributions. 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 in the FSP trust which was set up specifically for this purpose. The FSP trust is consolidated and the shares are reflected as treasury shares.

Movement in the number of outstanding shares:

'000	2020	2019
At 1 April	13 717	6 000
Granted	10 012	14 942
Forfeited	(2 387)	(3 972)
Vested	(3 174)	(3 253)
31 March	**18 168**	**13 717**

Notes to the group financial statements continued

For the year ended 31 March 2020

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 41.2.

'000	Grant date fair value[1]	Vesting date	Total shares issued 2020	Total shares issued 2019	Total shares outstanding 2020	Total shares outstanding 2019
2016 tranche – FSP	R7.47	24 July 2019	458	458	–	392
2017 tranche – FSP	R7.09	24 July 2020	5 132	5 132	2 343	3 110
2018 tranche – FSP	R5.64	1 July 2021	8 854	8 854	6 408	8 358
2018 tranche – RSP[2]	R5.64	30 June 2019	6 089	6 089	–	1 857
2019 tranche – FSP[3]	R5.69	50% on 1 July 2022 50% on 1 July 2023	10 012	–	9 417	–
			30 545	**20 533**	**18 168**	**13 717**

[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 (vested 1.7 million shares). A total of 1.9 million shares were forfeited.*

[3] *The 2019 FSP award vests in two equal tranches in year three and year four.*

22.4.2 Conditional share plan (CSP) awards

Conditional share awards are allocated to participating employees subject to continued employment and satisfaction of certain performance conditions. The CSP 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 allocated to participants prior to 2019 vest with shares issued to participants in the event that the group achieves a compound annual growth in normalised headline earnings per share (NHEPS) over the measurement period that is at least equal to the compound annual growth in nominal gross domestic product (GDP) for threshold performance (resulting in 30% of the award vesting) and rising on a sliding scale to 100% of the award for performance at target performance (compound annual growth in NHEPS of at least nominal GDP plus 8%). At a compound growth rate in NHEPS below nominal GDP all conditional shares are forfeited.

During the year the vesting period for the 2016 tranche of the scheme ended. The measurement period was based on the growth rate in NHEPS between 1 April 2016 and 31 March 2019. The hurdle rates for threshold and target were not met, thus the performance condition resulted in zero shares being allocated.

The following table sets out the vesting dates and measurement periods for the 2017 and 2018 Tranches:

CSP Tranche	Vesting date	Measurement period	Vesting conditions	Measurement
2017 tranche	24 July 2020	1 April 2017 and 31 March 2020	30% vests for threshold performance and 100% vests for target; where: – Threshold performance = nominal GDP – Target performance ≥ nominal GDP + 8%	Condition not met
2018 tranche	1 July 2021	1 April 2018 and 31 March 2021	30% vests for threshold performance and 100% vests for target; where: – Threshold performance = nominal GDP – Target performance ≥ nominal GDP + 8%	Not yet applicable

Notes to the group financial statements continued

For the year ended 31 March 2020

22. Equity holders' funds continued

22.4 Share-based payment reserve continued

22.4.2 Conditional share plan (CSP) awards continued

The remuneration committee approved changes to the performance conditions and vesting period for the 2019 award. The conditional shares awarded in 2019 were subject to continued employment and the satisfaction of certain performance conditions measured over a three-year and four-year performance period. 50% of the tranche will vest after three years and the remaining fifty percent after four years. The metrics and weighting of the performance measures for the 2019 tranche are set out in the table below.

Metrics	Weighting	Vesting conditions
Normalised headline earnings per share	35%	30% vests for threshold performance and 100% vests for target; where: – threshold performance = nominal GDP – target performance ≥ nominal GDP + 6%
Normalised return on equity	35%	30% vests for threshold performance and 100% vests for target; where: – threshold performance = risk free rate[1] + 2% – target performance ≥ risk free rate[1] + 6%
Strategic initiatives	30%	The scores for all initiatives will be added at the end of the vesting period and applied to the vesting shares as a percentage of the total possible score for the entire vesting period

[1] *The risk free rate is measured at the R186 SA government bond (R186 RFR).*

The following table sets out the vesting dates and measurement periods for the 2019 tranches:

CSP Tranche	Vesting date	Measurement period	Measurement
2019 Tranche	These shares will vest in two tranches: Tranche one (50%) 1 July 2022 and Tranche two (50%): 1 July 2023	Tranche one: 1 April 2019 to 1 July 2022 Tranche two: 1 April 2019 to 1 July 2023	Not yet applicable

Movement in the number of shares outstanding is as follows:

'000	2020	2019
At 1 April	25 041	37 917
Granted	17 479	9 036
Forfeited	(12 192)	(21 912)
31 March	**30 328**	**25 041**

Notes to the group financial statements continued

For the year ended 31 March 2020

22. Equity holders' funds continued

22.4 Share-based payment reserve continued

22.4.2 Conditional share plan (CSP) awards continued

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

'000	Grant date fair value[1]	Vesting date	Total shares outstanding 2020	2019
2016 tranche	R6.21	24 July 2019	–	7 454
2017 tranche	R6.15	24 July 2020	7 148	9 238
2018 tranche	R4.74	01 July 2021	7 124	8 349
2019 tranche one	R4.76	01 July 2022	8 028	–
2019 tranche two	R4.41	01 July 2023	8 028	–
			30 328	**25 041**

[1] *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	2020	2019
22.5 Cash flow hedge reserve		
Opening balance	2	(33)
Change in fair value of hedging instrument recognised in other comprehensive income for the year	(4)	53
Reclassified to profit and loss	–	(8)
Capitalised to purchased and developed software	–	5
Tax effects on above items	–	(15)
Closing balance[1]	**(2)**	**2**

[1] *The closing balance of the cash flow hedge reserve is reflected net of the non-controlling interest's share amounting to R82 000 (2019: R300 000).*

The foreign exchange contracts are taken out by the group in the normal course of business and are regarded as insignificant.

Notes to the group financial statements continued

For the year ended 31 March 2020

23. Financial liabilities held under multi-manager investment contracts

Rm	2020	2019
23.1 Movement of liabilities under multi-manager and unit trust investment contracts		
Opening balance	299 885	296 825
Movement during the year [1]:		
Premium inflows	51 407	48 731
Withdrawals	(57 809)	(64 672)
Investment return net of taxation	(21 297)	21 287
Policyholder fees charged/investment portfolio expenses	(1 932)	(2 029)
Exchange rate difference	–	(16)
Fair value adjustments	2 358	(241)
Closing balance	**272 612**	**299 885**

[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.*

Rm	2020	2019
23.2 Discounted maturity analysis of liabilities under multi-manager and unit trust investment contracts		
Open ended – payable on demand	272 612	299 885

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	2020	2019
Financial liabilities linked to investment contracts	272 612	299 885

24. Financial liabilities of insurance cell-captive facilities

In the prior year, the insurance cell captives were transferred to disposal groups classified as held for sale. The prior year balance consists of cell-captive-related financial liabilities in emerging markets (Namibia). An analysis of the policyholders' and cell owners' interests in the financial liabilities of these insurance cell-captive companies is provided below.

Rm	Note	2020	2019
Short-term insurance technical liabilities		–	542
Gross unearned premium provision		–	533
Gross outstanding claims provision		–	5
Gross IBNR provision		–	4
Long-term insurance technical liabilities			
Policyholder liability		–	(1)
Insurance liabilities of insurance cell-captive facilities		–	541
Other liabilities attributable to policyholders and cell owners		–	14
Cell owners' interest		–	35
Receivables		–	(16)
Taxation (receivable)/payable		–	(5)
		–	555
Transferred to liabilities of disposal group classified as held for sale	21.5	–	(555)
Closing balance		–	–

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

Notes to the group financial statements continued

For the year ended 31 March 2020

25. Borrowings

Rm	2020	2019
25.1 Analysis of borrowings		
Revolving credit facility (refer to note 25.4)	101	719

Rm	Revolving credit facility	2020	2019
25.2 Reconciliation of movement in borrowings			
Opening balance	719	719	719
Movements for the year:			
Interest accrued	54	54	59
Interest paid	(58)	(58)	(59)
Borrowings repaid	(614)	(614)	–
Closing balance	101	**101**	**719**

Rm	2020	2019
25.3 Discounted maturity analysis of borrowings		
Due within one year	101	719

25.4 Revolving credit facility (RCF)

The credit facility bears interest at 3-month JIBAR plus 1.25% per annum compounded quarterly. The interest is payable quarterly while the capital is repayable annually together with any unpaid interest if the facility is not renewed. The facility is renewable every six months. Renewal is subject to a 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 that is equal to the interest rate (3-month JIBAR plus 1.25%) 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 (2019: 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 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.

The group settled R614 million in the year, using some of the proceeds from the disposal of the short-term insurance business in South Africa. On 25 May 2020, subsequent to year end, the group settled the remaining outstanding balance of R101 million and cancelled the RCF.

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 2020

26. Employee benefits

Rm	Notes	2020	2019
26.1 Total employee benefits			
Defined benefit pension fund obligation – South Africa	26.2	–	–
Post-employment medical benefit obligation – South Africa	26.3	77	106
Provision for leave pay	26.4	55	48
Total employee benefits		132	154

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 an annual basis, with a full actuarial assessment being completed on 31 March 2020. 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 2020 comprised three active members (2019: 3) and 53 pensioners (2019: 61).

A portion of fund assets are managed by our subsidiary, AF Investments, and the total value is R175 million (2019: R197 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	Notes	2020	2019
Present value of benefit obligation		(118)	(138)
Fair market value of the plan assets		180	204
		62	66
Impact of asset ceiling		(62)	(66)
Total		–	–

Notes to the group financial statements continued

For the year ended 31 March 2020

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 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)	–
Current service costs	–	–	–	–	–
Interest expense	(12)	18	6	–	6
Remeasurements	22	(32)	(10)	–	(10)
Contributions	(1)	1	–	–	–
Payment from plans – benefits paid	11	(11)	–	–	–
Adjustment to the asset ceiling	–	–	–	4	4
At 31 March 2020	(118)	180	62	(62)	–

%	2020	2019	2018
The principal actuarial assumptions applied are as follows:			
Discount rate	11.8	9.3	8.6
Inflation rate	6.1	5.5	5.6
Salary increase rate	7.1	6.5	6.6
Pension increase allowance	6.1	5.5	5.6

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

%	Change in assumption	Increase in obligation	Decrease in obligation
Discount rate	1.0	(7.3)	8.4
Inflation rate	1.0	8.7	(7.6)
Salary increase rate	1.0	0.1	(0.1)
Pension increase allowance	1.0	8.6	(7.5)

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 2020

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:

%	2020	2019
Cash	4.03	6.33
Equity		
Listed equities	23.15	23.10
Unlisted equities	–	0.01
Bonds	49.22	51.29
Property	1.84	1.71
International		
Equity	13.03	12.04
Bonds	0.27	0.22
Cash	0.41	3.69
Property	3.68	0.30
Other	0.10	–
Other	4.27	1.31
	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 2020 this applies to a total of 221 people (2019: 257) and comprises 23 active employees (2019: 30) and 198 pensioners (2019: 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 per cent 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 2020. The post-employment medical obligation is partly funded through an insurance cell-captive arrangement. The assets of the insurance cell totalled R55 million at 31 March 2020 (2019: R60 million).

The cell-captive insurance 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 (CPIX) 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.

Notes to the group financial statements continued

For the year ended 31 March 2020

26. Employee benefits continued

26.3 Post-employment medical benefit obligation – South Africa continued

Rm		2020	2019
The latest actuarial valuation reflected the following:			
Medical benefit obligation		66	96
Hardship fund liability		11	10
Recognised liability in the statement of financial position		**77**	**106**
A reconciliation of the movement in the post-employment medical benefit obligation in South Africa is as follows:			
Opening balance		96	95
Current service costs		1	1
Interest expense		9	8
Remeasurements[1]		(32)	–
Benefits paid		(8)	(8)
Closing balance		**66**	**96**
The principal actuarial assumptions applied are as follows:			
Discount rate	(%)	12.4	9.8
Inflation (CPIX) rate	(%)	6.5	5.9
Retirement age	(years)	62/65	62/65

[1] *Remeasurements, gross of related taxes, include R11 million relating to employees transferred as part of the sale of the short-term insurance business as well as a R21 million actuarial gain, relating mainly to changes in the real discount rate and unexpected changes in membership.*

Mortality rates are assumed as follows:

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

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

%	Change in assumption	Increase in obligation	Decrease in obligation
Discount rate	1.0	(7.20)	8.40
Inflation (CPIX) rate	1.0	8.60	(7.50)

Rm	2020	2019
26.4 Provision for leave pay		
Opening balance	48	57
Movement during the year:		
Increase in provision	32	20
Decrease in provision	(21)	(18)
Transferred to held for sale	(7)	(7)
Disposal as a result of business combination	3	(3)
Foreign subsidiaries exchange difference	–	(1)
Closing balance	**55**	**48**

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 2020

27. Deferred taxation

Rm	Notes	2020	2019
27.1 Net deferred tax assets balance			
Deferred tax assets	27.2	228	238
Deferred tax liabilities	27.3	(85)	(113)
Net deferred tax assets		**143**	**125**
27.2 Reconciliation of movement in the net deferred tax asset balance			
Opening balance		238	217
Movement during the year:			
Credit charged to income statement		(3)	43
Charged to other comprehensive income		(4)	(16)
Transfer to asset groups held for sale		(3)	(6)
Disposal as a result of a sale of business		3	–
Additions as a result of business combination		(3)	–
Closing balance		**228**	**238**
27.3 Reconciliation of movement in the net deferred tax liability balance			
Opening balance		(113)	(119)
Movement during the year:			
Credit per income statement		28	5
Transfer to asset groups held for sale		–	1
Closing balance		**(85)**	**(113)**
27.4 Analysis of deferred tax assets			
Post-employment benefit obligations		6	13
Deferred income		2	1
Calculated tax losses[1]		80	87
Provisions		59	60
Lease liabilities		95	94
Accelerated tax allowances		(6)	(7)
Work in progress		(7)	(6)
Other items		(1)	(4)
Total deferred tax assets		**228**	**238**
27.5 Analysis of deferred tax liabilities			
Policyholder assets		(12)	(22)
Accelerated tax allowances, provisions and other items		(2)	(1)
Deferred tax recognised in terms of IFRS 3 *Business Combination*[2]		(71)	(90)
Total deferred tax liabilities		**(85)**	**(113)**

[1] *Assessed losses not recognised on the balance sheet amount to R216 million (2019: R162 million).*

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

Notes to the group financial statements continued

For the year ended 31 March 2020

28. Provisions

Rm	Notes	2020	2019
Provisions for errors and omissions claims	28.2	56	38
Provisions for client settlements – enhanced transfer values (ETV)	28.3	273	197
Proposed client settlements	28.4	129	125
Other[1]		3	9
Total		**461**	**369**

[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 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**
Movement during the year:					
Net increase/(decrease) in provision	96	28	4	(7)	121
Provided for under errors and omissions claims	(22)	22	–	–	–
Payments made	(68)	–	–	–	(68)
Disposal of subsidiary	–	–	–	(2)	(2)
Foreign subsidiaries' exchange differences	12	26	–	3	41
Balance at 31 March 2020	**56**	**273**	**129**	**3**	**461**

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 first-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 2020

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.

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.

28.3 Provision for client settlements – enhanced transfer value (ETV)

The ETV matter, which has been disclosed in prior years, is being reviewed by a foreign regulator in respect of a legacy subsidiary business that had been sold inclusive of certain warranties. The liability for the potential claim is calculated using certain assumptions based on a sample of the total number of cases that may require redress. During the current year the process for investigating and establishing the right course of action for each case has progressed. The assumptions used for the estimated liability have been modified according to the additional information available.

The group is adequately insured for claims as a result of such errors and omissions. The provision for the outstanding liability as at 31 March 2020 amounts to R273 million (financial year 2019: R197 million), of which R22 million has been provided for in terms of the Mannequin policy while the remaining R251 million is covered as part of the market policy (refer to note 28.2).

Management has obtained confirmation from the insurance underwriters for our primary insurance layer, covering R221 million of the liability, indicating that the event is covered in terms of the policy. For this portion of the liability it is considered virtually certain that an inflow of economic benefits will arise from this layer of the insurance programme and as a result, the reimbursement insurance asset (refer to note 19) and related income are recognised (refer to note 21). As the above estimated liability will require a recovery from the first excess layer in the amount of R30 million of the insurance programme, and management has not received confirmation from the lead underwriter for this recovery, the recognition of the related insurance asset of the first excess layer is not possible.

Accordingly, there is an impact to the group's income statement in the amount of R30 million for the current year relating to this mismatch. The recovery of the insurance from the first excess layer in future years will result in the recovery being recorded as income at the time.

Sensitivity analysis

Key assumptions used in estimating the year-end provision consist of the expected number of cases requiring redress and the expected average redress cost per case. A sensitivity analysis has been performed on the key assumptions based on management's best and worst case scenarios as follows:

Number of cases requiring redress – a 41% decline in the number of cases results in a decrease of the provision amounting to R93 million, while a 38% increase in the number of cases results in an additional provision of R88 million.

Average redress amount per case – a 16% decline in the average redress amount per case results in a decrease of the provision amounting to R22 million, while an increase of 30% results in an additional provision of R90 million.

Notes to the group financial statements continued

For the year ended 31 March 2020

28. Provisions continued

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 33 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.

29. Insurance payables

In the prior year, the group discontinued its short-term and long-term insurance operations. The insurance payables balance have been transferred to assets of disposal group classified as held for sale. Refer to note 21.

Rm	Note	2020	2019
29.1 Total insurance payables			
Payables from insurance contracts			
Claims float held for insurance operations		–	62
Policyholder liability under long-term insurance contracts (group life)		–	690
Insurance payables from broking activities		–	10
Payables from insurance-related activities			
Reinsurance creditors		–	679
Reinsurance commission		–	4
Payables from short-term insurance contracts		–	327
Gross unearned premium provision		–	40
Gross outstanding claims provision		–	220
Gross IBNR provision		–	67
Payables from umbrella retirement fund activities[1]		–	1 689
		–	3 461
Transferred to disposal group classified as held for sale	21.5	–	(1 772)
Closing balance		–	**1 689**

[1] *The balance is nil at year-end following the privatisation of the retirement funds business vehicle which was previously self-administered.*

Notes to the group financial statements continued

For the year ended 31 March 2020

29. Insurance payables continued

29.2 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 that is a discontinued operation. The net liability position comprises:

Rm	Notes	2020	2019
Gross policyholder liability	29.1	–	690
Less: Reinsurance assets relating to the policyholder liability	18	–	(581)
Net liability to policyholders – transferred to liabilities of disposal groups classified as held for sale		–	**109**
A reconciliation of the movement in the net policyholder liability is as follows:			
Opening balance		–	78
Movement during the year:			
Increase in reserving		–	31
Increase claims experience		–	–
Closing balance – transferred to liabilities of disposal groups classified as held for sale		–	**109**

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 80% for GLA and income disability and 90% for Funeral, the IBNR is calculated using the Chain Ladder method for that period, otherwise the IBNR is calculated using the Bornhuetter-Ferguson method. An adjustment to the IBNR was made to allow for the potential delay in claims reporting due to the national lockdown as well as a potential increase in claims due to the impact of the COVID-19 pandemic.
- *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). In addition to the expense reserve held with regards to the unit-cost assumption, an expense overrun reserve is held for the Individual Life business to cover for the potential shortfall as the book runs off.
- *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 2020

29. Insurance payables continued

29.2 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	0.25	0.25

Also refer to note 42.5: Long-term insurance (life insurance).

29.3 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:

Rm	Notes	2020	2019
Payables from short-term insurance contracts		–	327
Less: Receivables from short-term insurance contracts	18	–	(253)
Net payable/(receivable) from short-term insurance contracts – transferred to liabilities of disposal groups classified as held for sale		–	**74**
A reconciliation of the movement in the net payables is as follows:			
Opening balance		–	(30)
Claims incurred		–	104
Closing balance – transferred to liabilities of disposal groups classified as held for sale		–	**74**

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. A combination of the Chain Ladder technique and the Bornhuetter-Ferguson method has been used to calculate the provision for IBNR. An adjustment to the IBNR was made to allow for the potential delay in claims reporting due to the national lockdown as well as a potential increase in claims due to the impact of the COVID-19 pandemic.

Notes to the group financial statements continued

For the year ended 31 March 2020

30. Trade and other payables

Rm	2020	2019
Financial liabilities		
Trade payables	122	168
Accrued expenses	155	183
Other payables	169	129
	446	480
Non-financial liabilities		
Employee-based accruals	153	131
	599	**611**

31. Commitments

31.1 Capital commitments

Commitments in respect of capital expenditure approved by directors:

Rm	2020 Total	2019 Total
Contracted for	40	14

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

32. Leases

32.1 Leases as a lessee

The group leases properties for office space at various locations. The non-cancellable period of the leases varies in length from 2 to 14 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. For most leases, the group is permitted to enter into sub-lease arrangements subject to terms set out by the head lessor. Some of the spaces in the leased properties have been sublet by the group.

Right-of-use assets related to lease properties are presented as property and equipment.

Lease liabilities

The following tables show the discounted lease liabilities included in the group statement of financial position and a maturity analysis of the contractual undiscounted lease payments:

Lease liabilities included in the statement of financial position at the end of the year

Rm	Notes	2020	2019[1]
Opening balance		933	1 188
Interest amortised		74	72
Lease liability incurred		–	10
Repayment of lease liabilities		(186)	(229)[2]
Lease modifications		–	(88)
Transfer to disposal groups held for sale		–	(22)
Foreign exchange differences		1	2
Closing balance		**822**	**933**
Current		136	113
Non-current		686	820

[1] *Restated for the retrospective adoption of IFRS 16. Refer to changes in significant accounting policies*

[2] *In the 2018 financial 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.*

Notes to the group financial statements continued

For the year ended 31 March 2020

32. Leases continued

32.1 Leases as a lessee continued

Maturity analysis – contractual undiscounted lease payments

Rm	2020	2019[1]
Due within one year	200	197
Due between one to five years	778	867
Due after five years	22	145
	1 000	1 209
Amounts recognised in profit or loss		
Depreciation expense on right-of-use assets	111	111
Interest expense on lease liabilities	74	72
Expense relating to short-term leases	10	9
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	1	1
Income from subleasing right-of-use assets	(28)	–

The cash outflows from financing activities for lease liabilities in 2020 was R112 million.

[1] *Restated for the retrospective adoption of IFRS 16. Refer to changes in significant accounting policies.*

32.2 Leases as a lessor

All leases from a lessor perspective are classified as operating leases with the exception of a sublease of specialised IT infrastructure, which the group has classified as a finance sublease.

32.2.1 Operating lease

During the year ended 31 March 2020, the group subleased some office space to tenants under operating leases with rentals receivable monthly. These leases have been classified as operating leases, because the group retains control of the right-of-use assets. Where considered necessary to reduce credit risk, the group has obtained bank guarantees for the term of the lease. The group is not exposed to significant residual value risk at the end of the lease term because the rights to the underlying assets remain with the head lessors. The group is not exposed to foreign currency risk as a result of the lease arrangements, as the leases are denominated in rands.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

Maturity analysis – contractual undiscounted lease receivables

Rm	2020	2019
Less than one year	17	11
One to two years	19	11
Two to three years	17	12
Three to four years	18	13
Four to five years	12	14
More than five years	4	8
	87	**69**

Notes to the group financial statements continued

For the year ended 31 March 2020

32. Leases continued

32.2 Leases as a lessor continued

32.2.2 Finance lease

The group entered into a finance leasing arrangement with a tenant as a lessor for specialised IT infrastructure. Residual value risk on equipment under the lease is not significant, because the group does not retain any rights in the underlying asset.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

Maturity analysis – contractual undiscounted lease receivables

Rm	2020	2019
Less than one year	1	1
One to two years	1	1
Two to three years	1	1
Three to four years	1	1
Four to five years	1	1
More than five years	–	1
Total undiscounted lease receivable	**5**	**6**
Unearned finance income	(1)	(1)
Net investment in the lease	**4**	**5**

33. Contingencies

33.1 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.

33.2 Client settlements arising from historical business practices - Bulking

The bulking matter has been disclosed in detail in prior years. Reference can be made to previously published financial statements. As of the date of these financial statements most clients and past clients have accepted 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 2020

33. Contingencies continued

33.3 AFFS Botswana: Botswana Public Officers Pension Fund ("BPOPF") penalty interest levied by the Botswana Unified Revenue Service ("BURS")

The group is committed to conducting its tax affairs in accordance with the tax legislation of the jurisdictions in which it operates, including client tax affairs in the conduct of administration business. The revenue authorities in the principal jurisdictions in which the group operates routinely review historic transactions undertaken by the group.

In September 2019, the group became aware of a tax matter relating to penalty interest levied by BURS against the BPOPF, a former client of AFFS Botswana, for the alleged late remission of tax on pension fund payouts. AFFS Botswana, as the fund administrator, was required to make pay-as-you-earn (PAYE) payments to BURS within fifteen days of the month following the settlement of the exiting pension fund member. An internal forensic investigation has highlighted inaccuracies in the calculation of penalty interest by BURS, which affects the reliability of estimation of the penalty interest amount. AFFS Botswana is in the process of formally engaging the BURS to quantify the amount of penalty interest, if any. The resolution of the matter has been significantly impacted by the lockdown regulations currently in place in Botswana due to of the COVID-19 pandemic. As at reporting date, the group was unable to determine the amount of the alleged penalty interest, if any. Furthermore. the group is reviewing the compliance status of the remaining funds administered by AFFS Botswana.

33.4 Penalties for the late submission of fund annual financial statements

The group operates in a regulatory environment and is subject to the required timeframes that are set out in those regulations. In certain instances delays in administrative processes may give rise to regulatory fines if these timeframes are not met, specifically if there are no extenuating circumstances that give rise to the delay. In particular Alexander Forbes may be subject to fines for late submissions of fund valuations and financial statements and for delays in processing section 14 transfers between funds. The group is committed to compliance with applicable laws and regulations, however there are a number of late submissions which largely relate to closing and liquidating funds. Significant progress has been made in resolving these outstanding submissions and to improving the workflow processes in order to achieve full compliance. To date no fines have been levied by the regulator.

34. Cash generated from operations[1]

Rm	2020	2019
(Loss)/profit before taxation from continuing operations	(514)	583
Items disclosed separately:		
Net interest expense	(12)	(53)
Non-cash items:		
Depreciation of property and equipment	161	159
Amortisation of intangible assets and software	94	107
Net movement in provisions	45	52
non-cash movement in provisions	121	193
payments made out of provisions	(76)	(141)
Reported (profit)/loss arising from accounting for policyholder investments in treasury shares	–	(8)
Movement in working capital (refer to note 37)	(51)	(25)
IFRS 9 transition adjustment	–	36
Impairment of software, goodwill and intangibles arising from business combination	1 218	153
Movement in other non-cash items	(5)	(1)
	936	**1 003**

[1] *Restated for the retrospective adoption of IFRS 16 and effects of discontinued operations, refer to changes in significant accounting policies and note 21.*

35. Interest received

Rm	2020	2019
Investment income per income statement	155	214
Less non-cash investment income from financial assets	(3)	(4)
Exclude policyholder-related interest	3	(21)
	155	**189**

Notes to the group financial statements continued

For the year ended 31 March 2020

36. Interest paid[1]

Rm	2020	2019
Finance costs paid on property leases	(74)	(72)
Finance costs paid on revolving credit facility and other	(69)	(89)
	(143)	**(161)**

[1] Restated for the retrospective adoption of IFRS 16. Refer to changes in significant accounting policies.

37. Movement in working capital

	2020	2019
Movement in working capital balances		
Trade and other receivables	(68)	(164)
Trade and other payables	17	139
	(51)	**(25)**

38. Operating cash flows relating to insurance and policyholder balances

	2020	2019
Insurance receivables	–	(125)
Insurance payables	(1 689)	(74)
Decrease in policyholder working capital balances	(28)	(37)
Interest return relating to policyholder tax	(3)	21
	(1 720)	**(215)**

39. Cash flows from policyholder investment contracts

	2020	2019
Premium inflows	51 413	48 714
Investments made net of disinvestments	6 544	13 843
Movement in insurance cell-captive facilities cash inflow	–	(6)
Investment withdrawals	(57 809)	(64 672)
	148	**(2 121)**

40. Taxation paid[1]

	2020	2019
Taxation payable at the beginning of the year	(20)	(49)
Prepaid tax at the beginning of the year	4	15
Charge in income statement	(253)	(240)
Policyholder tax charge in income statement	3	(21)
Charge to income statement for operations discontinued and disposed of in the year included in discontinued operations	(397)	(81)
Adjusted for:		
Reclassification of disposal groups classified as held for sale	–	17
Other non-cash movement[2]	38	(40)
Prepaid taxation at the end of the year	(7)	(4)
Taxation payable at the end of the year	10	20
Tax paid	**(622)**	**(383)**

[1] Restated for the effects of discontinued operations.

[2] Other non-cash movements include tax adjustments of R56 million resulting from IFRS 16 offset by deferred tax movements of R18 million. The prior year includes IFRS 16 related adjustments of R6 million, offset by deferred tax movements of R46 million.

Notes to the group financial statements continued

For the year ended 31 March 2020

41. Related party disclosure

41.1 List of related party relationships

Major shareholders

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

Mercer Africa Limited (Mercer), a subsidiary of the US-listed Marsh & McLennan Companies Inc., holds a 30.6% interest in the company. African Rainbow Capital Financial Services Holdings Proprietary Limited (ARC), a subsidiary of African Rainbow Capital holds a 13.7% interest in the company.

On 5 May 2020, ARC increased its holding in the company to 28.6% resulting from the acquisition of 193 000 000 shares from Mercer, announced to shareholders as part of the shareholder reorganisation circular, dated 2 March 2020, and related subsequent announcements. Mercer has in turn decreased its holding in the company to 15.6%.

On 14 May 2020, the company issued 118 019 747 shares to ARC. Consequently, ARC increased its interest in the company to 35.1%. This allotment and issue of shares gives effect to the company's obligations in terms of the written agreement (Flip-Up Agreement) entered into between the company, Alexander Forbes Limited (AFL) and ARC on 28 September 2016. In terms of the Flip-Up Agreement, ARC agreed, inter alia, to transfer its subscription shares in AFL (as defined in the Flip-Up Agreement) to the company or its nominee in return for the issue of the Flip-Up Shares by the company to ARC. The Flip-Up Agreement was approved by the JSE and shareholders pursuant to the Flip-Up Circular (issued on 2 December 2016) and at a general meeting of shareholders held on 20 January 2017.

Material non-controlling interest

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

On 14 May 2020, ARC agreed, inter alia, to transfer its subscription shares in AFL (as defined in the Flip-Up Agreement) to the company in return for the issue of the Flip-Up Shares by the company to ARC. Consequently, as a result of the implementation of the Flip-Up, ARC will no longer hold an interest in AFL.

Subsidiaries and 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 45: 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.

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.

41.2 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.

The group, through its Investments business has also contracted for the sharing of intellectual capital, and other support, from Mercer Consulting (South Africa) (Pty) Limited, Mercer Global Investments Europe Limited, Mercer Private Markets AG, and other affiliates and subsidiaries of Mercer LLC. In terms of these transactions, that were entered into in 2017, clients of the group gain access to the global Mercer research platform as well as its global investment platform and similarly clients of Mercer gain access to the group's research capability and investment platform for local investments. During the year, assets within certain portfolios managed by AF Investments are placed with Mercer as part of the multi-manager solutions. In addition, some clients invest directly with Mercer. Mercer earns an asset management fee on the assets it manages, which is paid by clients directly to Mercer. The transactions during the year resulted in the company allocating 20% of its closing assets under management (AuM) to Mercer Global Investments amounting to R62.2 billion as at year end (2019: R57.9 billion). Mercer earned an asset manager fee of R57.8 million (2019: R49.9 million).

Notes to the group financial statements continued

For the year ended 31 March 2020

41. Related party disclosure continued

41.2 Summary of related party transactions continued

***Transactions with shareholders** continued*

In April 2019, Mercer and Alexander Forbes entered into a strategic partnership. Under this partnership both parties collaborated to design Arrive, a pan-Africa benefits solution across, health, wealth and career that aligns to local regulations and is based on global best practices. In terms of the Arrive agreement, Alexander Forbes received R1.5 million (2019: R1.2 million) in commission from Mercer.

The strategic partnership extends to include Mercer Global Benefits Management (GBM) clients, where Mercer have exclusive mandates to provide global broking services to multinational companies. Through this partnership Alexander Forbes secures the broking appointment in South Africa. During the current year commission was paid to Mercer of R2.5 million (2019: R1.1 million).

Non-Executive director fees were paid to Mercer Africa Limited of R2.9 million (2019: R1.7 million) and African Rainbow Capital of R0.4 million (2019: R0.6 million), respectively.

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 (2019: R1 million) to the defined benefit fund and R8 million (2019: 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 R175 million (2019: R197 million).

The retirement benefit plans of the group are compulsory funds and as such key management are participants in the fund. At 31 March 2020 the investments held through the retirement benefit plans by key management are R15.5 million (2019: R18.2 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.

Notes to the group financial statements continued

For the year ended 31 March 2020

41. Related party disclosure continued

41.2 Summary of related party transactions continued

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 2020 year reflects the amount accrued and approved by the remuneration committee for the year ended 31 March 2020 and paid in June 2020.

Executive directors and prescribed officers (R'000)	Salary	Benefits and allowances	Retirement fund contri-butions	Bonus	Bonus shares[1]	LTIPs received	Dividends received	Total
2020								
DJ de Villiers	4 616	363	493	3 159	3 159	3 200	1 458	16 448
BP Bydawell	3 036	356	499	1 800	1 800	1 760	197	9 448
CH Wessels	2 675	109	439	1 370	1 370	1 000	212	7 175
B Mokoena	2 780	257	480	464	463	800	147	5 391
L Stevens	2 023	74	332	885	885	553	70	4 822
B Tladi[2]	2 219	196	365	1 120	1 120	680	139	5 839
M Sokkie[2,3]	2 072	172	260	–	–	480	109	3 093
JG Anderson[2]	2 814	100	300	1 174	1 174	976	481	7 019
LJ Kukard[4]	1 550	58	165	1 122	793	256	57	4 001
Total for the year	**23 785**	**1 685**	**3 333**	**11 094**	**10 764**	**9 705**	**2 870**	**63 236**
2019								
DJ de Villiers[5]	1 850	552	198	5 080	–	9 618	336	17 634
BP Bydawell[6]	1 629	163	78	1 250	–	–	–	3 120
CH Wessels[7]	2 198	49	361	2 250	–	749	220	5 827
B Mokoena	2 472	431	429	800	–	544	60	4 736
L Stevens	1 945	41	319	800	–	576	42	3 723
Total for the year	**10 094**	**1 236**	**1 385**	**10 180**	**–**	**11 487**	**658**	**35 040**

[1] *In light of the adverse economic impact of COVID-19, the executive management in agreement with the remuneration committee have commuted 50% of the executive cash bonuses to shares. Vesting will be deferred as follows: 50% in 12 months from date of issue and remaining 50% in 24 months from date of issue. The remuneration committee approved a 15% enhancement to the share portion of the bonus; the enhancement will be reflected in the shares to be allocated in July 2020.*

[2] *Announced as group executive members in June 2019.*

[3] *Subsequent to the year end, Ms M Sokkie resigned from the role of Executive: human resources and transformation with effect from 31 May 2020.*

[4] *The bonus of R1 121 850 awarded to Ms LJ Kukard includes an amount of R328 585 paid as final compensation in respect shares from her previous employer. Ms LJ Kukard was appointed in the capacity of acting group executive member.*

[5] *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*

[6] *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.*

[7] *The bonus amount of R2.25 million awarded to Ms CH Wessels includes a sign-on award comprising R500 000 paid in the prior year to align to awards that were given up from her previous employer.*

Notes to the group financial statements continued

For the year ended 31 March 2020

41. Related party disclosure continued

41.2 Summary of related party transactions continued

The following former employees held executive positions within the group in the prior year and did not hold any positions in the current financial year. Consequently, the table below is shown for comparative reasons.

Former executives and prescribed officers (R'000)	Salary	Bonus	Benefits and allow-ances	Retire-ment fund contri-butions	Contractual termination obliga-tions[1]	LTIPs	Dividends received	Total
2019								
AA Darfoor[2]	2 892	–	108	45	–	–	256	3 301
N Ford-Hoon[2]	2 333	–	411	249	–	–	27	3 020
L Greyling[2]	1 999	–	275	214	3 496	1 501	146	7 631
V Naicker[2]	1 893	–	423	215	2 013	377	49	4 970
T Powis[2, 3]	1 655	1 274	269	86	2 950	–	–	6 234
S Reddy[2]	2 316	–	248	290	2 383	398	83	5 718
B Schluep[2]	585	–	246	4	3 104	–	–	3 939
S Price[2]	235	–	171	31	–	–	–	437
Total for the year	**13 908**	**1 274**	**2 151**	**1 134**	**13 946**	**2 276**	**561**	**35 250**

[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 in the previous financial year.*

Notes to the group financial statements continued

For the year ended 31 March 2020

41. Related party disclosure continued

41.2 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.

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 2020 ('000)	2019 tranche	2018 tranche	2017 tranche
CSP awards			
DJ de Villiers	844	1 951[1]	–
BP Bydawell	491	–	–
CH Wessels	264	89	165[2]
L Mokoena	211	71	226
LW Stevens	146	511	79
B Tladi	179	90	206
M Sokkie	127	–	–
JG Anderson	257	93	368
LJ Kukard	67	62	32
	2 586	**2 867**	**1 076**
FSP awards			
DJ de Villiers	562	1 868[3]	–
BP Bydawell	328	–	–
CH Wessels	176	59	119[4]
L Mokoena	141	47	57
LW Stevens	97	–	20
B Tladi	119	60	51
M Sokkie	84	98	–
JG Anderson	172	62	568
LJ Kukard	45	41	8
	1 724	**2 235**	**823**

[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 2020

41. Related party disclosure continued

41.2 Summary of related party transactions continued

Directors' and prescribed officers' interests

The direct and indirect beneficial interests of the directors and prescribed officers and their associates in the issued ordinary share capital of the company are set out below.

('000) Directors and Prescribed Officers	2020 Direct	2020 Indirect[1]	2020 Total number of shares held	2020 Total % of shares held[2]	2019 Direct	2019 Indirect[1]	2019 Total number of shares held[2]	2019 Total % of shares held[2]
DJ de Villiers[3]	–	2 430	2 430	0.19	–	1 951	1 951	0.15
BP Bydawell[3,4]	50	328	378	0.03	50	–	50	–
CH Wessels	458	354	812	0.06	438	215	653	0.05
B Mokoena	66	244	310	0.02	52	128	180	0.01
LW Stevens	65	117	182	0.01	65	71	136	0.01
B Tladi[4]	40	231	271	0.02	–	–	–	–
M Sokkie[4]	–	182	182	0.01	–	–	–	–
JG Anderson[4]	–	802	802	0.06	–	–	–	–
LJ Kukard[4]	–	94	94	0.01	–	–	–	–
Total	679	4 782	5 461	0.41	605	2 365	2 970	0.22

[1] *Indirect beneficial interest held through the FSP Trust – this forms part of the awards allocated under the long-term share incentive programme.*
[2] *Includes both direct and indirect beneficial interest as a percentage of actual number of issued ordinary shares. Refer to note 22.*
[3] *Executive directors.*
[4] *Where directors have resigned in the previous financial year or been appointed in the current financial year, the table above shows nil values in respect of the current and previous financial years respectively.*

Directors' and prescribed officers' dealings

There have been no changes to the directors' or prescribed officers' interests in the company's shares from year end to the date of this report.

Former directors' interests

No directors or prescribed officers having resigned in the last 12 months hold any direct or indirect beneficial interests in the company's shares.

Other transactions with key management

Members of key management have personal investments in AF Investments through the Alexander Forbes retirement funds amounting to R15.5 million (2019: 18.2 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 including independent non-executive directors are paid fees by the company and other companies within the Alexander Forbes group. Non-executive directors' fees consist of a combination of standard fees plus additional fees for committee or subcommittee membership.

Independent non-executive directors (R'000)		2020	2019
M Ramplin (chair)[1]		1 650	2 621
MD Collier	Resigned 31/12/2019	1 367	2 076
RM Head		1 154	1 111
T Dloti		879	475
N Nyembezi (chair)	Resigned 31/12/2019	1 441	2 122
BJ Memela-Khambula		913	984
NG Payne[2]		1 722	2 013
		9 126	**11 402**

[1] *During the prior financial 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 prior year amount. Ms M Ramplin was appointed chairman of the Board effective 1 January 2020.*
[2] *In addition to his independent non-executive director fees, Mr NG Payne received R1.5 million (excluding VAT) for services performed on a special consulting assignment during the current financial year which is not deemed a non-executive director fee and therefore excluded from the amount disclosed in the table above.*

Notes to the group financial statements continued

For the year ended 31 March 2020

42. Insurance risk continued

42.1 Overview

Insurance contracts are issued by the group's insurance subsidiary companies that are designated as discontinued operations, namely 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.

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

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.

42.2 Assets and liabilities under insurance contracts

Rm	2020	2019
42.2.1 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
Gross unearned premium provision	–	40
Less: Reinsurers' share of unearned premium provision	–	(26)
Net outstanding claims provision from short-term insurance (non-life insurance) contracts	–	50
Gross outstanding claims provision	–	220
Less: Reinsurers' share of outstanding claims provision	–	(170)
Net IBNR provision from short-term insurance (non-life insurance) contracts	–	18
Gross IBNR provision	–	67
Less: Reinsurers' share of IBNR provision	–	(49)
Policyholder liability under long-term insurance (life insurance) contracts (group life)	–	159
Gross policyholder liability	–	690
Less: Reinsurers' share of policyholder liability	–	(531)
Net liabilities under insurance contracts	–	**241**
42.2.2 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.		
IBNR	–	34
Annuity claims in payment	–	435
Pending annuity claims	–	39
Notified annuity claims	–	23
Reinsurance assets	–	**531**

Notes to the group financial statements continued

For the year ended 31 March 2020

42. Insurance risk continued

42.3 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	2020	2019
Long-term insurance (life insurance)		
Alexander Forbes Life Limited		
Solvency capital requirements	169	635
Times cover	4.86	1.15

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

Rm	2020	2019
Short-term insurance (non-life insurance)		
Alexander Forbes Insurance		
Solvency capital requirement	–	162
Own funds	–	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.

Notes to the group financial statements continued

For the year ended 31 March 2020

42. Insurance risk continued

42.4 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 R8 million (2019: R4 million). Current net exposure is R2 million (2019: R1 million).

Risks that arise from insurance contracts continued

The personal accident line of business is protected by an excess of loss reinsurance treaty where the gross exposure is capped at R8 million up to a limit of R22 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.

42.5 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 2020 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 2020 the group had exposure with the supporting actuarial reserves of approximately R198m (2019: R158m) in the Group insurance business and approximately R23.4m in the individual life business (2019: R2m).

The increase in reserves in the group insurance business is mainly as a result of increased claim volumes in the disability income claimants portfolio. The increased individual life reserves is largely as a result of an increase in the expense overrun reserve (which is now determined over a longer time period to allow for the impact of the book being in run-off) as well as an increase in the unit cost assumptions driven by inflationary expense increases on a closed book.

Notes to the group financial statements continued

For the year ended 31 March 2020

42. Insurance risk continued

42.5 Long-term insurance (life insurance) continued

Mitigation of insurance risk

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

In respect of individual insurance business the major risks are mortality, morbidity, withdrawal and expense. Premiums on this business line are differentiated by age, gender and smoker status. Stringent socio-economic qualification criteria apply. Future premium rates are also not guaranteed and may be adjusted if mortality and morbidity experience 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 80% 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 R171.3 million (2019: R137.2 million).

The most sensitive assumption underlying the liabilities relating to the Individual Life business is the renewal cost assumption due to the portfolio being in run-off. A renewal cost assumption 10% higher than the assumed results is a 50% increase in the reserves (R5.5 million). Sensitivity relating to the mortality and withdrawal assumptions on the Individual Life business is currently insignificant.

43. 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 timeously as contracted, 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 financial liabilities as they fall due and payable.

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 company Alexander Forbes Insurance Namibia; and

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

Notes to the group financial statements continued

For the year ended 31 March 2020

43. Financial risk continued

Nature of financial assets and liabilities

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

(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. The group's insurance cell-captive facilities are considered 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.

The following table reflects the financial assets and financial liabilities of the group including their respective IFRS 9 classification:

Financial assets and liabilities of the group

Rm	Notes	2020	2019
Assets			
Financial assets held under multi-manager investment contracts			
Fair value through profit or loss	10	266 658	294 080
Cash and cash equivalents	10	5 927	5 772
General operations			
Financial assets			
Fair value through profit or loss	17	46	59
Fair value through other comprehensive income	17	13	13
At amortised cost	17	36	36
Trade and other receivables			
At amortised cost	19	220	241
Cash and cash equivalents			
At amortised cost		2 916	4 399
Fair value through profit or loss		1 043	642
Total financial assets		**276 859**	**305 242**
Liabilities			
Financial liabilities held under multi-manager investment contracts			
Fair value through profit or loss – designated	23	272 612	299 885
General operations			
Borrowings – financial liabilities held at amortised cost	25	101	719
Insurance payables – financial liabilities held at amortised cost[1]	29	–	1 689
Trade and other payables – financial liabilities held at amortised cost	30	446	480
Lease liabilities – financial liabilities held at amortised cost	32	822	933
Total financial liabilities		**273 981**	**303 706**

[1] *The balance is nil at year-end following the privatisation of the retirement funds business vehicle which was previously self-administered.*

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.

Notes to the group financial statements continued

For the year ended 31 March 2020

43. Financial risk continued

43.1 Credit risk continued

43.1.1 Objectives, policies and process to manage credit risk continued

(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 by the group have been impacted by South Africa's recent sovereign rating downgrade 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.

43.1.2 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	%
2020		
Between Aaa and A3[1]	994	0.36
Between Baa1 and B3[1]	61 652	22.62
Remainder includes equity securities and other assets with no specific credit risk rating	209 939	77.02
	272 585	100.00
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**

[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 2020

43. Financial risk continued

43.1 Credit risk continued

43.1.2 Exposure to credit risk continued

Analysis of financial assets

Rm	2020	2019
Financial assets at fair value through profit or loss		
Money market instruments	4	33
Collective investment schemes	42	26
Bonds/debt securities	–	–
Financial assets at amortised cost		
Equity housing loans	33	32
Other loans	3	4
Financial assets at fair value through other comprehensive income – designated		
ASISA investment	13	13
	95	**108**

Analysis of financial assets continued

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 represents approximately 7% (2019: 8%) 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% (2019: 1%) 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;
- contract assets; 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 contract assets

The group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables (which include lease receivables) and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate 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 contract assets.

The expected loss rates are based on historical loss rates which are adjusted to reflect current and forward-looking information using reasonable and supportable information that is relevant and available to the group without undue cost or effort. In the current year, the COVID-19 pandemic introduced greater uncertainty and limited the availability of forward-looking information. The current economic environment renders it imperative for entities to revisit the assumptions underlying the determination of expected credit losses, and to this end, the group embarked on a rigorous individual assessment of material and other 'at risk' debtors. This included additonal downside scenarios as well as qualitative analyses based on historical experience to distinguish between customers whose credit standing will not be significantly affected by the current situation in the long term, and those who are unlikely to restore their creditworthiness.

Notes to the group financial statements continued

For the year ended 31 March 2020

43. Financial risk continued

43.1 Credit risk continued

43.1.2 Exposure to credit risk continued

Trade receivables and contract assets

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 2020					
Expected loss rate	2.1%	4.2%	8.4%	56.7%	10.5%
Gross carrying amount – trade receivables	114	44	12	27	197
Contract assets	27	–	–	–	27
Loss allowance	(2)	(2)	(1)	(16)	(21)
Total	**139**	**42**	**11**	**11**	**203**
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
Contract assets	21	–	–	–	21
Loss allowance	(1)	–	–	(15)	(16)
Total	**155**	**18**	**4**	**12**	**189**

Trade receivables are reflected net of an impairment of R20.7 million (2019: R16.4 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 contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

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 Aa2 and Baa3, as determined by external credit ratings 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.

43.2 Liquidity risk

43.2.1 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 notes 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.

Notes to the group financial statements continued

For the year ended 31 March 2020

43. Financial risk continued

43.2 Liquidity risk continued

43.2.1 Objectives, policies and process to manage liquidity risk

(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.

43.2.2 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 (2019: R800 million) is in place and is renewable annually with a notice period of three months. The interest rate is 3-month JIBAR plus 1.25% per annum compunded quartely and also payable quarterly. The group's ability to generate cash positions the group well to negotiate annually for the best available terms. Refer to note 25 for further details on the revolving credit facility.

Liquidity analysis of assets and liabilities[1]

Rm	Contractual cash flows (undiscounted) 0 – 1 year	1 – 3 years	3 – 5 years	>5 years	Undated/ Linked	Total
2020						
Assets						
Financial assets held under multi-manager investment contracts	–	–	–	–	272 585	272 585
Financial assets	–	–	–	–	82	82
Trade and other receivables	220	–	–	–	–	220
Cash and cash equivalents	3 959	–	–	–	–	3 959
ASISA investment	–	–	–	–	13	13
Total financial assets	**4 179**	–	–	–	**272 680**	**276 859**
Liabilities						
Financial liabilities held under multi-manager investment contract[2]	–	–	–	–	272 612	272 612
Borrowings	101	–	–	–	–	101
Trade and other payables	446	–	–	–	–	446
Total financial liabilities	**547**	–	–	–	**272 612**	**273 159**

[1] *The maturity analysis presented in this table and the comparative excludes lease liabilities. The undiscounted cash flows for lease liabilities are disclosed in note 32.*

[2] *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 2020

43. Financial risk continued

43.2 Liquidity risk continued

43.2.2 Exposure to liquidity risk continued

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.

43.3 Market risk

43.3.1 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 (2019: R800 million) is in place and is subject to interest at JIBAR plus 1.25% payable quarterly. Refer to note 25 for further details regarding the revolving credit facility.

Currency risk

The group does not hedge against its 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.

Notes to the group financial statements continued

For the year ended 31 March 2020

43. Financial risk continued

43.3 Market risk

43.3.1 Objectives, policies and processes to manage market risk

(ii) General operations

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.

43.3.2 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.

(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 R2.0 million (2019: R7.7 million).

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

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

Currency risk

The group operates primarily in South Africa and has certain operations in other African countries. Approximately 7% (2019: 7%) of the group's operating income net of direct expenses is derived from its operations in Africa outside South Africa.

In the current year the most significant foreign currency has been 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		2020	2019
Weighted average rate	(ZAR: GBP)	18.3	18.5
Closing rate	(ZAR: GBP)	22.1	18.8

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:

Notes to the group financial statements continued

For the year ended 31 March 2020

43. Financial risk continued

43.3 Market risk continued

43.3.2 Exposure to market risk continued

Million	31 March 2020		31 March 2019	
	USD	GBP	USD	GBP
Cash flow hedges	(1)	–	(2)	–
Cash and cash equivalents	–	16	–	21
Trade and other payables	–	1	–	1

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	2020	2019
Amounts recognised in profit or loss		
Net loss on foreign currency due to movements in forward points included in finance costs[1]	2	(7)
Net gains/(losses) recognised in other comprehensive income		
Cash flow hedges	(4)	40
Foreign currency translation differences of foreign operations[2]	49	44
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:

Rm	31 March 2020		31 March 2019	
	USD	GBP	USD	GBP
ZAR:US/GBP exchange rate – increase 10%[1]	(2.5)	61.8	3.5	54
ZAR:US/GBP exchange rate – decrease 10%[1]	2.5	(61.8)	(3.5)	(54)

[1] *Holding all other variables constant.*

Concentration risk
The group is not materially exposed to concentration risk in terms of its clients, products, industry exposure or outsourced providers. While the majority of the Group's corporate asset exposure is well diversified, the group chooses to maintain the majority of its corporate bank accounts with one of the major banks in South Africa for reasons related to operational efficiency.

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.

Notes to the group financial statements continued

For the year ended 31 March 2020

43. Financial risk continued

43.4 Fair value hierarchy continued

43.4.1 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 as required by IFRS 13 *Fair Value Measurements*. The fair value hierarchy has the following levels:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3 are 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 income instruments, equity securities and listed derivative contracts. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

Level 2
Level 2 financial instruments primarily include government and agency securities, unlisted derivatives and certain corporate debt securities. 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 discount rates 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.

Level 3
Assets and liabilities are classified as Level 3 where the valuation incorporates significant inputs that are not based on observable market data. Level 3 investments include unlisted equity securities and collective investment schemes which have significant unobservable inputs due to infrequent trading or whose traded prices are not considered liquid enough to justify Level 2 observation. 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, pricing 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 contracts are classified as Level 3 instruments in the fair value hierarchy.

At 31 March 2020 investments classified at Level 3 comprise approximately 3% (2019: 2%) of total financial assets measured at fair value.

Notes to the group financial statements continued

For the year ended 31 March 2020

43. Financial risk continued

43.4 Fair value hierarchy continued

43.4.1 Valuation methods and assumptions for valuation techniques continued

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	Peer valuation multiples	Last exchange traded price and liquidity discounts
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 as the majority of these level 3 investments relate to policyholders under multi manager contracts.

43.4.2 Financial assets and liabilities at fair value

Financial assets measured at fair value according to the fair value hierarchy

Rm	Fair value levels Level 1	Level 2	Level 3	Total fair value
2020				
Financial assets held under multi-manager investment contracts				
Equity securities – listed	75 916	–	–	75 916
– unlisted	–	–	1 073	1 073
Preference shares – listed	411	–	–	411
Collective investment schemes	77 771	23 337	391	101 499
Debt securities – listed	100	18 506	–	18 606
– government stock	–	24 468	–	24 468
Debentures – listed	1 944	–	–	1 944
Policy of insurance	–	17 389	5 762	23 151
Unsettled trades	–	–	449	449
Money market instruments – listed	–	19 141	–	19 141
	156 142	102 841	7 675	266 658
General operations				
Financial assets:				
Money market instruments	–	1 047	–	1 047
Collective investment schemes	–	42	–	42
ASISA investment	–	–	13	13
	–	1 089	13	1 102
Total financial assets measured at fair value	156 142	103 930	7 688	267 760
Expressed as a percentage (%)	58	39	3	100
Cash held under multi-manager investment contracts	–	5 927	–	5 927
	156 142	109 857	7 688	273 687

Notes to the group financial statements continued

For the year ended 31 March 2020

43. Financial risk continued

43.4 Fair value hierarchy continued

43.4.2 Financial assets and liabilities at fair value continued

Financial assets measured at fair value according to the fair value hierarchy continued

Rm	Fair value levels Level 1	Level 2	Level 3	Total 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
Unsettled trades	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
	180 190	113 176	7 200	300 566

Notes to the group financial statements continued

For the year ended 31 March 2020

43. Financial risk continued

43.4 Fair value hierarchy continued

43.4.2 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	
2020				
Financial liabilities measured at fair value				
Financial liabilities held under multi-manager investment contracts	–	265 386	7 226	272 612
Total financial liabilities measured at fair value	**–**	**265 386**	**7 226**	**272 612**
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**

43.4.3 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 2019	**7 044**	**–**	**7 044**
Total gains recognised in profit or loss	211	–	211
Transfer of financial assets at FVTPL	2	–	2
Purchases	1 465	–	1 465
Disposals	(1 496)	–	(1 496)
Closing balance at 31 March 2020	**7 226**	**–**	**7 226**
Opening balance at 1 April 2018	**4 864**	**–**	**4 864**
Total gains recognised in profit or loss	513	–	513
Transfer of financial assets at FVTPL	201	–	201
Purchases	4 874	–	4 874
Disposals	(3 408)	–	(3 408)
Closing balance at 31 March 2019	**7 044**	**–**	**7 044**

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 2020

44. Risk and capital management

44.1 Capital management

44.1.1 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.

44.1.2 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
3 230	–	259	–	–	3 489

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 R101 million was utilised at the reporting date, but subsequently settled.

44.1.3 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 formally designated as the controlling company of an insurance group.

Notes to the group financial statements continued

For the year ended 31 March 2020

44. Risk and capital management continued

44.1 Capital management continued

44.1.3 Capital adequacy and solvency continued

Solo supervision

The solo insurance entity solvency on a prudential basis is shown below (31 March 2019 included for comparative purposes):

	31 March 2020			31 March 2019		
Regulated entity	Own Funds	SCR	Cover ratio	Own Funds	SCR	Cover ratio
Alexander Forbes Insurance Company Limited	–	–	–	356	162	2.20
Alexander Forbes Investments Limited	417	348	1.20	618	458	1.35
Alexander Forbes Life Limited	822	169	4.86	956	635	1.51

All solo entities remain solvent as at 31 March 2020 and maintain buffers in line with their respective risk appetites.

Group supervision

While the group has not been formally 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 R2.060 billion and SCR cover ratio (Own Funds/SCR) of 2.57 as at 31 March 2020, compared to R1.115 billion and 1.61 respectively as at 31 March 2019.

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 R29.5 million (2019: R25.9 million), representing an excess of assets over liabilities of 6.62 times (2019: 6.76 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 R19.8 million (2019: R24.4 million), representing an excess of assets over liabilities of 1.77 times (2019: 0.94 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.

44.2 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 Group Risk Strategy and EWRM framework, in co-ordination with our group capital management 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 continue to be reviewed and updated 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.

Notes to the group financial statements continued

For the year ended 31 March 2020

44. Risk and capital management continued

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, framework, 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 has recently been updated and re-approved and the internal control programme (including management self-assessments of the internal control environment) has commenced - that said, the group is still not at its desired levels of internal control maturity and this remains a key priority for the organisation.

The group also has in place a comprehensive group insurance programme to mitigate against claims that may arise in the course of trade.

44.2.1 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, have been updated and there is a process underway to drive embedding of these authorities into business operations. 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.

44.2.2 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

The enterprise risk management (ERM) strategy and 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 2020

44. Risk and capital management continued

44.2 Enterprise-wide risk management (EWRM) continued

44.2.3 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 five 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 acquisitions committee	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 committee also monitors and oversees 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. 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.

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.

44.2.4 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

Our risk appetite is defined by measures for the most significant types of risk that the group confronts as a consequence of its trade. There is clarity on the risks that the organisation actively seeks, avoids or accepts as well as on the balance between risk and reward. The definitions allow us to flag material deviations and identify and mitigate emerging risks timeously. We also have 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.

Notes to the group financial statements continued

For the year ended 31 March 2020

44. Risk and capital management continued

44.2 Enterprise-wide risk management (EWRM) continued

44.2.4 Risk appetite

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 ■ Earnings at risk (deviation from budget) ■ Cost-to-income ratio
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 43: Financial risk. Further, a discussion on insurance-related risks can be found under note 42: Insurance risk.

44.2.5 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.

44.2.6 Risk taxonomy

In this section we highlight how the group exercises oversight and manages each Level 1 risk category.

Operational risk

Operational risk is the risk of loss owing to factors such as inadequate systems, management failure, inadequate internal controls, fraud or human error. The group mitigates these risks through a sound risk management framework, systems of internal controls, internal audit and compliance functions, and other measures such as backup procedures, contingency planning and insurance.

Notes to the group financial statements continued

For the year ended 31 March 2020

44. Risk and capital management continued

44.2 Enterprise-wide risk management (EWRM) continued

44.2.6 Risk taxonomy continued

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. The business is making progress in establishing risk assessments for key processes with key risks and associated controls. These risks and controls, once identified will be 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. Management is working towards ensuring that 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.

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.

Notes to the group financial statements continued

For the year ended 31 March 2020

44. Risk and capital management continued

44.2 Enterprise-wide risk management (EWRM) continued

44.2.6 Risk taxonomy continued

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.

44.2.7 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) completes a consolidated 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 Life Limited and Alexander Forbes Investments Limited, are included within this ORSA. Where the need for an out-of-cycle assessment arises, the Group conducts the process across all entities in alignment to its ORSA policy.

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.

44.2.8 EWRM outlook

Looking forward, we will continue to evolve our approach to determining appropriate risk and reward to allow for enhanced decision-making. The focus will be on strengthening and embedding risk management further into the first line, paying particular attention to the changing targeted strategic ambition, the evolving regulatory environment and growing regulatory expectations and placing focus on both quantitative and qualitative aspects of risk, governance and control. In doing so we will also look to improve our risk monitoring tools, and grow and deepen the frequency and quality of reporting to the various governance structures within the group.

Notes to the group financial statements continued

For the year ended 31 March 2020

45. Consolidated and unconsolidated entities

45.1 Consolidated entities

Material subsidiaries and associates in which the group has a financial interest

Entity	Nature of business	Year-end date	Economic interest 2020 %	Economic interest 2019 %
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
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
Alexander Forbes Direct Proprietary Limited	Direct marketing	31 March	–	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
Alexander Forbes Financial Services Proprietary Limited	Provision of financial services	31 March	100	100
GMA Subsidiary Trading 16 Proprietary Limited	Technology services	31 March	–	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
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
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
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

Notes to the group financial statements continued

For the year ended 31 March 2020

45. Consolidated and unconsolidated entities continued

45.1 Consolidated entities continued

Entity	Nature of business	Year-end date	Economic interest 2020 %	Economic interest 2019 %
Alexander Forbes Investmens Global Alternatives Limited	Multi-manager investment	31 March	100	100
Senior Finance Proprietary Limited	Equity housing finance	31 March	76.5	76.5
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 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 (Uganda) Limited[1]	Financial services (Uganda)	31 March	–	51
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
Investment Solutions (Jersey) Limited	Multi-manager investment	31 March	100	100
6. Associates				
Alexander Forbes Financial Services Zambia	Financial services (Zambia)	31 December	–	49
KIN Digital Proprietary Limited	Fintech	31 March	–	40

[1] *Formerly referred to as Alexander Forbes Financial Services Uganda Limited. Disposed of during the current year.*

45.2 Unconsolidated structured entities

While the group consolidates certain structured entities other structured entities are not consolidated owing to the group not having an exposure to variability in returns and the power to govern the activities that affect this exposure.

The unconsolidated structured entities in which the group has an interest are:

- Alexander Forbes Staff Share Trust
- Certain collective investment schemes of which the group is the fund manager and has an investment
- The Alexander Forbes Community Trust

Alexander Forbes Staff Share Trust (the staff share trust)

The Staff Share Trust was formed to provide a vehicle for employee investment in the ordinary shares of AFGH. The group provides no financial assistance to the trust nor are there any contractual obligations to provide assistance to the trust.

Unconsolidated collective investment schemes

The group manages 6 collective investment schemes (2019: 9) as fund manager which are not consolidated. It also invests certain policyholder assets with these trusts. The value of these investments at 31 March 2020 is R141 million (2019: R163 million) (1.77% of the total assets in the schemes (2019: 2.04%), 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.

Notes to the group financial statements continued

For the year ended 31 March 2020

46. Subsidiaries with material non-controlling interest and associates

46.1 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 Limited	
Rm	2020	2019	2020	2019	2020	2019
Balance sheet information						
Total assets	846	1 007	3 221	3 598	5 041	6 141
Total liabilities	(811)	(993)	(3 198)	(3 588)	(731)	(1 373)
Total net assets	35	14	23	10	4 310	4 768
Summarised income statement						
Revenue	57	57	20	20	852	6 880
Profit before tax	10	7	12	11	1 772	(1 497)
Tax expense	(3)	(4)	–	–	(317)	(16)
Profit after tax	7	3	12	11	1 455	(1 513)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	**7**	**3**	**12**	**11**	**1 455**	**(1 513)**
Dividends paid to non-controlling interest	–	–	3	8	–	–
Summarised cash flows						
Cash from operating activities	12	(78)	2	1	(2 169)	28
Cash from investing activities	(1)	–	11	–	1 325	(256)
Cash from financing activities	9	18	–	(7)	751	786
Net increase/(decrease) in cash and cash equivalents	20	(60)	13	(6)	(94)	558
Cash and cash equivalents at beginning of the year	12	72	9	15	730	172
Cash and cash equivalents at year-end	**32**	**12**	**22**	**9**	**636**	**730**

[1] *This entity is included in discontinued operations in the current year.*

Notes to the group financial statements continued

For the year ended 31 March 2020

46. Subsidiaries with material non-controlling interest and associates continued

46.2 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	2020	2019
Summarised balance sheet information		
Non-current assets	–	11
Current assets	–	3
Total assets	–	14
Total liabilities	–	–
Net assets	–	**14**
Opening balance	–	–
Capital contribution	–	28
Losses for the period	–	(14)
Net assets	–	**14**
Summarised statement of comprehensive income		
Losses for the period	–	(14)
Total comprehensive income	–	**(14)**

Notes to the group financial statements continued

For the year ended 31 March 2020

47. Events after reporting period

47.1 Sale of Alexander Forbes Insurance Company Namibia

On 14 April 2020, the group entered into a binding agreement with Momentum Short Term Insurance (Namibia) Limited, a subsidiary of Momentum Metropolitan Holdings Limited, for the sale of Alexander Forbes Insurance Company Namibia Limited. This transaction is awaiting regulatory and Competition Commission approval and is anticipated to close in the first half of the new financial year. The business was classified as a discontinued operation in the group financial statements for the year ended 31 March 2019. This is in line with the previously announced intention to dispose of the group's insurance cluster and further delivering on the implementation of the advice-led and capital-light strategy.

47.2 Shareholder reorganisation

On 5 May, ARC completed the acquisition of 198 000 000 ordinary shares from Mercer, following which Mercer decreased its shareholding to 15.6% and ARC increased its holding to 28.6%. At the general meeting of shareholders held on 31 March 2020, a requisite majority of independent shareholders approved a mandatory offer waiver resolution. Following the adoption of the mandatory offer waiver resolution, the Takeover Regulation Panel (TRP) granted a waiver exemption to ARC, exempting ARC from the obligation to make a mandatory offer to remaining shareholders.

The Company issued 118 019 747 ordinary shares to ARC comprising 4 336 492 treasury shares and a new listing of 113 683 255 ordinary shares on 13 May 2020. This transaction was concluded pursuant to an agreement between, the Company, Alexander Forbes Limited (AFL) and ARC on 28 September 2016 in terms of which ARC would exchange its 10% shareholding in AFL for shares in the Company (Flip-Up). This transaction was approved by shareholders on 20 January 2017. As a result of the Flip-Up, ARC has increased its holding in the Company to 35.1%. Mercer's holding has resultantly decreased to 14.3% of the issued ordinary shares.

47.3 Reinsurance recovery

At 31 March 2020, the long-term insurance business received notification of the repudiation of a claim submitted to one of its reinsurance providers. A provision for the repudiated amount is recorded in the operating income of discontinued insurance operations. On 18 May 2020, the group received notification of a settlement offer of R33 million from one of the reinsurance providers. The recovery amount of R33 million will be recorded in the 2021 financial year.

47.4 Repayment of Revolving Credit Facility (RCF)

The group repaid the outstanding balance of R101 million and cancelled the RCF subsequent to year end.

Company financial statements

Company income statement

For the year ended 31 March 2020

Rm	Notes	2020	2019
Dividend revenue	1	2 019	520
Operating expenses		(16)	(21)
Operating profit		**2 003**	**499**
Non-trading and capital items	3	(1 349)	–
Investment income	2	15	2
Finance costs		1	(5)
Profit before taxation		**670**	**496**
Income tax expense		–	(7)
Profit for the year		**670**	**489**

Company statement of comprehensive income

For the year ended 31 March 2020

Rm	2020	2019
Profit for the year	670	489
Other comprehensive income	–	–
Total comprehensive income for the year	**670**	**489**

Company statement of financial position

At 31 March 2020

Rm	Notes	2020	2019
ASSETS			
Investment in subsidiary	3	4 402	5 748
Receivables from group companies		41	–
Trade and other receivables		1	–
Cash and cash equivalents		1 073	154
Total assets		**5 517**	**5 902**
EQUITY AND LIABILITIES			
Share capital	4	5 874	6 192
Non-distributable reserves		63	43
Accumulated loss		(425)	(351)
Total equity		**5 512**	**5 884**
Liabilities			
Other payables		4	6
Tax liability		1	12
Total liabilities		**5**	**18**
Total equity and liabilities		**5 517**	**5 902**

Company statement of cash flows

For the year ended 31 March 2020

Rm	Notes	2020	2019
Cash flows from operating activities			
Cash utilised in operations	5	(20)	(14)
Interest received	2	15	2
Dividend received	1	1 721	506
Dividends paid		(779)	(552)
Tax paid		(11)	–
Net cash inflow/(outflow) from operating activities		**926**	**(58)**
Cash flows from investing activities			
Cash (outflow)/inflow to group companies	6.2	(7)	153
Settlement of share incentive schemes		–	–
Net cash (outflow)/inflow from financing activities		**(7)**	**153**
Increase in cash and cash equivalents		919	95
Cash and cash equivalents at the beginning of the period		154	59
Cash and cash equivalents at the end of the period		**1 073**	**154**

Company statement of changes in equity

For the year ended 31 March 2020

Rm	Share capital	Non-distributable reserves	Accumulated loss	Total equity
At 31 March 2018	**6 192**	**16**	**(288)**	**5 920**
Dividends paid	–	–	(552)	(552)
Movement in share-based payment reserve	–	39	–	39
Settlement of share-based payment reserve[1]	–	(12)	–	(12)
Profit for the year	–	–	489	489
At 31 March 2019	**6 192**	**43**	**(351)**	**5 884**
Share cancellation[2]	(318)	–	–	(318)
Dividends paid	–	–	(779)	(779)
Movement in share-based payment reserve	–	34	–	34
Settlement of share-based payment reserve[3]	–	(14)	–	(14)
Unrealised gain on share cancellation[4]	–	–	35	35
Profit for the year	–	–	670	670
Balance at 31 March 2020	**5 874**	**63**	**(425)**	**5 512**

[1] *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.*

[2] *The group cancelled 53 568 809 shares which were withdrawn on the JSE on 26 August 2019.*

[3] *Shares amounting to R4 million relating to the forfeitable share scheme was settled, in addition, R10 million relating to the 2018 retention share scheme was also settled.*

[4] *The unrealised gain on share cancellation arises from the difference in fair value of shares cancelled of R283 million and the historical cost of R318 million.*

Notes to the company financial statements

For the year ended 31 March 2020

1. Dividend revenue

Rm	2020	2019
Dividends received from subsidiary	1 721	506
Dividend in specie	298	14
	2 019	520

2. Investment income

	2020	2019
Interest income	15	2

3. Investment in subsidiary

	2020	2019
Opening balance	5 748	5 748
Impairment of investment in subsidiary	(1 346)	–
Closing balance	**4 402**	**5 748**

The company impaired its investment in Alexander Forbes Acquisition Proprietary Limited by R1.3 billion. The impairment was considered using the market capitalisation of the group in relation to the net asset value of the entity.

4. Share capital

	2020	2019
Share capital at no par value	5 874	6 192

	2020		2019	
	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	–
Issued				
Ordinary shares at no par value	1 287 858	5 874	1 341 427	6 192
	1 287 858	**5 874**	**1 341 427**	**6 192**
4.2 Movement in share capital				
Opening balance	1 341 427	6 192	1 341 427	6 192
Share cancellation	(53 569)	(318)	–	–
Closing balance	**1 287 858**	**5 874**	**1 341 427**	**6 192**

Notes to the company financial statements continued

For the year ended 31 March 2020

4.3 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 (ESOP) for the benefit of its eligible employees, and particularly qualifying black female employees.

The establishment of the ESOP is intended to help entrench a culture of share ownership among the eligible employees within the group. Furthermore, Alexander Forbes recognises the benefit of aligning the interests of its employees with those of its shareholders by providing for sustainable equity-based participation in the company for all eligible employees, and to attract and retain talented employees and managers.

The Isilulu Trust (the trust) was established as the vehicle through which the ESOP operates. Alexander Forbes issued 39 070 700 ordinary shares in June 2015 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. The Trust is also restricted from disposing of or encumbering these shares during the term of the Trust.

This transaction was facilitated by Alexander Forbes through a notional vendor finance (NVF) mechanism in terms of which, the shares receive 30% of any dividends distributed to ordinary shareholders, and in turn, be distributed to beneficiaries. The remaining 70% of the dividends is applied against the NFV mechanism.

Dividends distributed by the trust are treated as employee benefits. Dividend income earned by the trust and subsequently distributed to eligible employees was R5.6 million (2019: R3.9 million) during the current financial year.

4.4 Non-distributable reserve

Rm	Notes	2020	2019
Share-based payment reserve		63	43

4.4.1 Share-based payment reserve

Rm		2020	2019
Opening balance		43	16
Charged to group entities	6.2	34	39
Settlement of share incentive schemes		(14)	(12)
Closing balance		63	43

5. Cash utilised in operations

Rm	2020	2019
Profit before taxation	670	496
Items disclosed separately:		
Investment income	(15)	(2)
Dividends received	(2 019)	(520)
Finance costs	(1)	5
Adjusted for non cash items:		
Impairment of investment in subsidiary	1 346	–
Other non-cash items	1	2
Movement in working capital balances		
Payables	(2)	5
	(20)	(14)

Notes to the company financial statements continued

For the year ended 31 March 2020

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 30.6% interest in the company. African Rainbow Capital Financial Services Holdings Proprietary Limited (ARC), a subsidiary of African Rainbow Capital holds a 13.7% interest in the company.

Refer to note 41.1 in the group financial statements.

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.

Rm	2020	2019
6.2 Transactions with subsidiaries		
Loan balances classified as intercompany loans		
Opening balance	–	114
Cash (outflow)/inflow to group companies	7	(153)
Cash transferred from group companies	–	(114)
Loan advanced to group companies	41	–
Share-based payments settlement	(34)	(39)
Share-based payments	34	39
Closing balance	**41**	–

7. Events after reporting period

The company issued 118 019 747 ordinary shares to ARC comprising of 4 336 492 treasury shares and a new listing of 113 683 255 shares on 13 May 2020. Refer to note 47.2 in the group annual financial statements for further details.

Annexure A – shareholding information

Analysis of the shareholding at 31 March 2020

	2020	
	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	393 800 000	30.58
African Rainbow Capital	175 807 216	13.65
Government Employees Pension Fund	70 851 607	5.50
	640 458 823	49.73
Investment management interests above 3% of the company's listed ordinary share capital		
Abax Investments Proprietary Limited	116 601 084	9.05
Coronation Fund Managers Limited	93 266 828	7.24
Visio Capital Management Proprietary Limited	81 612 754	6.34
Public Investment Corporation Limited	74 559 546	5.79
Kagiso Asset Management Proprietary Limited	65 961 137	5.12
Allan Gray Proprietary Limited	44 585 790	3.46
	476 587 139	37.01

Shareholding spread at 31 March 2020

Size of holding	Number of shareholders	% of total	Number of shares	% of total
1 – 1 000	3 109	70.98	452 156	0.04
1 001 – 10 000	639	14.59	2 220 419	0.17
10 001 – 100 000	303	6.92	11 714 345	0.91
100 001 – 1 000 000	219	5.00	84 313 314	6.55
1 000 001 +	110	2.51	1 189 157 920	92.34
	4 380	100	1 287 858 154	100

Shareholder type at 31 March 2020

	Shareholders and percentage of issued share capital		
	Number of shareholders	Number of shares	% of total
Public	4 369	649 317 174	50.42
Non-public	11	638 540 980	49.58
Mercer Africa Limited	1	393 800 000	30.58
African Rainbow Capital	1	175 807 216	13.65
Alexander Forbes Acquisition Proprietary Limited	1	4 336 492	0.34
Alexander Forbes Isilulu Trust	1	39 070 700	3.03
Alexander Forbes FSP Trust	1	20 396 504	1.58
Alexander Forbes Community Trust	1	4 451 126	0.35
Executive directors and prescribed officers	5	678 942	0.05
Total	4 380	1 287 858 154	100

Annexure A – shareholding information continued

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	4 230	662 192 067	49.36
Non-public	10	679 234 896	50.64
Mercer Africa Limited	1	442 801 129	33.01
African Rainbow Capital	1	119 357 139	8.90
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 prescribed officers	4	605 127	0.05
Total	**4 240**	**1 341 426 963**	**100.00**

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
M Ramplin (Chair), RM Head, NG Payne, BJ Memela-Khambula, T Dloti

Non-executive directors
WS O'Regan, MR Nkadimeng

Executive directors
DJ de Villiers (Chief executive officer)
BP Bydawell (Chief financial officer)

Executive: Governance, legal 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

www.alexanderforbes.co.za

Alexander Forbes Group Holdings Limited
Tel +27 11 269 0000, 115 West Street, Sandown
PO Box 787240, Sandton, 2146, South Africa

www.alexanderforbes.co.za