Alexander Forbes
Group Holdings Limited

Annual financial statements

for the year ended 31 March 2021

FY2021

Contents

Responsibility for financial statements

Declaration in terms of the Companies Act, 71 of 2008 (as amended) (Companies Act)

The preparation of group and company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and has been supervised by the chief financial officer, Mr BP Bydawell, CA(SA), CFA in terms of sections 29 and 30 of the Companies Act. The financial statements have been audited in compliance with the applicable requirements of the Companies Act.

BP Bydawell
Chief financial officer

Directors' responsibility statement 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 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 19 to 22. 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 10 to 18.

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 on 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 group and company annual financial statements

The group and company financial statements, as identified in the first paragraph in the directors' responsibility statement, were approved by the board of directors on 14 June 2021 and are signed on their behalf by:

M·Ramplin

M Ramplin
Non-executive chair

DJ de Villiers
Chief executive officer

Declaration by chief executive officer (CEO) and chief financial officer (CFO)

The CEO and the CFO hereby confirm that:

(a) the group and company annual financial statements set out on pages 19 to 126, fairly present in all material respects the financial position, financial performance and cash flows of Alexander Forbes Group Holdings Limited in terms of IFRS;

(b) no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;

(c) internal financial controls have been put in place to ensure that material information relating to Alexander Forbes Group Holdings Limited and its consolidated subsidiaries have been provided to effectively prepare the financial statements; and

(d) the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Report on Corporate Governance™ for South Africa, 2016 (King IV). Where we are not satisfied, we have disclosed to the audit and risk committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors and have taken the necessary remedial action.

BP Bydawell
Chief financial officer

DJ de Villiers
Chief executive officer

Declaration by 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 2021, 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.

CWessels

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

Directors' report

The directors have pleasure in submitting their report for the year ended 31 March 2021.

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 benefit and investment solutions, as well as 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 pages 40 to 42. The segmental analysis is included on pages 46 and 47.

Key areas of focus during the current year in preparing the financial statements

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

- Solvency assessment and going concern (noted in this page)
- Provision for client settlements – enhanced transfer value (ETV)
- Errors and omissions in the ordinary course of business
- 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 19 to 22.

Solvency assessment and going concern

The financial year began a few weeks after the breakout of Covid-19 in South Africa together with the first set of lockdown measures resulting in a challenging operating environment throughout the reporting period. Management, under the direction of the board, performed scenario testing for solvency and liquidity at the beginning of the financial year where these scenarios informed the management actions required to ensure sustainability of the business and enabling it to navigate through the adverse impacts of the pandemic. The scenarios were re-run based on an updated economic outlook and the group continues to remain solvent and liquid into the foreseeable future. In instances where subsidiaries are insolvent, the group is able to recapitalise the business operations and provide the requisite financial support.

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 pages 19 to 22 for more detail.

Dividends to shareholders

Interim

The directors approved an interim gross ordinary dividend of 13 cents per ordinary share (2020: 18 cents per ordinary share) from income reserves. The dividend was paid on 11 January 2021 to shareholders registered on 8 January 2021.

Final

The directors have approved a final gross ordinary dividend of 9 cents per ordinary share (2020: 12 cents per ordinary share). The source of such dividends will be from income reserves. The dividend will be payable on 12 July 2021 to shareholders registered on 9 July 2021.

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.

Share capital

The authorised and issued ordinary share capital of the group at 31 March 2021 is set out in note 22.

The company issued 118 019 747 ordinary shares to African Rainbow Capital Financial Services Holdings Proprietary Limited (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 entered into 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 decreased to 14.3% of the issued ordinary shares as a result.

Between the period 3 August 2020 and 30 March 2021, Alexander Forbes Acquisition Proprietary Limited, a wholly owned subsidiary of Alexander Forbes Group Holdings Limited, purchased 42 457 971 AFH shares at an average price of R3.77 per share. The repurchases were made in terms of a general buyback approved by shareholders. In addition, shares to the value of R124 million were purchased for shareholder-approved share incentive schemes.

Share incentive schemes

Information relating to the share incentive schemes is set out in note 22.

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 MR Nkadimeng was appointed as a non-executive director on 3 June 2020, and as member of the Social, ethics and transformation committee on 1 February 2021.
- Mr DJ Anderson resigned as a director on 6 May 2020, which is the day following the completion of the ARC Acquisition[1].
- Mr AM Mazwai was appointed as an independent, non-executive director, and member of the audit and risk committee, effective 9 November 2020. Mr T Dloti resigned as member of the audit and risk committee on the same day.

Ms BJ Memela-Khambula has announced her intention not to stand for re-election at the annual general meeting to be held on 3 September 2021 and will retire with effect from the conclusion of the board meeting held on the same day. The company will make a future announcement on her successor as social, ethics and transformation committee chair.

Ms Memela-Khambula has been a loyal and longstanding independent non-executive director since 2015. The board wishes to express their appreciation to her for her excellent service and dedication and wishes her 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.

[1] *Mr DJ Anderson resigned as a director on 6 May 2020, which is the day following the completion of the ARC Acquisition1. Mr Anderson's resignation is in accordance with the Amended and Restated Relationship Agreement and as detailed in the SENS announcement released by the company on 22 January 2020.*

Events occurring after reporting period

Transfer of business in terms of section 50 of the Insurance Act 18 of 2017

Alexander Forbes Life Limited (including the group risk and retail life businesses), a subsidiary of Alexander Forbes Limited, was classified as a discontinued operation in the 2019 financial year. At 31 March 2020, a binding offer was received, however, both parties mutually agreed to place the transaction on hold due to the market disruption caused by the Covid-19 pandemic. Consequently, this transaction was not concluded.

As at the current financial year end, management were in the final stages of reaching agreement on the sale of the insurance policies held by Alexander Forbes Life Limited. This agreement was concluded and signed on 11 June 2021. The sale and transfer agreement will result in a transfer of all insurance policies, as well as all related liabilities and the reserves created for these policies under section 50 of the Insurance Act 18 of 2017, subject to regulatory approval. The disposal of the Alexander Forbes Life Limited business operations as opposed to the legal entity has resulted in a change to the assets and liabilities which are held for sale as set out in note 21.4.

Corporate governance

The company's application of the principles contained in the King IV Report on Corporate Governance for South Africa (King IV™) is disclosed in the FY2020 governance report available on the company's website. Disclosure for the current year will be available no later than 31 July 2021.

On behalf of the board of directors

M Ramplin
Non-executive chair
14 June 2021

DJ de Villiers
Chief executive officer

Audit and risk committee report

The committee is pleased to present its report for the financial year ended 31 March 2021.

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 and as contemplated in the FY2020 governance report, approval was obtained from the Prudential Authority for this committee to also perform the functions and oversight of the previous combined insurance audit and risk committee, for Alexander Forbes Investments Limited (AFIL) and Alexander Forbes Life Limited (AF Life). Consequently, the combined insurance audit and risk committee was terminated, and the responsibilities absorbed into this committee in the second quarter of financial year 2021.

Composition and attendance

Audit and risk committee	**Current**	
	NG Payne (Chair)	6/6
	RM Head	6/6
	AM Mazwai[1]	3/3
	Previous	
	T Dloti[2]	3/3

[1] *Appointed with effect from 4 December 2020.*
[2] *Resigned with effect from 4 December 2020.*

The board chair and all non-committee member directors, chief executive officer, chief financial officer, head of internal audit, head of compliance, head of enterprise risk management, executive: governance, legal and compliance, cluster chief financial officers, head of tax, information technology representative, head of capital and independent external auditor are standing invitees. The independent head of actuarial function is an invitee for reporting purposes bi-annually.

The committee, however, debates matters without the permanent invitees present, when required.

The committee meets between six times annually, with two of those meetings arranged as bespoke risk-focused sessions. Two closed meetings (aligned with the approval of the interim and annual financial results) are held with both the independent external auditor and chief audit executive, respectively, where management is not present.

Terms of reference

The committee has adopted formal terms of reference, which underwent a detailed review and update during the year. As with the other committees' terms of reference reviews, detailed reporting guidelines were added to the annual plans to ensure the committee receives precise information, at the most appropriate time in the year and in an appropriate format to better enable their efficacy. This review also ensured incorporation of the items and focus areas necessary to maintain detailed oversight over the AFIL and AF Life audit and risk matters. The committee is satisfied that it complied with its responsibilities during the financial year ended 31 March 2021.

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

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 2021, particularly to ensure that disclosure is adequate and that fair presentation has been achieved. The committee recommended the approval of the audited consolidated and separate annual financial statements to the board of directors. The committee believes that these financial statements present a balanced view of the group's performance for the year under review and that they comply with International Financial Reporting Standards. The committee followed similar approaches for all of the significant subsidiaries of the group.

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.

Delivery against FY2021 objectives

In addition to delivery against the standard annual plans, the board and committees also set specific objectives for each year as reported on below.

- Significant progress was made towards fully entrenching the responsibilities of the information technology governance and capital oversight committees to ensure enhanced efficacy. As noted earlier, the entrenchment of effective oversight over the Alexander Forbes Investments Limited and AF Life audit and risk matters was also achieved. This committee's scope and accountabilities are vast and, more so than in any other committee, the enhancement of the terms of reference through the detailed reporting guidelines was critical to ensure adequately detailed and legally compliant information being shared on all reporting items without overburdening members and thereby risking committee efficacy.
- Through continued increased oversight over financial soundness, capital adequacy and overall business sustainability, the committee effectively assisted the board to navigate the company through challenging and volatile economic conditions and heightened uncertainty. The out of cycle own risk and solvency assessment (ORSA) prepared and approved in response to Covid-19 and its global economic impact played a critical role in informing and guiding the committee and management's decisions. The distribution of a special dividend to further implement the company's capital light approach amidst heightened focus on expense management and revenue enhancement.
- The material oversight items included the continuing enhanced transfer value (ETV) insurance liability and the provisioning required for the outstanding liability. The decisions and recommendations included the group's approach to the limitation of liability and the legal approach to the insurance providers who have not confirmed cover.
- In our response to the unprecedented events arising from the Covid-19 pandemic, the uncertain economic environment and financial market volatility, the committee and board of directors paid specific attention to the judgements, estimates and assumptions which included the following matters, amongst others and which also align with several of the key audit matters discussed below:
  - Solvency assessment and going concern
  - Provision for client settlements – ETV as discussed above
  - 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
- Continued focus on maturing the group's enterprise risk management, information technology governance (including information technology business continuity), compliance, combined assurance frameworks and processes. The committee approved the following policies and frameworks: revised group tax policy, group information technology governance policy, group information technology cyber security policy and group information technology disaster recovery policy.
- The committee provided oversight and approval of the internal control review project. This included the structural plan, the documentation of controls and testing of their efficacy as well as the calculation and approval of the materiality framework. The project implementation spans the current year and year ahead. The oversight of internal controls supports the Chief Executive Officer and Finance Director financial controls attestation in compliance with the new JSE Limited (JSE) Listings Requirements requirement effective for companies with a year-end on or after 31 December 2020.
- Focus on the regulatory programme execution established to effectively implement financial crime control, market conduct and privacy related legislation and regulation. Significant progress has been made with delivery based on the milestones set. The application of all requirements remains a key priority, especially considering the extent of regulatory changes and new legislative requirements. The programme will continue into the FY22 financial year.

Other key items of focus

- As part of the revised terms of reference and reporting guidelines, the committee entrenched the practice of considering rotational deep dives to intensely interrogate specific areas of oversight. During the year deep dives on the following items were considered: Namibia, Botswana, Jersey, AFIL and AF Life audit and risk matters, first-line compliance, information technology business continuity management and fraud risk management. Deep dive regularity is determined based on risk, with higher risk items being reviewed more frequently.
- Consideration of the JSE proactive monitoring of financial statements, general reports and reports specifically pertaining to the group.
- Consideration of the sentiment, risks and opportunities pertaining to the highly publicised debates on the prescription of assets.

External audit

The group's independent external auditor is PricewaterhouseCoopers Incorporated (PwC). Fees paid to the auditor are disclosed in note 3 of the group annual financial statements for the year ended 31 March 2021. During the year under review fees paid to PwC amounted to R28 million (2020: R29 million), which included R26 million (2020: R25 million) for statutory audit and related activities as well as R1.7 million (2020: R4 million) for pre-approved non-audit services.

Audit and risk committee report continued

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

The committee annually assesses the independence of PwC and again completed this assessment at its meeting on 1 June 2021. 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 2022. 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 2021 at the annual general meeting on 3 September 2021.

The committee has, however, determined that this will be PwC's final year of reappointment. The company will embark on a process to appoint a new independent external auditor for the 2023 financial year.

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:

- provision for enhanced transfer value (ETV) claims and related expenses
- provision for errors and omissions claims
- goodwill impairment assessment
- recoverability of deferred tax assets on assessed losses

The committee considered the evidence presented and the disclosure in the financial statements and concluded that the treatment of these matters was appropriate. For further details, refer to the independent auditor's report on pages 10 to 18.

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 perform its duties. Furthermore, the committee oversees co-operation between the internal and external auditors and serves as a link between the board of directors and these functions. Internal audit continued to operate under the charter approved in the previous financial year.

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 across all of the group's operations.

Financial reporting procedures

The audit committee has executed its responsibilities in terms of section 3.84(g) of the JSE listings requirements. The committee has considered the financial reporting procedures in place, the assurance reports provided by both internal and external audit and the matters raised and discussed as part of the internal management reporting. The committee is satisfied that internal financial controls have been put in place to ensure that material information relating to Alexander Forbes Group Holdings Limited and its consolidated subsidiaries have been provided to effectively prepare the financial statements.

Internal Financial Controls

The committee has had oversight over the internal control environment. Internal financial controls include all aspects of the business and the controls to ensure an effective operating environment. The areas of subjective assessment and risks associated with these operations include the key assumptions and judgements which are reported on pages 19 to 22 and the detailed disclosure on risks which are reported on pages 95 to 114 of this report. During the year higher priority internal control matters considered included, amongst others:

- The reconciliations of insurance premiums, reinsurance receivables and claims payable within the AF Life Group Risk and Retail Life businesses. Theses reconciliations include long outstanding items which have received management attention and are being remediated.
- The financial reporting from the disposed entity, Alexander Forbes Insurance Namibia which has significant manual processes resulting in delayed reporting. Additional consulting resources were deployed in order to complete the appropriate balance sheet reconciliations and financial reporting.

Based on its oversight and monitoring of the of the group's system of internal financial controls throughout the year under review, and reports made by the combined assurance providers including internal and external audit, the head of actuarial function, compliance and risk management on the results of their procedures, the committee is satisfied that the company's system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements.

Going concern

Despite reporting during times of heightened economic uncertainty, the committee, with concurrence from PwC, has reviewed a documented assessment, including key assumptions prepared by management, of the going concern status of the company and group and has made a recommendation to the board in accordance with the assessment. 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 2022 committee objectives

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

- Continued in-depth oversight of the ETV liability and especially the company's legal action against the insurance companies who are challenging the claim.
- In collaboration with and following approval by the social, ethics and transformation committee of the group's environmental, social and governance (ESG) framework, consideration of enhanced ESG reporting and the need for external assurance on this reporting.
- As part of the broader ORSA activities, input into and approval of the group's sovereign default recovery plan.

Nigel Payne
Committee chair

14 June 2021

Independent auditor's report

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 2021, 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 19 to 126 comprise:

- the group and company statements of financial position as at 31 March 2021;
- 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; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

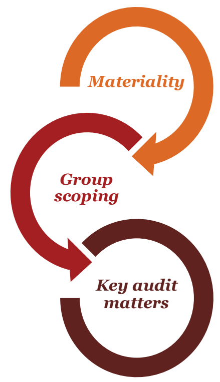
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Overall group materiality

- *Overall group materiality: R 36.3 million, which represents 0.9% of consolidated fee and commission revenue.*

Group audit scope

- *Full scope audits were performed for 5 out of 29 components (a component represents a subsidiary or a sub-group of subsidiaries) based on their financial significance;*
- *In addition to the full scope component audits, specific material financial statement line items for 12 out of the 29 components were audited; and*
- *Specified audit procedures and analytical review procedures were performed on the remaining components.*

Key audit matters

- *Provision for Enhanced Transfer Value and related expenses;*
- *Provision for errors and omissions claims;*
- *Goodwill impairment assessment; and*
- *Recoverability of deferred tax on assessed losses*

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.

Independent auditor's report continued

Overall group materiality	*R 36.3 million*
How we determined it	*0.9% of consolidated fee and commission revenue*
Rationale for the materiality benchmark applied	The benchmark for materiality was set at 0.9% 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. During 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 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 group audit committee meetings throughout the financial year that considered all of the significant components; and
- kept regular communication with audit teams throughout the year and appropriately directed their audits.

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

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

Key audit matters

Key audit matters are those matters that, in our professional 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***
Provision for Enhanced Transfer Value (ETV) and related expenses. The Group has recognised a provision for an Enhanced Transfer Value (ETV) of R274 million and related expenses of R250 million in the group income statement. During the year the liability and the value of insurance for which some of the insurers have not confirmed cover increased significantly as detailed in note 27. This invoked the limitation of liability stipulated in the original sales and purchase agreement. The liability on warranty claims in the transaction was limited to the original purchase price and excludes recoveries of any claim received from third-party insurers. Refer to the Group's accounting policies and notes 21.2 and 27 for disclosures of ETV provision and related expenses, the significant estimates and the process of determining the provision amounts and the critical assumptions and judgements applied. 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 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 and magnitude of negative outcomes of the associated claim.	We performed the following procedures to evaluate the ETV claim liability and related expense: • Obtained an understanding of the developments in the ETV claim during 2021, including the underlying assumptions and rationale relating to the provision, through meetings with management, board members and management experts. • Obtained and reviewed management expert legal counsel opinion on the legal interpretation of the sales and purchase agreement especially as it relates to the limitation of warranty claims to the original sales purchase agreement of GBP18,5 million. We used our legal expertise to review the sales and purchase agreement. We noted no aspects in this regard requiring further consideration. • 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. • We inspected correspondence between the Group and the purchaser that aligns with the estimated liability raised at year-end. • 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. • Tested management's calculation of the provisions relating to the ETV claim for accuracy. Tested all payments made to bank records. No exceptions were noted. • Evaluated the disclosure of the ETV claim in accordance with the requirements of IAS 37.

Independent auditor's report continued

Key audit matter	*How our audit addressed the key audit matter*
Provision for errors and omissions claims. 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 R42 million. Refer to the Group's accounting policies and notes 27 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 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.	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 is in accordance with the Group's accounting policies and IFRS. • 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.

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 2021 and relates only to one cash generating unit (CGU); Alexander Forbes Investments Limited. Goodwill is tested annually for impairment and whenever there is an impairment indicator identified by management. For the year ended 31 March 2021, 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 the Alexander Forbes Investment Limited CGU. Management assessed the goodwill balance allocated to the 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 and the terminal growth rate applied to the future cash flow forecasts. These models included projected cash flows for the CGU for five years, with a terminal growth rate applied after the fifth year. 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 updated our understanding of the goodwill valuation model (the model) prepared by the Group on 31 March 2021 compared to our understanding of the business and prior years. No inconsistencies were noted. We used our valuation expertise to perform an independent review on the value in use valuation on the CGU. The review consisted of assessing the key assumptions and methods applied in the model. Judgemental differences in use of assumptions between our review and management's calculation did not indicate an impairment and both outcomes had sufficient headroom. 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. 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 investment returns on the Assets Under Management (AUM) and the operating income net of direct expenses as follows: • With respect to the other market assumptions, we considered management's 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 verified that the net asset value of the CGU was less than the value in use calculated for the CGU and no further impairment indicators were identified.

Independent auditor's report continued

Key audit matter	*How our audit addressed the key audit matter*
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 2021 was R76 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 26 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 and the Board approved budget. We reperformed the assessment of the recoverability and noted that the forecast reflects that the deferred tax asset will begin to 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 in the forecasted period.

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 for the year ended 31 March 2021 FY 2021", 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 2021", 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.

Independent auditor's report continued

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

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

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

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 47 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Alsue Du Preez
Registered Auditor
Johannesburg, South Africa
14 June 2021

Accounting policies

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 2021.

Basis of preparation

The annual financial statements are prepared in accordance with the framework concepts and the measurement and recognition requirements of: International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board, the JSE Limited (JSE) Listings Requirements the South African Institute of Chartered Accountants' (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the South African Companies Act applicable to consolidated financial statements.

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

Financial year 2021 began a few weeks after the appearance of Covid-19 in South Africa and the first set of lockdown measures, resulting in a challenging operating environment throughout the reporting period. The significant market disruption caused by the Covid-19 pandemic created uncertainty in the operating environment. This increased uncertainty impacted our critical accounting assumptions and judgements and as a result we increased the depth and extent of our sensitivity testing to ensure a robust understanding of the impact that these assumptions may have on our financial reporting. Through the year, experience has provided additional insight which has enhanced our assumptions and judgements. Management and the Board have considered expected credit losses, additional reserves on policy liabilities and our assessment of goodwill and other intangible assets. Considering the recent increase in Covid-19 infections (third wave), the limited expected impacts on our assumptions and judgements have been incorporated.

Management, under the direction of the board, performed scenario testing for solvency and liquidity at the beginning of the financial year where these scenarios informed the management actions required to ensure sustainability of the business and enabling it to navigate through the adverse impacts of the pandemic. The scenarios were re-run based on an updated economic outlook and the group continues to remain solvent and liquid into the foreseeable future. In instances where subsidiaries are insolvent, the group is able to recapitalise the business operations and provide the requisite financial support.

The scenario testing in the current financial year for solvency and liquidity informed the assessment for the value in use of the cash generating units (CGUs) and based on the scenarios with the resulting conclusion that the goodwill balance is supported and no impairment is required in the current financial year. Elements of the management actions under these scenarios were also used to inform and support the assessment of the deferred tax asset. In addition, the stress testing and risk management discussions provided sufficient support for the going concern assumption under which these 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. The expected scenarios, management actions and results are discussed and approved by the board.

Accounting policies continued

For the year ended 31 March 2021

The actual experience for the year ended 31 March 2021 was better than our projected information under the expected scenario planned for and approved by the board in the prior year. The group continues to monitor the spread of the Covid-19 pandemic and the related roll-out of the vaccines which may have a material impact in periods to come. The group recognises that the economic outlook continuously changes and the outlook to its financial performance changes accordingly. Our scenario planning process (ORSA) is updated annually or when required and our solvency position is evaluated by the board. The operating environment in South Africa will remain challenging until the government implements far-reaching macro-economic reforms to boost growth. Intermittent power cuts will continue to disrupt economic activity while the prospect of further sovereign downgrades remains high. Economic growth is expected to remain low at 1.3 per cent in 2021 and 1.6 per cent in 2022. Nevertheless, we remain optimistic about South Africa's potential to enhance its gross domestic product, growth, employment, investment and prosperity.

The group liquidity and solvency position at 31 March 2021 is strong with available cash of R392 million and surplus own funds of R1 353 million, 1.92 times above the solvency capital requirement. It is the group policy to maintain a solvency capital ratio of 1.5 times.

2. Goodwill

An annual assessment of goodwill is performed in accordance with the requirements of IAS 36 *Impairment of Assets*. For purposes of impairment testing goodwill is allocated to CGUs which are identified using the group's operating model, and whose appropriateness is evaluated on an annual basis.

The evaluation of impairment is based on discounted cash flow models, making use of expected future cash flows and discount rates, the determination of which requires the exercise of judgement. The cash flow projections are based on financial budgets approved by the board for the forthcoming year and forecasts for a further four years which are based on assumptions of the business, industry and economic growth. The expected impact of Covid-19 has been factored into the financial budgets and the discount rate has been risk-adjusted accordingly. Each CGU's carrying value is tested against the recoverable amount as determined based on value-in-use calculations. Where the carrying value of the CGU exceeds the recoverable amount, a goodwill impairment is recognised.

The group performed sensitivity analyses on the inputs used in the impairment testing and in each scenario with the resulting conclusion that the goodwill balance is supported, and no impairment is required. Details of the assumptions used in this calculation are included in note 12.3.

3. Provision for client settlements – enhanced transfer value (ETV)

The ETV liability matter relates to a legacy United Kingdom (UK) domiciled subsidiary of the group, Alexander Forbes Consultants and Actuaries Limited (AFCA), that was sold in 2012 to Jardine Lloyd Thompson Group (JLT), now part of the Mercer Group inclusive of certain warranties and a limitation of liability. The ETV liability arises from redress payments being ordered, to the industry as a whole, by the Financial Conduct Authority, the UK regulator, in respect of certain thematic errors in historical advice. The potential liability for redress payments is calculated using certain assumptions based on a sample of the total number of cases that may require redress. During the current year, the calculated value of the total liability for redress payments including the costs related to this process increased significantly. The full value of the liability currently assessed is GBP 61.9 million (2020: GBP 12.3 million).

The group has an insurance programme to manage the risk of potential claims that arise from conducting activities of its business. There are seven insurance layers which in total provide cover for GBP140 million above our self-insured excess under the error and omissions insurance programme. To date, the settlement amounts have been paid from the self-insured provision within the group's cell-captive insurance facility as well as settlements made from the primary layer of insurance.

As the liability has increased through the year, management approached insurers for each increasing layer in the insurance programme to obtain confirmation from the insurance underwriters that the event is covered in terms of the policy. Management has since confirmed cover for the second and third excess layers; however, at 31 March 2021, in addition to the first excess layer, the insurer for the fourth excess layer has also indicated that it will not confirm cover. Both first and fourth excess layer insurers have sighted the requirement for an excess deductible to be applied to each case as opposed to the thematic error across all cases (opposing the accepted and generally recognised insurance market position regarding the aggregation of claims under this policy). Management have obtained senior legal opinion on the disputed aggregation by the first and fourth excess layers and remains confident that the positions taken by the them are incorrect and will continue to pursue legal action on the matter. The recovery of insurance in the future will result in the income being recognised at the time.

As a result of the material increase in liability and the value of insurance that is being challenged by the insurers, the indemnities provided by Alexander Forbes in the original sale and purchase agreement (SPA) will be invoked.

Alexander Forbes has a limitation of GBP 18.5 million on the liability which is stipulated in the SPA. The limitation of liability excludes the amounts recovered from insurers. The group has paid GBP 5.4 million on the claim through its cell-captive insurance facility, which has the effect of reducing the potential future liability to approximately GBP 13.1 million.

The group has therefore provided for the full potential liability of the ETV matter in the amount of R274 million. The impact to the group's income statement in the amount of R250 million for the current period is reflected under discontinued operations. For the avoidance of doubt, due to the limitation of liability, there is therefore no risk of any further increases to this liability or risk of new ETV-related liabilities.

4. Errors and omissions in the ordinary course of business

Owing 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 27.2: 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.

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.

Key assumptions used in the impairment review apart from the reorganisation of CGUs are consistent with the prior year, that is, risk-adjusted for the impact of Covid-19 and taking into account 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 made losses in prior years owing to the inability to fully recover operating costs. The recognition of the deferred tax asset on the balance sheet of the subsidiary is dependent on the expected profitability which is included in the group's financial budgets approved by the board for the forthcoming year and forecasts for a further four years which are based on assumptions of the business, industry and economic growth. The judgment 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. The tax authority in South Africa has proposed a restriction on the utilisation of assessed losses carried forward where taxpayers with assessed losses carried forward will only be able to apply the assessed loss to 80 per cent of taxable income derived in a particular year of assessment (i.e. companies with an assessed loss carried forward will be subject to income tax on 20 per cent of taxable income derived during any year). Where a taxpayer realises a current year loss and has no taxable income for the year, it is envisaged that no tax would be payable during that year of assessment. The proposal has been postponed until 2022. The group will apply the proposal when enacted into law.

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 42.

Accounting policies continued
For the year ended 31 March 2021

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 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 financial 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 25. 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
9.1. Sale of business
During the year, the group concluded the disposal of its short-term insurance business in Namibia. The proceeds recognised on disposal of the business have been received in cash. The proceeds exclude potential amounts receivable in terms of a contingent consideration arrangement included as part of the terms of the sale. The contingent consideration may be payable to the group dependent on the outcomes of certain matters which are under review. The contingent consideration cannot be estimated reliably and therefore no value is assigned to it in terms of IFRS.

9.2. Valuation of policyholder assets and liabilities in respect of life insurance contracts
Included in policyholder liabilities in respect of life insurance contracts are revisions of lapses and other related assumptions as a result of the potential impacts of the Covid-19 pandemic.

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 28: Insurance payables.

9.3. Other discontinued operations and assets held for sale
Alexander Forbes Life Limited (including the group risk and retail life businesses), a subsidiary of Alexander Forbes Limited, was classified as a discontinued operation in the 2019 financial year. At 31 March 2020, a binding offer was received; however, both parties mutually agreed to place the transaction on hold due to the market disruption caused by the Covid-19 pandemic. Consequently, this transaction was not concluded at the time.

At 31 March 2021, management were in the final stages of reaching agreement on the sale of the insurance policies held by Alexander Forbes Life Limited. This agreement was concluded and signed on 11 June 2021. The sale and transfer agreement will result in a transfer of all insurance policies, as well as all related liabilities and the reserves created for these policies to Sanlam Life Limited, a subsidiary of Sanlam Limited, under section 50 of the Insurance Act 18 of 2017, subject to regulatory approval. The disposal of the Alexander Forbes Life Limited business operations as opposed to the legal entity has resulted in a change to the assets and liabilities which are held for sale as set out in note 21.4. Upon disposal, the revenue earning activities of the discontinued operation will cease whilst the remaining insurance receivables and insurance payables balances (refer to notes 18 and 28 respectively) will be run down accordingly. These balances are therefore disclosed as part of continuing operations.

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 interests' 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. 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.

Accounting policies continued

For the year ended 31 March 2021

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.

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any 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
Office equipment	4 to 7 years
Motor vehicles	4 to 10 years
Furniture and fittings	4 to 10 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 and whenever there is an indication of impairment.

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 ten 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.

Accounting policies continued

For the year ended 31 March 2021

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.

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).

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 in the 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).

(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 42 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

Accounting policies continued

For the year ended 31 March 2021

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.

(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 group 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.

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.

Accounting policies continued

For the year ended 31 March 2021

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 42.1.2).

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.

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.

Accounting policies continued

For the year ended 31 March 2021

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.

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

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

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

Employee benefits

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.

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.

Accounting policies continued

For the year ended 31 March 2021

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:

- 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 sublease 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.

Accounting policies continued

For the year ended 31 March 2021

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

Accounting policies continued

For the year ended 31 March 2021

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. Owing 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 are 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.

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 2021

The following standards, amendments and interpretations have been adopted by the group for the first time for the financial year ended 31 March 2021. The adoption of these amendments did not have a significant impact on the current period or any prior period.

Effective date	Standard, amendment or interpretation
1 January 2020	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

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 2021 reporting periods and have not been early adopted by the group.

IFRS 17 *Insurance Contracts* is mandatory for financial years commencing on or after 1 January 2023. The insurance operations are classified as discontinued operations, and consequently, this new accounting standard is not applicable and will have no impact on the group.

Group income statement

For the year ended 31 March 2021

Rm	Notes	2021	2020
Continuing operations			
Fee and commission revenue	1	**4 035**	4 022
Fee and commission expenses		**(882)**	(869)
Operating income net of direct expenses		**3 153**	**3 153**
Other income	2	**75**	46
Operating expenses	3	**(2 543)**	(2 442)
Profit from operations before non-trading and capital items		**685**	**757**
Non-trading and capital items	4	**(52)**	(1 283)
Operating profit/(loss)		**633**	**(526)**
Investment income	5	**136**	155
Finance costs	6	**(74)**	(143)
Reported profit arising from accounting for policyholder investments as treasury shares	10.3	**13**	–
Profit/(loss) before taxation		**708**	(514)
Income tax expense	7	**(264)**	(250)
Income tax expense relating to group profits		**(231)**	(253)
Income tax (expense)/credit relating to policyholder investment returns		**(33)**	3
Profit/(loss) for the year from continuing operations		**444**	**(764)**
Discontinued operations			
(Loss)/profit from discontinued operations (net of tax)	21.1	**(241)**	810
Profit for the year		**203**	**46**
Profit/(loss) attributable to:			
Owners of the company		**185**	(145)
Non-controlling interest	8	**18**	191
		203	**46**
Basic earnings/(loss) per share (cents)			
Continuing operations		**33.0**	(67.1)
Discontinued operations		**(18.7)**	55.3
Total operations	9	**14.3**	**(11.8)**
Diluted earnings/(loss) per share (cents)			
Continuing operations		**31.6**	(67.1)
Discontinued operations		**(18.7)**	54.1
Total operations	9	**13.7**	**(11.8)**

Group statement of comprehensive income

For the year ended 31 March 2021

Rm	Notes	2021	2020
Profit for the year		**203**	**46**
Other comprehensive income:			
Foreign currency translation differences – foreign operations		**(20)**	49
Cash flow hedge		**1**	(4)
Other comprehensive income for the year that may be reclassified to profit or loss[1]		**(19)**	**45**
Remeasurement of post-employment benefit obligations		**(14)**	14
Other comprehensive income that will not be reclassified to profit or loss[1]	25.3	**(14)**	**14**
Total comprehensive income for the year		**170**	**105**
Total comprehensive income attributable to:			
Owners of the company		**152**	(89)
Non-controlling interest		**18**	194
Total comprehensive income for the year		**170**	**105**

[1] *Net of related taxes.*

Group statement of financial position

For the year ended 31 March 2021

Rm	Notes	2021	2020
Assets			
Financial assets held under multi-manager investment contracts	10	**333 217**	272 585
Goodwill	12	**1 392**	1 392
Intangible assets	13	**192**	219
Property and equipment	14	**544**	624
Purchased and developed computer software	15	**125**	132
Deferred tax assets	26	**203**	228
Financial assets	17	**1 042**	95
Insurance receivables	18	**726**	–
Tax assets	39	**31**	7
Trade and other receivables	19	**250**	527
Cash and cash equivalents	20	**2 288**	3 959
Assets of disposal group classified as held for sale	21	**907**	2 285
Total assets		**340 917**	**282 053**
Equity and liabilities			
Share capital		**6 277**	5 874
Treasury shares		**(445)**	(196)
Other reserves		**211**	179
Accumulated loss		**(2 052)**	(1 051)
Owners of the company	22	**3 991**	4 806
Non-controlling interest		**37**	297
Total equity		**4 028**	**5 103**
Financial liabilities held under multi-manager investment contracts	23	**333 232**	272 612
Borrowings	24	**29**	101
Employee benefits	25	**147**	132
Deferred tax liabilities	26	**87**	85
Provisions	27	**445**	461
Lease liabilities	31	**690**	822
Insurance payables	28	**779**	–
Trade and other payables	29	**570**	599
Tax liabilities	39	**3**	10
Liabilities of disposal group classified as held for sale	21	**907**	2 128
Total liabilities		**336 889**	**276 950**
Total equity and liabilities		**340 917**	**282 053**

Group statement of cash flows

For the year ended 31 March 2021

Rm	Notes	2021	2020
Cash flows from operating activities			
Cash generated from operations	33	**977**	936
Interest received	34	**99**	155
Interest paid	35	**(74)**	(143)
Net cash flows paid to insurance and policyholder contracts	37	**(5)**	(1 720)
Net cash flows (paid to)/received from policyholder investment contracts	38	**(805)**	148
Taxation paid	39	**(274)**	(622)
Dividends paid		**(1 021)**	(750)
Payments made to non-controlling interests		**(11)**	(234)
Cash flows from operating activities – discontinued operations		**(20)**	209
Net cash outflow from operating activities		**(1 134)**	**(2 021)**
Cash flows from investing activities			
Additions to financial assets	17	**(981)**	(2)
Proceeds from disposal of financial assets		**38**	18
Payments for capital expenditure incurred on property, equipment and computer software		**(107)**	(51)
Payment for acquisition of subsidiary (net of cash acquired)	11	**(15)**	–
Proceeds from sale of subsidiaries and businesses	21	**40**	2 043
Cash flows from investing activities – discontinued operations		**–**	(644)
Net cash (outflow)/inflow from investing activities		**(1 025)**	**1 364**
Cash flows from financing activities			
Repayment of borrowings	24	**(100)**	(614)
Borrowings raised	24	**28**	–
Payments of lease liabilities		**(136)**	(112)
Purchase of shares in terms of share buy-back and share-incentive schemes		**(284)**	(41)
Proceeds from sale of treasury shares held by policyholder investments		**(1)**	7
Purchase of treasury shares held by policyholder investments		**(13)**	(3)
Disposal of treasury shares held by policyholder investments		**12**	10
Cash flows from financing activities – discontinued operations		**–**	(8)
Net cash outflow from financing activities		**(493)**	**(768)**
Decrease in cash and cash equivalents		**(2 652)**	(1 425)
Cash and cash equivalents at the beginning of the year		**10 376**	11 751
Effects of exchange rate changes on cash and cash equivalents		**(25)**	50
Cash and cash equivalents at the end of the year		**7 699**	**10 376**
Analysed as follows:			
Cash and cash equivalents of disposal group classified as held for sale	21	**290**	490
Cash and cash equivalents of continuing operations	20	**2 288**	3 959
Cash held under multi-manager investment contracts[1]	10.2	**5 121**	5 927
		7 699	**10 376**

[1] *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 2021

Rm	Share capital	Treasury shares	Other reserves	Accumulated loss	Total equity holders' funds	Non-controlling interests	Total equity
At 31 March 2019	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[1]	(318)	318	–	–	–	–	–
Shares purchased in terms of share buy-back programme and share incentive schemes[2]	–	(41)	–	–	(41)	–	(41)
Settlement of share incentive schemes[3]	–	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[4]	–	–	–	–	–	38	38
At 31 March 2020	**5 874**	**(196)**	**179**	**(1 051)**	**4 806**	**297**	**5 103**
Total comprehensive income	–	–	(19)	171	152	18	170
Profit for the year	–	–	–	185	185	18	203
Other comprehensive income	–	–	(19)	(14)	(33)	–	(33)
Total transactions with owners of the company	403	(249)	51	(1 172)	(967)	(278)	(1 245)
Empowerment partner transaction[5]	403	20	(5)	(151)	267	(267)	–
Shares purchased in terms of share buy-back programme and share incentive schemes[6]	–	(284)	–	–	(284)	–	(284)
Settlement of share incentive schemes[7]	–	16	(16)	–	–	–	–
Movement of treasury shares in policyholder assets	–	(1)	–	–	(1)	–	(1)
Dividends paid	–	–	–	(1 021)	(1 021)	(7)	(1 028)
Movement in share-based payment reserve	–	–	72	–	72	–	72
Other movements in non-controlling interest[8]	–	–	–	–	–	(4)	(4)
At 31 March 2021	**6 277**	**(445)**	**211**	**(2 052)**	**3 991**	**37**	**4 028**

1 The group cancelled 53 568 809 shares which were withdrawn on the JSE on 26 August 2019.
2 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.
3 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.
4 This amount relates to changes in non-controlling interests following the disposal of the group's Zambian and Ugandan operations.
5 The group issued 118 019 747 ordinary shares, 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 Alexander Forbes Group Holdings Limited, Alexander Forbes Limited and ARC on 28 September 2016 in terms of which ARC would exchange its 10% shareholding in a subsidiary company, Alexander Forbes Limited, for shares in Alexander Forbes Group Holdings Limited. This transaction was approved by shareholders on 20 January 2017 and was executed at market value. The increase in share capital offset by the reduction in non-controlling interests resulted in no dilution to existing shareholders.
6 The group purchased AFH shares to the value of R160 million, at an average price of R3.77 per share (42 457 971 shares), in a general buyback approved by shareholders. In addition, shares to the value of R124 million were purchased for shareholder-approved share incentive schemes.
7 Shares amounting to R16 million relating to the 2017 tranche of the forfeitable share scheme were settled.
8 This amount relates to changes in non-controlling interests following the disposal of the group's shareholding in the short-term insurance operation in Namibia.

Group segmental income and profit analysis

For the year ended 31 March 2021

	Retirement consulting		Healthcare consulting		Investments		Individual consulting		Multinational consulting		**Total consulting**		Investments, Products & Enablement (IP&E)		Client Services & Business Optimisation (CSBO)		**Group total**	
Rm	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Continuing operations																		
Fee and commission revenue	**861**	908	**293**	289	**1 932**	1 909	**655**	640	**294**	276	**4 035**	4 022	**–**	–	**–**	–	**4 035**	4 022
Fee and commission expenses	**(13)**	(13)	**–**	–	**(650)**	(636)	**(200)**	(198)	**(19)**	(22)	**(882)**	(869)	**–**	–	**–**	–	**(882)**	(869)
Operating income net of direct expenses	**848**	**895**	**293**	**289**	**1 282**	**1 273**	**455**	**442**	**275**	**254**	**3 153**	**3 153**	**–**	**–**	**–**	**–**	**3 153**	**3 153**
Other income	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**75**	46	**75**	46
Operating expenses	**(845)**	(850)	**(243)**	(232)	**(884)**	(841)	**(410)**	(395)	**(268)**	(244)	**(2 650)**	(2 562)	**–**	–	**17**	43	**(2 633)**	(2 519)
Operating expenses before recoveries	**(215)**	(212)	**(101)**	(108)	**(81)**	(76)	**(156)**	(161)	**(226)**	(209)	**(779)**	(766)	**(171)**	(170)	**(1 703)**	(1 679)	**(2 653)**	(2 615)
Recoveries from IP&E	**(1)**	(13)	**(17)**	(16)	**(134)**	(124)	**(16)**	(14)	**(3)**	(3)	**(171)**	(170)	**171**	170	**–**	–	**–**	–
Recoveries from CSBO	**(629)**	(625)	**(125)**	(108)	**(669)**	(641)	**(238)**	(220)	**(39)**	(32)	**(1 700)**	(1 626)	**–**	–	**1 700**	1 626	**–**	–
Recoveries from discontinued operations	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**20**	96	**20**	96
Normalised profit from operations before non-trading and capital items	**3**	**45**	**50**	**57**	**398**	**432**	**45**	**47**	**7**	**10**	**503**	**591**	**–**	**–**	**92**	**89**	**595**	**680**
Normalised non-trading and capital items	**–**	–	**–**	–	**–**	–	**–**	–	**34**	(3)	**34**	(3)	**–**	–	**(52)**	(25)	**(18)**	(28)
Normalised operating profit	**3**	45	**50**	57	**398**	432	**45**	47	**41**	7	**537**	588	**–**	–	**40**	64	**577**	652
Normalised investment income	**–**	10	**1**	1	**–**	4	**6**	9	**2**	2	**9**	26	**–**	–	**94**	132	**103**	158
Normalised finance cost	**–**	–	**–**	(31)	**–**	–	**–**	(15)	**–**	–	**–**	(46)	**–**	–	**(10)**	(23)	**(10)**	(69)
Normalised profit before taxation	**3**	**55**	**51**	**27**	**398**	**436**	**51**	**41**	**43**	**9**	**546**	**568**	**–**	**–**	**124**	**173**	**670**	**741**
Normalised income tax expense	**(1)**	(20)	**(18)**	(10)	**(139)**	(159)	**(18)**	(15)	**(15)**	(3)	**(191)**	(207)	**–**	–	**(43)**	(63)	**(234)**	(270)
Normalised profit for the year from continuing operations	**2**	**35**	**33**	**17**	**259**	**277**	**33**	**26**	**28**	**6**	**355**	**361**	**–**	**–**	**81**	**110**	**436**	**471**
Normalised profit from discontinued operations (net of tax)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(241)**	809	**(241)**	809
Normalised profit for the year	**2**	**35**	**33**	**17**	**259**	**277**	**33**	**26**	**28**	**6**	**355**	**361**	**–**	**–**	**(160)**	**919**	**195**	**1 280**
Normalised adjustments	**–**	**(287)**	**–**	**(240)**	**–**	**–**	**–**	**(646)**	**–**	**(19)**	**–**	**(1 192)**	**–**	**–**	**8**	**(42)**	**8**	**(1 234)**
Accounting for property leases	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**26**	3	**26**	3
Accounting for property leases – discontinued operations	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	1	**–**	1
Amortisation of intangible assets arising from the 2007 private equity business combination	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(56)**	(66)	**(56)**	(66)
Professional indemnity insurance cell-captive result	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**22**	3	**22**	3
Reported profit arising from accounting for policyholder investments in treasury shares	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**13**	–	**13**	–
Investment income on behalf of policyholders	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**33**	(3)	**33**	(3)
Goodwill and intangible assets arising from business combination written off	**–**	(287)	**–**	(240)	**–**	–	**–**	(646)	**–**	(19)	**–**	(1 192)	**–**	–	**–**	–	**–**	(1 192)
Tax effects on normalised adjustments	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(30)**	20	**(30)**	20
Profit for the year	**2**	**(252)**	**33**	**(223)**	**259**	**277**	**33**	**(620)**	**28**	**(13)**	**355**	**(831)**	**–**	**–**	**(152)**	**877**	**203**	**46**
Normalised basic earnings per share (cents)																	**13.6**	88.7
Normalised headline earnings per share (cents)																	**12.0**	38.7
Normalised weighted average number of shares in issue (millions)																	**1 303**	1 228

Group segmental income and profit analysis continued

For the year ended 31 March 2021

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. The segmental analysis above reflects the operating structure under which management currently reports. 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 *Investments, Product & Enablement (IP&E)* platform;
3) a joint platform for services, including fund administration and shared services under the *Client Services & Business Optimisation (CSBO)* 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:

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

Client services & business optimisation – this includes our operations, technology, process reengineering and shared services units. The costs of this platform are allocated to the segmented business units in the group's segmental reporting. Each reportable segment includes the direct operating expenses relating 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 retirement 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 the 2007 private equity business combination – Non-trading and capital items include the ongoing accounting amortisation of these intangible assets as well as goodwill and intangible assets written off in the prior year. The capitalisation of these 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 expenses of each segment. The group is required to consolidate the financial results of the cell-captive amounting to a profit of R22 million for the year ended 31 March 2021 (2020: R3 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. IFRS 16 requires an on-balance sheet recognition and measurement model for lessees, which includes the recognition of right-of-use assets as well as lease liabilities resulting in depreciation and finance costs being recognised in the income statement. These costs replace rental expenses which were recognised on a straight-line basis under IAS 17. In order to ensure comparability and to again reflect the true premises cost, adjustments amounting to R90 million (2020: R77 million) have been effected to profit before non-trading and capital items in addition to finance costs of R64 million (2020: R74 million), resulting in a net adjustment of R26 million (2020: R3 million) to profit before tax. The group adopted IFRS 16 retrospectively in the financial year ended 2020.

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's consolidated financial statements as treasury shares. As a result, any fair value gains or losses made on the shares, which are economically matched to the policyholder liabilities, are recognised in the group's income statement.

Investment income and taxation payable on behalf of policyholders – The group's tax expense includes both deferred and income taxation payable on behalf of policyholders within the AF investments insurance 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 2021

1. Fee and commission revenue

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

	Retirement consulting		Healthcare consulting		Investments		Individual consulting		Multinational consulting		**Group total**	
Rm	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Revenue by type												
Consulting and advice fees	**170**	175	**50**	53	**36**	32	**511**	496	**123**	109	**890**	865
Administration fees	**605**	658	**3**	–	**–**	–	**144**	144	**132**	130	**884**	932
Commission	**86**	75	**240**	236	**–**	–	**–**	–	**12**	11	**338**	322
Investment management fees	**–**	–	**–**	–	**1 896**	1 877	**–**	–	**27**	26	**1 923**	1 903
Total	**861**	**908**	**293**	**289**	**1 932**	**1 909**	**655**	**640**	**294**	**276**	**4 035**	**4 022**
Revenue by region												
South Africa	**861**	908	**293**	289	**1 932**	1 909	**655**	640	**–**	–	**3 741**	3 746
Namibia	**–**	–	**–**	–	**–**	–	**–**	–	**103**	108	**103**	108
Botswana	**–**	–	**–**	–	**–**	–	**–**	–	**115**	102	**115**	102
Jersey and Channel Islands	**–**	–	**–**	–	**–**	–	**–**	–	**61**	58	**61**	58
Other	**–**	–	**–**	–	**–**	–	**–**	–	**15**	8	**15**	8
Total	**861**	**908**	**293**	**289**	**1 932**	**1 909**	**655**	**640**	**294**	**276**	**4 035**	**4 022**
Timing of revenue recognition												
Products transferred at a point in time	**18**	18	**6**	6	**–**	–	**57**	54	**2**	2	**83**	80
Services transferred over time	**843**	890	**287**	283	**1 932**	1 909	**598**	586	**292**	274	**3 952**	3 942
Total	**861**	**908**	**293**	**289**	**1 932**	**1 909**	**655**	**640**	**294**	**276**	**4 035**	**4 022**

2. Other income

Rm	**2021**	2020
Sub-rental income	**45**	28
Technology fees	**30**	18
Total other income	**75**	**46**

The group subleases additional office space to external parties. Further details on these subleases are included in note 31.2. 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 2021

3. Operating expenses

Rm	Notes	2021	2020
Operating expenses classified by nature are as follows:			
Amortisation – purchased and developed computer software	15	**(36)**	(28)
IT maintenance and support		**(293)**	(313)
Depreciation	14	**(158)**	(161)
Right-of-use assets – buildings		**(110)**	(111)
Leasehold improvements		**(3)**	(3)
Computer equipment		**(38)**	(39)
Furniture fittings, office equipment and other assets		**(7)**	(8)
External auditor's remuneration		**(28)**	(29)
Audit service – fees for audit		**(27)**	(25)
Non-audit service		**(1)**	(4)
Professional fees		**(149)**	(142)
Regulatory and compliance		**(21)**	(17)
Insurance costs		**(77)**	(74)
Premises' operating costs		**(58)**	(72)
Expenses relating to short-term and low value leases		**(1)**	(1)
Staff costs[1]		**(1 520)**	(1 466)
Salaries, wages and other benefits		**(1 365)**	(1 309)
Share-based payments		**(49)**	(29)
Termination benefits		**(6)**	(14)
Retirement benefit contributions – defined contribution plans		**(10)**	(9)
Other staff costs[3]		**(90)**	(105)
Travel and conference costs		**(5)**	(34)
Marketing and communications		**(74)**	(76)
Claims and bad debts		**(38)**	(29)
Other operating expenses		**(105)**	(96)
Recovery from discontinued operations		**20**	96
Total operating expenses[2]		**(2 543)**	**(2 442)**

[1] *Staff costs include executive directors' and non-executive directors' remuneration. Refer to note 40 for a detailed analysis.*
[2] *Total operating expenses exclude non-trading and capital items that are disclosed in note 4.*
[3] *Other staff costs consists largely of education and training as well as temporary staff costs.*

4. Non-trading and capital items

Rm	Notes	2021	2020
Costs relating to strategic consulting engagement		**(8)**	(3)
Software written off[1]		**(5)**	(26)
Other		**(5)**	1
Normalised non-trading and capital items		**(18)**	**(28)**
Professional indemnity insurance cell-captive result		**22**	3
Amortisation of intangible assets arising from the 2007 private equity transaction		**(56)**	(66)
Goodwill written off[2]	12	**–**	(1 145)
Intangible assets arising from business combination written off – trade names[2]	13	**–**	(47)
Total non-trading and capital items		**(52)**	**(1 283)**

[1] *Software in development amounting to R5 million was written off in the current period.*
[2] *The group's goodwill balance is evaluated for impairment on an annual basis. In the prior 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.*

5. Investment income

Rm	2021	2020
Interest income	**87**	148
Investment and dividend income	**16**	10
	103	158
Multi-manager operations		
Investment returns/(losses) linked to policyholder tax expense	**33**	(3)
Total investment income	**136**	**155**
Investment income is derived from the following categories of financial assets:		
Amortised cost	**87**	148
Financial assets at fair value through profit or loss	**49**	7
Total investment income	**136**	**155**

6. Finance costs

Rm	2021	2020
Interest on lease liabilities	**(64)**	(74)
Interest on borrowings[1]	**(1)**	(54)
Cost of hedging	**(4)**	(1)
Other interest	**(5)**	(14)
Total finance costs	**(74)**	**(143)**

[1] *A repayment of R101 million was made against the revolving credit facility during the year, inclusive of interest. Further details are included in note 24.*

Notes to the group financial statements continued

For the year ended 31 March 2021

7. Income tax expense

Rm	2021	2020
South African income tax		
Current tax	**(228)**	(238)
Current year	**(223)**	(240)
Prior years	**(5)**	2
Deferred tax	**13**	11
Current year	**12**	18
Prior years	**1**	(7)
Foreign income tax	**(13)**	**(17)**
Current tax	**(2)**	(17)
Deferred tax	**(11)**	–
Foreign withholding tax	**(3)**	**(5)**
Securities transfer tax	**–**	**(4)**
Income tax expense relating to corporate profits	**(231)**	**(253)**
Income tax (expense)/credit on policyholder investment returns[1]	**(33)**	**3**
Current tax – current year	**(11)**	(7)
Deferred tax – current year	**(22)**	10
Income tax expense	**(264)**	**(250)**

[1] *Credit due to net release of unrealised gains.*

%	2021	2020
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	**0.5**	(0.9)
Policyholder tax	**4.7**	0.6
Unutilised tax losses (net of prior year assessment loss utilised)[1]	**8.1**	(7.8)
Exempt income	**(1.6)**	(1.1)
Disallowed expenses		
Legal fees	**0.4**	–
Donations	**0.1**	(0.4)
Unrealised investment losses	**–**	(0.2)
Software impairment	**–**	(1.4)
Fair value adjustment of treasury shares	**0.5**	–
Goodwill impairment	**–**	(64.7)
Sundry items	**0.4**	(0.9)
Difference in foreign tax rates from other tax jurisdictions	**(2.5)**	1.9
Securities transfer tax	**–**	(0.7)
Prior year underprovision (net of prior year overprovision)	**(1.3)**	(1.0)
Effective tax rate per income statement	**37.3**	**(48.6)**

[1] *Unutilised tax losses represent the current year's tax losses incurred by underlying subsidiaries for which a deferred tax asset may not be recognised in terms of IAS 12 Income taxes. For the current year the value of unrecognised tax losses amounts to R57 million (2020: R40 million).*

8. Profit attributable to non-controlling interest

The profit attributable to non-controlling interests in the current year largely comprise amounts due to parties that hold a non-controlling interest share in the emerging market subsidiaries domiciled in Botswana and Namibia. Details of non-wholly owned subsidiaries are provided in note 44: Consolidated and unconsolidated entities.

Rm	2021	2020
Profit attributable to non-controlling interest	**18**	191

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	2021	2020
Weighted average number of shares	**1 388**	1 310
Weighted average shares held by policyholders classified as treasury shares	**(6)**	(6)
Weighted average treasury shares	**(85)**	(82)
Weighted average number of shares in issue (net of treasury shares)	**1 297**	1 222
Dilutive shares	**56**	27
Diluted weighted average number of shares	**1 353**	1 249
Actual number of shares in issue	**1 402**	1 288
Actual treasury shares	**(126)**	(70)
Shares in issue net of treasury shares	**1 276**	1 218
Normalised number of shares		
Weighted average number of shares in issue	**1 297**	1 222
Shares held by policyholders classified as treasury shares	**6**	6
Normalised number of shares in issue	**1 303**	1 228

Notes to the group financial statements continued

For the year ended 31 March 2021

9. Earnings per share continued

9.6 Calculation of basic and headline earnings from total operations

Rm		2021	2020
Profit/(Loss) attributable to owners of the company		**185**	(145)
Adjusting items:			
Software written off – continuing operations		**5**	26
Goodwill written off – continuing operations		**–**	1 145
Intangible assets arising from business combinations – continuing operations		**–**	47
Profit on disposal of subsidiaries – discontinued operations		**(26)**	(863)
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
Headline earnings for the year		**164**	**433**
Earnings per share from total operations[1]			
Basic earnings/(loss) per share	(cents)	**14.3**	(11.8)
Headline earnings per share	(cents)	**12.7**	35.4
Diluted basic earnings/(loss) per share	(cents)	**13.7**	(11.8)
Diluted headline earnings per share	(cents)	**12.2**	34.7

[1] *Amounts computed using unrounded numbers.*

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

9.7 Calculation of normalised earnings from total operations

Rm		2021	2020
Normalised profit for the year per the group segmental income and profit analysis		**195**	1 280
Less: profit attributable to non-controlling interests		**(18)**	(191)
Normalised profit attributable to owners of the company		**177**	1 089
Adjusting items:			
Software written off – continuing operations		**5**	26
Profit on disposal of subsidiaries – discontinued operations		**(26)**	(863)
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
Normalised headline earnings for the year		**156**	**475**
Normalised earnings per share[1]			
Normalised basic earnings per share	(cents)	**13.6**	88.7
Normalised headline earnings per share	(cents)	**12.0**	38.7

[1] *Amounts computed using unrounded numbers.*

9.8 Calculation of basic and headline earnings from continuing operations

Rm		2021	2020
Profit/(loss) after tax from continuing operations		**444**	(764)
Less: profit attributable to non-controlling interests		**(16)**	(57)
Profit/(loss) attributable to owners of the company		**428**	**(821)**
Adjusting items:			
Software written off		**5**	26
Goodwill written off		**–**	1 145
Intangible assets arising from business combination written off		**–**	47
Tax and non-controlling interest impact on above items		**–**	(3)
Headline earnings from continuing operations		**433**	**394**
Earnings per share from continuing operations[1]			
Basic earnings/(loss) per share from continuing operations	(cents)	**33.0**	(67.1)
Headline earnings per share from continuing operations	(cents)	**33.4**	32.2
Diluted basic earnings/(loss) per share from continuing operations	(cents)	**31.6**	(67.1)
Diluted headline earnings per share from continuing operations	(cents)	**32.0**	31.6

[1] *Amounts computed using unrounded numbers.*

9.9 Calculation of basic and headline earnings from discontinued operations

Rm		2021	2020
(Loss)/profit after tax from discontinued operations		**(241)**	810
Less: profit attributable to non-controlling interests		**(2)**	(134)
(Loss)/profit from discontinued operations attributable to owners of the company		**(243)**	676
Adjusting items:			
Profit on disposal of subsidiaries		**(26)**	(863)
IFRS 5 impairment – KIN Digital		**–**	44
IFRS 5 impairment – short-term insurance business in Namibia		**–**	62
Tax and non-controlling interest impact on above items		**–**	120
Headline (loss)/earnings from discontinued operations		**(269)**	**39**
Earnings per share from discontinued operations[1]			
Basic (loss)/earnings per share from discontinued operations	(cents)	**(18.7)**	55.3
Headline (loss)/earnings per share from discontinued operations	(cents)	**(20.7)**	3.2
Diluted basic (loss)/earnings per share from discontinued operations	(cents)	**(18.7)**	54.1
Diluted headline (loss)/earnings per share from discontinued operations	(cents)	**(20.7)**	3.1

[1] *Amounts computed using unrounded numbers.*

Notes to the group financial statements continued

For the year ended 31 March 2021

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	2021	2020
A reconciliation between financial assets held under multi-manager and unit trust investment contracts:		
Opening balance	272 585	299 852
Movement during the year[1]:		
Premium inflow	58 150	51 413
Withdrawals	(71 217)	(57 809)
Investment returns after tax	75 789	(18 895)
Policyholder fees charged/investment portfolio expenses	(2 090)	(1 975)
Other	–	(1)
Closing balance[2]	**333 217**	**272 585**

[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 18 (2020: 19) funds that are consolidated when the group's interest in the funds increases above the 20% threshold (refer to the accounting policies for further detail).

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

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

Rm	2021	2020
Financial assets at fair value through profit or loss		
Equity securities – listed	117 456	75 916
– unlisted	99	1 073
Preference shares – listed	103	411
Collective investment schemes	115 239	101 499
Debt securities – listed	19 957	18 606
– government stock	33 923	24 468
Debentures – listed	2 072	1 944
Policy of insurance	24 300	23 151
Cash and deposits	1 476	1 658
Bonds and debentures	7 907	6 964
Equities	13 792	12 975
Unlisted equities	340	418
Other portfolio assets	785	1 136
Derivative financial instruments	62	–
Money market	14 551	19 141
Unsettled trades	483	449
Cash and cash equivalents – cash	4 972	5 927
Total financial assets held under multi-manager investment contracts	**333 217**	**272 585**

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.

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

10.3 Reconciliation of assets held under multi-manager investment contracts

As a result of the group being listed, the investments by underlying asset managers in the Alexander Forbes Group Holdings' listed shares are recognised as treasury shares and all fair value adjustments recognised on these treasury shares are reversed, while the corresponding fair value adjustments on the financial liability continue to be recognised in the income statement. The resultant profit of R13 million (2020: R nil) 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	2021	2020
Total financial assets held under multi-manager investment contracts (per statement of financial position)	333 217	272 585
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	42	41
Financial effects of accounting for policyholder investments as treasury shares – prior year	(14)	(14)
– current year	(13)	–
Total financial liabilities held for policyholders under multi-manager investment contracts	**333 232**	**272 612**

11. Acquisition of GF Wealth Management Proprietary Limited

On 1 October 2020 the group acquired 100% of the issued share capital in GF Wealth Management Proprietary Limited (GF Wealth), a private company in South Africa that specialises in financial asset investments and fund management related activities. The acquisition of GF Wealth is expected to strengthen the group's core offering.

Details of the purchase consideration are as follows:

Rm	2021
Cash	21
Contingent consideration[1]	12
Total purchase consideration	**33**

[1] The purchase of GF Wealth provides for an additional consideration payable to the sellers if the GF Wealth revenue over the 2021 and 2022 financial years meets predetermined targets. The group has included R12 million as contingent consideration related to the additional consideration, which represents its fair value at the date of acquisition. The fair value of contingent consideration payable was measured with reference to current fees and performance forecasts. The maximum amount of the payment is unlimited.

The final tranche of contingent consideration is payable in July 2022. The key inputs into this valuation at 1 October 2020 were the estimated future revenues and the average discount rate of 14% used to determine the present value of the future cash flows.

The assets and liabilities recognised as a result of the acquisition are as follows:

Rm	Note	2021
Cash		6
Intangible asset – customer contracts		34
Tax liabilities		(1)
Deferred tax liability		(6)
Net assets acquired		**33**

Notes to the group financial statements continued

For the year ended 31 March 2021

12. Goodwill

The group recorded significant goodwill upon its reorganisation in 2007 in terms of IFRS 3. In the prior year, the impact of the Covid-19 pandemic on the cash generating units (CGUs) to which goodwill was historically allocated was considered as part of the impairment assessment, resulting in a goodwill write-off of R1 145 million. In the 2021 financial year, the outcome of the annual impairment assessment was that the current goodwill balances are supported and that sufficient headroom exists to maintain these balances under various stress scenarios.

Rm	2021	2020
12.1 Carrying value	**1 392**	**1 392**
12.2 Reconciliation of movement in carrying value		
Opening balance	**1 392**	**2 537**
Movement during the year:		
Goodwill written off – retirement consulting	–	(252)
Goodwill written off – healthcare consulting	–	(228)
Goodwill written off – individual consulting	–	(646)
Goodwill written off – multinational consulting	–	(19)
Closing balance	**1 392**	**1 392**
Analysis of goodwill balances per CGU		
Investments	**1 392**	1 392
	1 392	**1 392**

12.3 Impairment review of goodwill

For purposes of impairment testing, goodwill is allocated to CGUs. There is currently one remaining CGU (Investments) to which goodwill has been allocated. This goodwill balance is evaluated for impairment on an annual basis. The evaluation is based on the estimation of future cash flows and discount rates. The CGU to which goodwill is allocated is tested against the 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.

The average growth assumption for the Investments CGU more specifically incorporates expected growth in markets as well as asset class mix and their related margins and are derived from the assumptions made at the time from our internal economic view. The significant change in this assumption from 2020 to 2021 incorporates our initial view of the impact of Covid-19 on the South African economy and the related experience that we have encountered through the current year. The more positive growth expectations include assumptions regarding the roll out of vaccines, the political improvements and outlook on economic reforms and key policy issues, specifically infrastructure and foreign investment.

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.

12.3 Impairment review of goodwill continued

Key assumptions used include:

		South Africa		Multinational consulting (previously emerging markets)	
%		**2021**	2020	**2021**	2020
Discount rates – weighted average cost of capital		**14.6**	14.8	**–**	14.3
Terminal growth rate		**4.0**	4.0	**–**	3.4
Average growth in operating income net of direct expenses					
Investments	(%)	**6–10**	1–5	**–**	–
Retirement and health consulting (previously consulting and retirements)	(%)	**–**	Written off	**–**	–
Individual consulting (previously wealth and investments)	(%)	**–**	Written off	**–**	–
Multinational consulting (previously emerging markets)	(%)	**–**	Written off	**–**	Written off
Forecast period (years)		**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 on the Investments 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%, and a reduction of the operating income net of direct expenses by 10%. The board has considered the headroom and concluded that, in all cases, there are no reasonably possible changes in key assumptions that may give rise to the carrying amount of goodwill exceeding the value in use.

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	2021	2020
13.1 Carrying value		
Cost	**972**	939
Accumulated amortisation and impairment losses	**(780)**	(720)
Balance at 31 March	**192**	**219**
13.2 Analysis of intangible assets		
Customer lists	**96**	107
Trade names	**95**	110
Intellectual property	**1**	2
	192	**219**
13.3 Reconciliation of movement in carrying value		
Opening balance	**219**	323
Movement during the year:		
Additions	**34**	11
Amortisation charge	**(61)**	(68)
Intangible assets arising from business combination written off (refer to note 4)	**–**	(47)
Closing balance	**192**	**219**

Notes to the group financial statements continued

For the year ended 31 March 2021

14. Property and equipment

Rm	Right-of-use assets – buildings	Leasehold improvements	Computer equipment	Furniture & fittings, office equipment and other assets	Total
2021					
Carrying value					
Cost	1 320	59	260	76	1 715
Accumulated depreciation and impairments	(945)	(16)	(165)	(45)	(1 171)
Carrying value at 31 March 2021	**375**	**43**	**95**	**31**	**544**
Cost					
Balance at 1 April 2020	1 326	29	289	60	1 704
Additions to enhance existing operations	5	30	42	6	83
Derecognition[1]	–	–	(69)	–	(69)
Transfer (to)/from disposal group held for sale	(11)	–	(2)	10	(3)
Balance at 31 March 2021	**1 320**	**59**	**260**	**76**	**1 715**
Accumulated depreciation and impairments					
Balance at 1 April 2020	(835)	(13)	(196)	(36)	(1 080)
Depreciation charge for the year	(110)	(3)	(38)	(7)	(158)
Derecognition	–	–	69	–	69
Transfer from disposal group held for sale	–	–	–	(2)	(2)
Balance at 31 March 2021	**(945)**	**(16)**	**(165)**	**(45)**	**(1 171)**

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

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)**

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 R5 million was written off.

Rm	In use	In development	Total
2021			
Carrying value			
Cost	374	50	424
Accumulated amortisation and impairment losses	(294)	(5)	(299)
Carrying value at 31 March 2021	**80**	**45**	**125**
Cost			
Balance at 1 April 2020	350	40	390
Movement during the year:			
Additions	2	32	34
Transfers to in use	22	(22)	–
Balance at 31 March 2021	**374**	**50**	**424**
Accumulated amortisation and impairment losses			
Balance at 1 April 2020	(258)	–	(258)
Movement during the year:			
Amortisation for the year – continuing operations	(36)	–	(36)
Impairment charge through income statement	–	(5)	(5)
Balance at 31 March 2021	**(294)**	**(5)**	**(299)**
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 2021

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 2020 financial year, management decided to exit the associate arrangement with KIN.

Rm	2021	2020
Equity-accounted carrying value		
Cost	–	–
Share of cumulative post-acquisition reserves	–	–
Closing balance	**–**	**–**
Reconciliation of movement in equity-accounted carrying value		
Opening balance	–	24
Movement during the year:		
Additions	–	27
Share of loss of discontinued associates	–	(7)
IFRS 5 fair value impairment	–	(44)
Closing balance	**–**	**–**

17. Financial assets

Rm	2021	2020
17.1 Total financial assets		
Non-current financial assets	49	50
Current financial assets	993	45
Total financial assets	**1 042**	**95**
17.2 Analysis of financial assets		
Financial assets at fair value through profit or loss	993	46
Money market instruments	5	4
Collective investment schemes[1]	988	42
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	33
Other loans	3	3
Total financial assets	**1 042**	**95**

[1] *The group has historically invested in certain collective investment schemes. These investments amounting to R924 million in the current year have been historically classified as cash and cash equivalents. The nature of these investments now include longer dated financial instruments and as such have been classified as financial assets. This has resulted in an increase in financial assets with a corresponding decrease in cash and cash equivalents.*

18. Insurance receivables

In the 2019 financial year, the group discontinued its short-term and long-term insurance operations. As at 31 March 2021, management were in the final stages of reaching agreement on the sale of the insurance policies held by Alexander Forbes Life Limited (AF Life). The disposal of the AF Life business operations as opposed to the legal entity has resulted in a change to the assets and liabilities which are held for sale. These assets will be wound down in the ordinary course of closure of the AF Life licence. Refer to note 21.4.

Rm	Note	2021	2020
Reinsurance recoverable		188	–
Receivable from long-term insurance contracts		538	–
Premium debtors		82	–
Reinsurers' share of policyholder liability (group life)		127	
Reinsurers' share of outstanding claims		329	–
Closing balance		**726**	**–**

19. Trade and other receivables

Rm	Note	2021	2020
Financial assets			
Trade receivables[1]		156	176
Other receivables		44	44
Total financial assets		**200**	**220**
Non-financial assets			
Accrued and not billed balances		29	27
Reimbursement insurance asset – enhanced transfer value		–	221
Prepayments		21	59
Total trade and other receivables		**250**	**527**

[1] *Included in trade and other receivables is a loss allowance on trade receivables of R21.9 million (2020: R20.7 million). Refer to note 42.1.2 for further detail.*

20. Cash and cash equivalents

Rm	Note	2021	2020
Total cash and cash equivalents			
Cash and bank balances		1 659	2 467
Short-term deposits		629	1 492
Total cash and cash equivalents		**2 288**	**3 959**

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 available for distribution is R232 million as at 31 March 2021 (2020: R1 599 million). Cash and cash equivalents held under multi-manager investment contracts are reflected in note 10. 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.

Notes to the group financial statements continued

For the year ended 31 March 2021

21. Assets and liabilities of disposal groups as held for sale and discontinued 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 March 2019. The sale of short-term insurance business in Namibia was concluded during the current financial year whilst the short-term insurance operation in South Africa was disposed of in the prior financial year. The results of operations of the discontinued entities are reported separately in the income statement.

Sale of businesses

The group finalised the sale of the subsidiary, Alexander Forbes Insurance Company Namibia Limited, to Momentum Metropolitan Strategic Investments Proprietary Limited, a wholly owned subsidiary of Momentum Short Term Insurance (Namibia) Limited. This sale was effective 9 December 2020 and concluded the group's exit from the short-term insurance business.

The group received consideration of N$40 million (R40 million) in December 2020 and has recognised net proceeds of R30 million after payment of R10 million to minorities. The proceeds exclude potential amounts receivable in terms of a contingent consideration arrangement included as part of the terms of the sale. The contingent consideration may be payable to the group dependent on the outcomes of certain matters which are under review. The contingent consideration cannot be estimated reliably and therefore no value is assigned to it in terms of the international financial reporting standards (IFRS).

The financial information for the period to the date of disposal is set out in notes 21.1 and 21.3 below.

Other discontinued operations and asset held for sale

Alexander Forbes Life Limited (including the group risk and retail life businesses), a subsidiary of Alexander Forbes Limited, was classified as a discontinued operation in 2019. At 31 March 2020 a binding offer had been received, however, both parties mutually agreed to place the transaction on hold due to the market disruption caused by the Covid-19 pandemic. This transaction was not concluded.

As at 31 March 2021, management were in the final stages of reaching agreement on the sale of the insurance policies held by Alexander Forbes Life Limited. This agreement was concluded and signed on 11 June 2021. The sale and transfer agreement will result in a transfer of all insurance policies, as well as all related liabilities and the reserves created for these policies to Sanlam Life Limited, a subsidiary of Sanlam Limited, under section 50 of the Insurance Act 18 of 2017, subject to regulatory approval. The disposal of the Alexander Forbes Life Limited business operations as opposed to the legal entity has resulted in a change to the assets and liabilities which are held for sale as set out in note 21.4.

Upon disposal, the revenue earning activities of the discontinued operation will cease whilst the remaining insurance receivables and insurance payables balances (refer to notes 18 and 28 respectively) will be run down accordingly.

21.1 Net profit of business units discontinued[1]

Rm	Note	2021	2021[1]
Net earned premiums		**496**	1 169
Interest revenue – effective interest method		**34**	75
Total net revenue		**530**	**1 244**
Net claims, commissions, fees and withdrawals		**(481)**	(697)
Operating income net of direct expenses[2]		**49**	**547**
Operating expenses		**(87)**	(406)
Operating expenses from previously discontinued operations		**–**	3
(Loss)/profit from operations before non-trading and capital items		**(38)**	**144**
Add: Profit from operations before non-trading and capital items from previously discontinued operations		**–**	(3)
Non-trading and capital items		**(250)**	(142)
Operating loss		**(288)**	**(1)**
Investment income		**30**	41
Finance costs		**–**	(3)
Share of net loss of associates (net of income tax)		**–**	(7)
(Loss)/profit before tax		**(258)**	**30**
Income tax expense		**(9)**	(83)
Loss for the year from discontinued operations		**(267)**	**(53)**
Profit on disposal of subsidiaries and associate[3]		**26**	863
Total (loss)/profit from discontinued operations		**(241)**	**810**
Profit attributable to:			
Owners of the company		**(243)**	676
Non-controlling interest		**2**	134
		(241)	**810**

[1] *In the 2021 financial year, the presentation of the net profit of business units discontinued note was simplified. As a result, the presentation of the comparative information has been restated. The restatement had no impact on the group's income statement, statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity.*

[2] *Includes 8 months results of Alexander Forbes Insurance Namibia which was disposed of to Momentum Short Term Insurance (Namibia) Limited in the current year.*

[3] *Profit on disposal of subsidiaries relates to the disposal of the short-term insurance business in Namibia. In the prior year, the group had profits on disposals comprising of R861 million relating to the disposal of AF Insurance and R2 million from the disposal of the interests in Zambia and Uganda.*

Notes to the group financial statements continued

For the year ended 31 March 2021

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

21.2 Non-trading and capital items

Rm	2021	2020
Costs related to proposed client settlement – enhanced transfer values[1]	(250)	(30)
IFRS 5 impairments	–	(106)
KIN Digital	–	(44)
Short-term insurance business in Namibia	–	(62)
Corporate activity costs on discontinued operations	–	(6)
	(250)	**(142)**

[1] *The enhanced transfer value (ETV) liability matter, in respect of a legacy United Kingdom domiciled subsidiary that was sold in 2012 inclusive of certain warranties and a limitation of liability. The ETV liability arises from redress payments being ordered, to the industry as a whole, by the Financial Conduct Authority, the UK regulator, for certain thematic errors in historic advice. Alexander Forbes has a limitation of GBP 18.5 million on the liability. This limitation of liability excludes the amounts recovered from insurers. As a result of the increasing liability and the increased value of insurance which has not confirmed cover, the limitation of liability stipulated in the sale and purchase agreement will be invoked. For the avoidance of doubt, due to the limitation of liability, there is therefore no risk of any further increases to this liability or risk of new ETV-related liabilities. Refer to note 27.3.*

21.3 Disposal of subsidiaries

Rm	2021	2020
Carrying value of net assets sold	(13)	(384)
Non-controlling interest	9	–
Goodwill disposed of	–	(445)
Carrying value disposed of	(4)	(829)
Gross proceeds on disposal	40	2 043
Non-controlling interest share of proceeds	(10)	–
Taxes paid – STT and CGT	–	(314)
Other direct costs to sell	–	(37)
Profit on disposal of subsidiary	**26**	**863**
Net proceeds on disposal	30	1 729
Net consideration received in cash	30	1 729
Cash and cash equivalents disposed of	(74)	(611)
Net cash (outflow)/inflow	**(44)**	**1 118**
Effect of disposal on the financial position of the group		
Total assets	**(887)**	**(1 383)**
Total liabilities	**874**	**554**
Net assets disposed of	**(13)**	**(829)**

21.4 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	2021	2020
Assets of insurance cell-captives	–	734
Long-term assets	–	3
Deferred tax asset	–	1
Insurance receivables	617	1 047
Trade and other receivables	–	10
Cash and cash equivalents	290	490
Total assets	**907**	**2 285**
Liabilities of insurance cell-captives	–	734
Insurance payables	907	1 308
Deferred tax liability	–	1
Provisions – non-current	–	6
Taxation payables	–	8
Trade and other payables	–	71
Total liabilities	**907**	**2 128**
Total equity	**–**	**157**

22. Equity holders' fund

Rm	Notes	2021	2020
22.1 Total equity holders' funds			
Share capital at no par value	22.2	6 277	5 874
Treasury shares	22.3	(445)	(196)
Other reserves		211	179
Share-based payment reserve	22.4	109	58
Foreign currency translation reserve		106	126
Cash flow hedge reserve		(1)	(2)
Other reserves		(3)	(3)
Accumulated loss		(2 052)	(1 051)
		3 991	**4 806**

Notes to the group financial statements continued

For the year ended 31 March 2021

22. Equity holders' fund continued

	2021		2020	
	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	1 401 541	6 277	1 287 858	5 874
	1 401 541	6 277	**1 287 858**	**5 874**

Rm	2021	2020
22.3 Treasury shares		
Opening balance	(196)	(497)
Movement during the year:		
Empowerment partner transaction[1]	20	–
Net proceeds on disposal of treasury shares in policyholder assets	(1)	7
Purchase of shares in terms of share schemes and share buy-back programme[2]	(284)	(41)
Share cancellation	–	318
Settlement of share incentive schemes	16	17
Closing balance	**(445)**	**(196)**

[1] *The group transferred 4 336 492 treasury shares as part of an additional 118 019 747 ordinary shares alloted to African Rainbow Capital (ARC) on 13 May 2020. The balance of the allotment was done through a new listing of 113 683 255 ordinary shares. This transaction was concluded pursuant to an agreement between Alexander Forbes Group Holdings Limited, Alexander Forbes Limited and ARC on 28 September 2016 in terms of which ARC would exchange its 10% shareholding in a subsidiary company, Alexander Forbes Limited, for shares in Alexander Forbes Group Holdings Limited. The transaction was approved by shareholders on 20 January 2017 and was executed at market value. The increase in share capital offset by the reduction in non-controlling interests resulted in no dilution to existing shareholders.*

[2] *The group purchased AFH shares to the value of R160 million, at an average price of R3.77 per share (42 457 971 shares), in a general buyback approved by shareholders. In addition, shares to the value of R124 million were purchased for shareholder-approved share incentive schemes.*
In the 2020 financial year, the group purchased AFH shares to the value of R20 million in a general buy-back approved by shareholders, at an average price of R4.61 per share (4 336 492 shares). In addition, shares to the value of R21 million were purchased for shareholder-approved share incentive schemes.

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 R7.0 million (2020: 5.6 million) during the current financial year. Further details of the ESOP are provided in the remuneration report.

22.4 Share-based payment reserve

Rm	2021	2020
Opening balance	58	41
Expensed to income statement	72	34
Settlement of share incentive schemes	(16)	(17)
Empowerment partner transaction	(5)	–
Closing balance	**109**	**58**

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 directors, executive management and senior managers 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 participating employees

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 provided that the employee remains employed on the vesting date. These awards are aimed at retention with the 2019 FSP and 2020 FSP awards 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	2021	2020
At 1 April	18 168	13 717
Granted	19 685	10 012
Forfeited	(835)	(2 387)
Vested	(2 777)	(3 174)
31 March	**34 241**	**18 168**

Notes to the group financial statements continued

For the year ended 31 March 2021

22. Equity holders' fund continued

22.4 Share-based payment reserve continued

22.4.1 Forfeitable share plan (FSP) awards issued to participating employees 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 40.2.

'000	Grant date fair value[1]	Vesting date	Total shares granted	Total shares outstanding 2021	2020
2017 tranche – FSP	R7.09	24 July 2020	5 132	–	2 343
2018 tranche – FSP	R5.64	01 July 2021	8 854	**6 184**	6 408
2019 tranche – FSP[2]	5.69	50% on 1 July 2022 50% on 1 July 2023	10 012	**8 813**	9 417
2020 tranche – FSP[2]	4.66	50% on 1 July 2023 50% on 1 July 2024	17 028	**16 587**	–
2020 FSP STI Deferral (Bonus shares)[3]	4.66	50% on 1 July 2021 50% on 1 July 2022	2 657	**2 657**	–
			43 683	**34 241**	**18 168**

[1] The grant date fair value of the shares is determined based on the market price at the date of issue.
[2] The 2019 FSP & 2020 FSP awards vests in two equal tranches in year three and year four.
[3] In light of the adverse economic impact of Covid-19, the executive management in agreement with the remuneration committee commuted 50% of the executive cash bonuses during the prior year to shares. Vesting was deferred as follows: 50% in 12 months from date of issue and remaining 50% in 24 months from date of issue.

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 2017 tranche of the scheme ended. The measurement period was based on the growth rate in NHEPS between 1 April 2017 and 31 March 2020. 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%	Condition not met

The remuneration committee approved changes to the performance conditions and vesting period for the 2019 award which subsequently also applies to the 2020 award. The conditional shares awarded in 2019 and 2020 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 and 2020 tranches 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 R2032 SA government bond.

The following table sets out the vesting dates and measurement periods for the 2019 and 2020 tranches:

CSP Tranche	Vesting date	Measurement period	Measurement
2019 tranche	These shares will vest in two tranches		Not yet applicable
	Tranche one (50%): 1 July 2022 and	Tranche one: 1 April 2019 to 1 July 2022	
	Tranche two (50%): 1 July 2023	Tranche two: 1 April 2019 to 1 July 2023	
2020 tranche	These shares will vest in two tranches		Not yet applicable
	Tranche one (50%): 1 July 2023 and	Tranche one: 1 April 2020 to 1 July 2023	
	Tranche two (50%): 1 July 2024	Tranche one: 1 April 2020 to 1 July 2024	

Notes to the group financial statements continued

For the year ended 31 March 2021

22. Equity holders' fund continued

22.4 Share-based payment reserve continued

22.4.2 Conditional share plan (CSP) awards continued

Movement in the number of shares outstanding is as follows:

'000	2021	2020
At 1 April	**30 328**	25 041
Granted	**23 768**	17 479
Forfeited	**(8 923)**	(12 192)
31 March	**45 173**	**30 328**

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

'000	Grant date fair value[1]	Vesting date	Total shares outstanding 2021	2020
2016 tranche	R6.21	24 July 2019	**–**	–
2017 tranche	R6.15	24 July 2020	**–**	7 148
2018 tranche	R4.74	01 July 2021	**6 845**	7 124
2019 tranche one	R4.76	01 July 2022	**7 702**	8 028
2019 tranche two	R4.41	01 July 2023	**7 702**	8 028
2020 tranche one	R3,37	01 July 2023	**11 462**	–
2020 tranche two	R3,11	01 July 2024	**11 462**	–
			45 173	**30 328**

[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.*

23. Financial liabilities held under multi-manager investment contracts

Rm	2021	2020
23.1 Movement of liabilities under multi-manager and unit trust investment contracts		
Opening balance	**272 612**	299 885
Movement during the year [1]*:*		
Premium inflows	**58 150**	51 407
Withdrawals	**(71 217)**	(57 809)
Investment return net of taxation	**75 777**	(21 297)
Policyholder fees charged/investment portfolio expenses	**(2 090)**	(1 932)
Fair value adjustments	**–**	2 358
Closing balance	**333 232**	**272 612**

[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	2021	2020
23.2 Discounted maturity analysis of liabilities under multi-manager and unit trust investment contracts		
Open ended – payable on demand	**333 232**	272 612
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.		
Financial liabilities linked to investment contracts	**333 232**	272 612

24. Borrowings

Rm	2021	2020
24.1 Analysis of borrowings		
Senior debt facility (refer to note 24.4)	**29**	–
Revolving credit facility	**–**	101
Total	**29**	**101**

Rm	2021	2020
24.2 Reconciliation of movement in borrowings		
Opening balance	**101**	719
Movements for the year:		
Borrowings raised	**28**	–
Interest accrued	**1**	54
Interest paid	**(1)**	(58)
Borrowings repaid	**(100)**	(614)
Closing balance	**29**	**101**

Rm	2021	2020
24.3 Discounted maturity analysis of borrowings		
Due within one year	**6**	101

24.4 Senior debt facility (SDF)

In December 2020 Alexander Forbes Namibia Holdings (Pty) Ltd (AF Namibia Holdings) obtained a senior debt facility of 28 million Namibian dollars to finance the capital expenditure on the refurbishment of the Namibia Head office. The SDF is an unsecured five year term loan facility. In terms of this agreement entered into between AF Namibia Holdings (the borrower) and First National Bank of Namibia Limited (the lender), Alexander Forbes Financial Services Namibia (Pty) Ltd guarantees all the obligations of AF Namibia Holdings.

The facility bears interest at the Namibian prime lending rate plus 1.20% margin per annum compounded daily. The interest is payable semi-annually in arrears, with the first payment due six months after all the conditions precedent under the facilities have been met. The facility amount will be repayable over 5 years in 10 equal instalments made semi-annually, with the first repayment due six months after the utilisation.

24.5 Revolving credit facility (RCF)

On 25 May 2020, the group settled the remaining outstanding balance of R101 million of the revolving credit facility (RCF) with Rand Merchant Bank and cancelled the RCF.

Notes to the group financial statements continued

For the year ended 31 March 2021

25. Employee benefits

Rm	Notes	2021	2020
25.1 Total employee benefits			
Defined benefit pension fund obligation – South Africa	25.2	**–**	–
Post-employment medical benefit obligation – South Africa	25.3	**92**	77
Provision for leave pay	25.4	**55**	55
Total employee benefits		**147**	**132**

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.

25.2 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 2021. 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 2021 comprised one active member (2020: 3) and 52 pensioners (2020: 53).

A portion of fund assets are managed by our subsidiary, AF Invesments, and the total value is R209 million (2020: R175 million). Another portion of the fund assets is invested with a financial institution with a credit rating of Ba2 per Moody's. These assets are secured by South African government bonds. As such Alexander Forbes pension fund will be entitiled to the proceeds of the bonds should the financial institution default.

25.2 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 2019	(138)	204	66	(66)	–
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)**	**–**
Interest expense	**(13)**	**20**	**7**	**–**	**7**
Remeasurements	**(8)**	**23**	**15**	**–**	**15**
Contributions	**(1)**	**1**	**–**	**–**	**–**
Payment from plans – benefits paid	**12**	**(12)**	**–**	**–**	**–**
Adjustment to the asset ceiling	**–**	**–**	**–**	**(22)**	**(22)**
At 31 March 2021	**(128)**	**212**	**84**	**(84)**	**–**

%	2021	2020	2019
The principal actuarial assumptions applied are as follows:			
Discount rate	**10.0**	11.8	9.3
Inflation rate	**5.8**	6.1	5.5
Salary increase rate	**6.8**	7.1	6.5
Pension increase allowance	**5.8**	6.1	5.5

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**	**(7.8)**	**9.1**
Inflation rate	**1.0**	**9.3**	**(8.1)**
Salary increase rate	**1.0**	**0.2**	**(0.2)**
Pension increase allowance	**1.0**	**9.1**	**(8.0)**

The mortality rates are assumed as follows:

Pre-retirement: SA85-90 (Light) table

Post-retirement: PA(90) ultimate table rated down two years plus 1% improvement per annum from 28 February 2004.

Notes to the group financial statements continued

For the year ended 31 March 2021

25. Employee benefits continued

25.2 Defined benefit pension fund obligation – South Africa continued

Methods and assumptions in sensitivity analysis

The components[1] of plan assets are as follows:

%	2021	2020
Cash	**2.17**	4.03
Equity		
Listed equities	–	23.15
Unlisted equities	–	–
Bonds	**97.83**	49.22
Property	–	1.84
International		
Equity	–	13.03
Bonds	–	0.27
Cash	–	0.41
Property	–	3.68
Other	–	0.10
Other	–	4.27
	100.00	**100.00**

[1] *During the current financial year, the allocation of plan assets was changed in preparation for the transfer of the fund.*

25.3 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-retirement medical aid subsidy. At 31 March 2021, this applies to a total of 221 people (2020: 221) and comprises 24 active employees (2020: 23) and 197 pensioners (2020: 198). Employees who joined the group after 1 March 1997 are not eligible for post-retirement medical aid subsidies.

Certain employees employed before 1 March 2009 are eligible for a death in service subsidy. If a member eligible for a death in service subsidy dies in service, their dependants are eligible to receive a 50% subsidy of medical scheme contributions subject to the fixed rand amount as for the post-retirement 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 2021. The post-retirement medical obligation is partly funded through a cell-captive insurance arrangement, the assets of the insurance cell totalled R56 million at 31 March 2021 (2020: R55 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-retirement medical aid subsidy paid to pensioners is subject to a maximum rand amount. This rand amount increases with inflation (CPI) each year. In order to compensate for the rand amount increase of the subsidy being different to medical aid inflation, the group established a hardship fund in 2004 to provide assistance to specifically identified pensioners in financial need.

25.3 Post-employment medical benefit obligation – South Africa continued

Rm	2021	2020
The latest actuarial valuation reflected the following:		
Medical benefit obligation	**81**	66
Hardship fund liability	**11**	11
Recognised liability in the statement of financial position	**92**	**77**
A reconciliation of the movement in the post-employment medical benefit obligation in South Africa is as follows:		
Opening balance	**66**	96
Current service costs	**1**	1
Interest expense	**8**	9
Remeasurements[1]	**13**	(32)
Benefits paid	**(7)**	(8)
Closing balance	**81**	**66**
The principal actuarial assumptions applied are as follows:		
Discount rate (%)	**10.6**	12.4
Inflation (CPIX) rate (%)	**6.2**	6.5
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 R2 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**	**(8.30)**	**9.80**
Inflation (CPIX) rate	**1.0**	**10.00**	**(8.50)**

Rm	2021	2020
25.4 Provision for leave pay		
Opening balance	**55**	48
Movement during the year:		
Increase in provision	**25**	32
Decrease in provision	**(25)**	(21)
Transferred to held for sale	**–**	(7)
Disposal as a result of business combination	**–**	3
Closing balance	**55**	**55**

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 2021

26. Deferred taxation

Rm	Notes	2021	2020
26.1 Net deferred tax assets balance			
Deferred tax assets		**203**	228
Deferred tax liabilities		**(87)**	(85)
Net deferred tax assets		**116**	**143**
26.2 Reconciliation of movement in the net deferred tax asset balance			
Opening balance		**228**	238
Movement during the year:			
Credit charged to income statement		**(28)**	(3)
Charged to other comprehensive income		**3**	(4)
Transfer to asset groups held for sale		**–**	(3)
Disposal as a result of a sale of business		**–**	3
Additions as a result of business combination		**–**	(3)
Closing balance		**203**	**228**
26.3 Reconciliation of movement in the net deferred tax liability balance			
Opening balance		**(85)**	(113)
Movement during the year:			
Credit per income statement		**(2)**	28
Closing balance		**(87)**	**(85)**
26.4 Analysis of deferred tax assets			
Post-employment benefit obligations		**10**	6
Deferred income		**–**	2
Calculated tax losses[1]		**76**	80
Provisions		**53**	59
Lease liabilities		**85**	95
Accelerated tax allowances		**(11)**	(6)
Work in progress		**(8)**	(7)
Other items		**(2)**	(1)
Total deferred tax assets		**203**	**228**
26.5 Analysis of deferred tax liabilities			
Policyholder assets		**(35)**	(12)
Accelerated tax allowances, provisions and other items		**(1)**	(2)
Deferred tax recognised in terms of IFRS 3 *Business Combination*[2]		**(51)**	(71)
Total deferred tax liabilities		**(87)**	**(85)**

[1] *Assessed losses not recognised on the balance sheet amount to R488 million (2020: R216 million).*

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

27. Provisions

Rm	Notes	2021	2020
Provisions for errors and omissions claims	27.2	**42**	56
Provisions for client settlements – enhanced transfer values (ETV)	27.3	**274**	273
Proposed client settlements	27.4	**129**	129
Other[1]		**–**	3
Total		**445**	**461**

[1] *Other provisions relate to planned strategic reorganisations undertaken within the business in the prior year.*

27.1 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 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**
Movement during the year:					
Net increase/(decrease) in provision	**5**	**46**	**1**	**–**	**52**
Payments made	**(15)**	**(22)**	**(1)**	**(3)**	**(41)**
Foreign subsidiaries' exchange differences	**(4)**	**(23)**	**–**	**–**	**(27)**
Balance at 31 March 2021	**42**	**274**	**129**	**–**	**445**

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.

27.2 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 2021

27. Provisions continued

27.2 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 6 or more, an accrual is made for any excess payable.

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

The enhanced transfer value (ETV) liability matter that has been disclosed in prior years relates to a legacy United Kingdom (UK) domiciled subsidiary, Alexander Forbes Consultants and Actuaries Limited (AFCA), that was sold in 2012 to Jardine Lloyd Thompson Group (JLT), now part of the Mercer Group inclusive of certain warranties and a limitation of liability. The ETV liability arises from redress payments being ordered, to the industry as a whole, by the Financial Conduct Authority, the UK regulator for thematic errors in historical advice. The potential liability for redress payments arising from advice given by AFCA in the UK, to participants of ETV schemes between 2008 and 2011, is calculated using certain assumptions based on a sample of the total number of cases that may require redress. During the current year, the calculated value of the total liability for redress payments including the costs related to this process has increased significantly.

The calculated value of the total liability for redress payments including the costs related to this process has increased significantly in the current year. The full value of the liability currently assessed is GBP 61.9 million (2020: GBP 12.3 million).

As communicated over the past few years, the group believes it is adequately insured for the claims through error and omissions insurance cover. The group has an insurance programme to manage the risk of potential claims that arise from conducting activities of its business. There are seven insurance layers which in total provide cover for GBP140 million above our self-insured excess under the error and omissions insurance programme. To date, the settlement amounts have been paid from the self-insured provision within the group's cell-captive insurance facility as well as settlements made from the primary layer of insurance.

As the liability has increased through the year, management approached insurers for each increasing layer in the insurance programme to obtain confirmation from the insurance underwriters that the event is covered in terms of the policy. Management has since confirmed cover for the second and third excess layers; however, at 31 March 2021, in addition to the first excess layer, the insurer for the fourth excess layer has also indicated that it will not confirm cover. Both first and fourth excess layer insurers have sighted the requirement for an excess deductible to be applied to each case as opposed to the thematic error across all cases (opposing the accepted and generally recognised insurance market position regarding the aggregation of claims under this policy). Management have obtained senior legal opinion on the disputed aggregation by the first and fourth excess layers and remains confident that the positions taken by the them are incorrect and will continue to pursue legal action on the matter. The recovery of insurance in the future will result in the income being recognised at the time.

As a result of the material increase in liability and the value of insurance that is being challenged by the insurers, the indemnities provided by Alexander Forbes in the original sale and purchase agreement (SPA) will be invoked. The liability on warranty claims in the transaction was limited to GBP 18.5 million, this limitation excludes recoveries of any claim received from any third-party insurer. The group has paid GBP5.4 million on the claim through its cell-captive insurance facility which has the effect of reducing the potential future liability of the company to approximately GBP 13.1 million.

The group has provided for the full potential liability on the ETV matter of GBP 13.1 million (R274 million). The impact to the group's income statement in the amount of R250 million for the current period is reflected under discontinued operations. For the avoidance of doubt, due to the limitation of liability, there is therefore no risk of any further increases to this liability or risk of new ETV-related liabilities.

27.4 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 32 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.

28. Insurance payables

In the 2019 financial year, the group discontinued its short-term and long-term insurance operations. As at 31 March 2021, management were in the final stages of reaching agreement on the sale of the insurance policies held by Alexander Forbes Life Limited. The disposal of the Alexander Forbes Life Limited business operations as opposed to the legal entity has resulted in a change to the assets and liabilities which are held for sale. These liabilities will be wound down in the ordinary course of closure of the AF Life licence. Refer to note 21.4.

Rm	Note	2021	2020
28.1 Total insurance payables			
Policyholder liability under long-term insurance contracts (group life)		191	–
Insurance payables from broking activities		3	–
Reinsurance creditors		163	–
Outstanding claims payable		422	–
Closing balance		**779**	**–**

28.2 Policyholder liability under long-term insurance contracts

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

Rm	Notes	2021	2020
Gross policyholder liability		191	–
Less: Reinsurance assets relating to the policyholder liability		(127)	–
Net liability to policyholders		**64**	**–**
A reconciliation of the movement in the net policyholder liability is as follows:			
Opening balance - transferred from liabilities of disposal groups classified as held for sale		30	–
Movement during the year:			
Increase in claims experience		42	
Release in reserving		(8)	–
Closing balance		**64**	**–**

Notes to the group financial statements continued

For the year ended 31 March 2021

28. Insurance payables continued

28.2 Policyholder liability under long-term insurance contracts continued

Covid-19 Reserve

The group has had to apply significant judgement in assessing the impact of the Covid-19 pandemic on the business. At the start of the pandemic, during the prior financial year, there was limited observed data and significant uncertainty around the length and severity of the pandemic on claims experience. To this extent, a simplified Covid-19 reserve was established to account primarily for prospective lump sum claims. In the current financial year, the model was refined which incorporated additional information from the current year and included further considerations such as an emerging third wave, the slow pace of the vaccination rollout coupled with the upcoming winter season. Given the nature of the pandemic, the mortality rate is a material assumption applied in the model. To this extent, the excess death statistics published by the South African Medical Research Council (SAMRC) was used as a basis for setting the mortality expectations for the 2021 financial year valuation. A primary driver of the adverse claims experience over the past year emerged from the two waves of higher infections that were experienced in 2020. In 2021, a third wave is expected to adversely affect the mortality experience due to the slow roll-out of the vaccine albeit with the possibility that the severity will be lower than the two waves experienced in the previous year.

Included in the net liability to policyholders is an IBNR reserve for the impact of Covid-19. The group is of the view that the policyholder liability under the insurance contracts and the related reinsurance recoveries are fairly stated on the basis of information currently available to them, the ultimate liability will vary as a result of subsequent information and events which may result in adjustments to the amounts provided below:

Rm	2021	2020
Insurance contract liabilities of insurance subsidiaries included in the statement of financial position		
Gross policyholder liability	**131**	19
Less: Reinsurers' share of liability	**(98)**	(14)
Net liability to policyholders	**33**	**5**
A reconciliation of the movement in the net policyholder liability is as follows:		
Opening balance	**5**	–
Movement during the year:		
Increase during the year	**28**	5
Closing balance	**33**	**5**

Critical assumptions and judgements

The company is licensed as a long-term insurer in South Africa in accordance with the Long-term Insurance Act (the Act) of 1998, as amended. The Act requires the determination of assets, liabilities and solvency capital requirement (SCR) for statutory purposes in accordance with the SAPs and APNs issued by ASSA and Financial Soundness Standards For Insurers issued by the Prudential Authority.

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 Act 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.

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

Rm	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 41.4: Long-term insurance (life insurance).

29. Trade and other payables

Rm	2021	2020
Financial liabilities		
Trade payables	**147**	122
Accrued expenses	**158**	155
Other payables	**128**	169
	433	**446**
Non-financial liabilities		
Employee-based accruals	**137**	153
	570	**599**

Notes to the group financial statements continued

For the year ended 31 March 2021

30. Commitments

30.1 Capital commitments

Commitments in respect of capital expenditure approved by directors:

Rm	2021	2020
Contracted for	13	40
Not contracted for	2	–
	15	40

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

31. Leases

31.1 Leases as a lessee

The group leases properties for office space at various locations, the most material relating to the Sandton head office. 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 office space in the leased properties has 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	2021	2020
Opening balance	822	933
Interest amortised	64	74
Lease liability incurred	5	–
Repayment of lease liabilities	(200)	(186)
Foreign exchange differences	(1)	1
Closing balance	690	822
Current	156	136
Non-current	534	686

Maturity analysis – contractual undiscounted lease payments

Rm	2021	2020
Due within one year	207	200
Due between one to five years	593	778
Due after five years	5	22
	805	1 000
Amounts recognised in profit or loss		
Depreciation expense on right-of-use assets	110	111
Interest expense on lease liabilities	64	74
Expense relating to short-term leases	11	10
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	2	1
Income from subleasing right-of-use assets	(45)	(28)

The cash outflow for lease liabilities in 2021 was R136 million.

31.2 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.

31.2.1 Operating lease

The group subleases 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 and 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 South African 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	2021	2020
Less than one year	21	17
One to two years	20	19
Two to three years	20	17
Three to four years	11	18
Four to five years	3	12
More than five years	1	4
	76	87

31.2.2 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	2021	2020
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
Total undiscounted lease receivable	4	5
Unearned finance income	(1)	(1)
Net investment in the lease	3	4

32. Contingencies

32.1 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 27.2 to these financial statements.

32.2 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 2021

32. Contingencies continued

32.3 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. The BURS is in the process of a system migration which is further delaying the provision of reliable and accurate data on which to conclude the matter, coupled with lockdowns in Botswana because of the Covid-19 pandemic. As at the reporting date, the group is unable to determine the amount of the alleged penalty interest, if any.

32.4 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.

33. Cash generated from operations

Rm	2021	2020
Profit/(loss) before taxation from continuing operations	**708**	(514)
Items disclosed separately:		
Net interest expense	**(62)**	(12)
Non-cash items:		
Depreciation of property and equipment	**158**	161
Amortisation of intangible assets and software	**95**	94
Net movement in provisions	**(19)**	45
non-cash movement in provisions	**22**	121
payments made out of provisions	**(41)**	(76)
Reported profit arising from accounting for policyholder investments in treasury shares	**(13)**	–
Movement in working capital (refer to note 36)	**29**	(51)
Impairment of software, goodwill and intangibles arising from business combination	**5**	1 218
Movement in share based payment reserve	**72**	34
Other movements	**4**	(39)
	977	**936**

34. Interest received

Rm	2021	2020
Investment income per income statement	**136**	155
Less non-cash investment income from financial assets	**(4)**	(3)
Exclude policyholder-related interest	**(33)**	3
	99	**155**

35. Interest paid

	2021	2020
Finance costs paid on property leases	**(64)**	(74)
Finance costs paid on revolving credit facility and other	**(10)**	(69)
	(74)	**(143)**

36. Movement in working capital

	2021	2020
Movement in working capital balances		
Trade and other receivables	**32**	(68)
Trade and other payables	**(3)**	17
	29	**(51)**

37. Operating cash flows relating to insurance and policyholder balances

	2021	2020
Insurance payables	**–**	(1 689)
Decrease in policyholder working capital balances	**(38)**	(28)
Interest return relating to policyholder tax	**33**	(3)
	(5)	**(1 720)**

38. Cash flows from policyholder investment contracts

	2021	2020
Premium inflows	**58 150**	51 413
Investments made net of disinvestments	**12 262**	6 544
Investment withdrawals	**(71 217)**	(57 809)
	(805)	**148**

39. Taxation paid

	2021	2020
Taxation payable at the beginning of the year	**(10)**	(20)
Prepaid tax at the beginning of the year	**7**	4
Charge in income statement	**(231)**	(253)
Policyholder tax charge in income statement	**(33)**	3
Charge to income statement for operations discontinued and disposed of in the year included in discontinued operations	**–**	(397)
Adjusted for:		
Other non-cash movements	**21**	38
Prepaid taxation at the end of the year	**(31)**	(7)
Taxation payable at the end of the year	**3**	10
Tax paid	**(274)**	**(622)**

Notes to the group financial statements continued

For the year ended 31 March 2021

40. Related party disclosure

40.1 List of related party relationships

Major shareholders

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

African Rainbow Capital Financial Services Holdings Proprietary Limited (ARC), a subsidiary of African Rainbow Capital holds a 35.1% interest in the company. Mercer Africa Limited (Mercer), a subsidiary of the US-listed Marsh & McLennan Companies Inc, holds a 14.3% 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, ARC agreed to transfer its 10% interest in Alexander Forbes Limited (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, the company issued 118 019 747 shares to ARC, which increased its interest 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. This transaction was approved by shareholders on 20 January 2017 and was executed at market value. The increase in share capital offset by the reduction in non-controlling interests resulted in no dilution to existing shareholders.

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 44: Consolidated and unconsolidated entities to these financial statements.

Post-employment benefit plans

Details of retirement benefit plans are provided in note 25: 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.

40.2 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 R74.6 billion as at year end (2020: R62.2 billion). Mercer earned an asset manager fee of R68.0 million (2020: R57.8 million).

40.2 Summary of related party transactions

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 R2.5 million (2020: R1.5 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 R2.0 million (2020: R2.5 million).

Non-Executive director fees were paid to Mercer Africa Limited of R3.9 million (2020: R2.9 million) and African Rainbow Capital of R0.3 million (2020: R0.4 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 amounting to R1 million (2020: R1 million) were made to the defined benefit fund and benefits paid amounting to R7 million (2020: R8 million) were made by the post-employment medical obligation plan, as detailed in note 25: 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 R209 million (2020: R175 million).

The retirement benefit plans of the group are compulsory funds and as such key management are participants in the fund. At 31 March 2021 the investments held through the retirement benefit plans by key management are R22.5 million (2020: R15.5 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 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 2021

40. Related party disclosure continued

40.2 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 2021 year reflects the amount accrued and approved by the remuneration committee for the year ended 31 March 2021 and paid in June 2021.

Executive directors and prescribed officers (R'000)	Salary	Benefits and allowance	Retirement fund contributions	Bonus	Bonus shares[1]	LTIPs Received	Dividends received	Total
2021								
DJ de Villiers	**4 675**	**129**	**500**	**4 010**	**–**	**4 478**	**3 128**	**16 920**
BP Bydawell	**3 037**	**91**	**499**	**2 536**	**–**	**2 801**	**1 030**	**9 994**
CH Wessels	**2 640**	**78**	**433**	**2 200**	**–**	**3 202**	**945**	**9 498**
B Mokoena	**2 818**	**232**	**486**	**–**	**–**	**1 123**	**407**	**5 066**
L Stevens	**2 061**	**63**	**336**	**–**	**–**	**979**	**394**	**3 833**
B Tladi	**2 364**	**73**	**388**	**1 800**	**–**	**1 095**	**518**	**6 238**
M Sokkie[2]	**363**	**145**	**47**	**–**	**–**	**–**	**–**	**555**
J Muthige[3]	**1 307**	**43**	**164**	**1 100**	**–**	**3 000**	**116**	**5 730**
JG Anderson	**2 853**	**84**	**304**	**1 700**	**–**	**1 109**	**572**	**6 622**
LJ Kukard[4]	**1 875**	**54**	**200**	**1 800**	**–**	**993**	**371**	**5 293**
Total for the year	**23 993**	**992**	**3 357**	**15 146**	**–**	**18 780**	**7 481**	**69 749**
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	2 219	196	365	1 120	1 120	680	139	5 839
M Sokkie[2]	2 072	172	260	–	–	480	109	3 093
JG Anderson	2 814	100	300	1 174	1 174	976	481	7 019
LJ Kukard	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**

[1] *For the prior year, 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 was reflected in the shares allocated in July 2020.*

[2] *Ms M Sokkie resigned from the role of Executive: human resources and transformation with effect from 31 May 2020.*

[3] *Mr J Muthige was appointed in the role of Executive: Human Capital and Transformation with effect from 1 October 2020. The LTIPs received of R3 million were in relation to a sign-on award and comprise 890 000 shares at a grant date fair value of R3.37 per share. This award vests on 31 October 2022.*

[4] *Ms LJ Kukard was appointed in the capacity of acting group executive member in the prior year. On 6 August 2020, Ms LJ Kukard was appointed in the capacity of Executive: Client Services and Business Optimisation.*

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. All shares that have been allocated to employees under the share schemes to date have been purchased from the market at market values with no new shares issued.

Number of LTIP awards at 31 March 2021 ('000)	2020 tranche[1]	2019 tranche	2018 tranche
CSP awards			
DJ de Villiers	**1 442**	844	1 951[2]
BP Bydawell	**901**	491	–
CH Wessels	**386**	264	89
L Mokoena	**362**	211	71
LW Stevens	**315**	146	511
B Tladi	**353**	179	90
J Muthige	**–**	–	–
JG Anderson	**357**	257	93
LJ Kukard	**319**	67	62
	4 435	**2 459**	**2 867**
FSP awards			
DJ de Villiers	**1 741**	562	1 868[3]
BP Bydawell	**1 045**	328	–
CH Wessels	**1 025**	176	59
L Mokoena	**355**	141	47
LW Stevens	**428**	97	–
B Tladi	**512**	119	60
J Muthige	**890**[4]	–	–
JG Anderson	**527**	172	62
LJ Kukard	**409**	45	41
	6 932	**1 640**	**2 137**

[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 and is included in the 2020 FSP award.*

[2] *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.*

[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 in relation to a sign-on award at a grant date fair value of R3.37 per share. This award vests on 31 October 2022.*

Notes to the group financial statements continued

For the year ended 31 March 2021

40. Related party disclosure continued

40.2 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	2021 Direct	2021 Indirect[1]	2021 Total number of shares held	2021 Total % of shares held[2]	2020 Direct	2020 Indirect[1]	2020 Total number of shares held	2020 Total % of shares held[2]
DJ de Villiers[3]	–	4 171	4 171	0.30	–	2 430	2 430	0.19
BP Bydawell[3]	50	1 373	1 423	0.10	50	328	378	0.03
CH Wessels	499	1 260	1 759	0.13	458	354	812	0.06
B Mokoena	66	543	609	0.04	66	244	310	0.02
LW Stevens	65	525	590	0.04	65	117	182	0.01
B Tladi[4]	68	691	759	0.05	40	231	271	0.02
M Sokkie[4]	–	–	–	0.00	–	182	182	0.01
J Muthige	–	890	890	0.06	–	–	–	–
JG Anderson[4]	568	761	1 329	0.09	–	802	802	0.06
LJ Kukard[4]	–	495	495	0.04	–	94	94	0.01
Total	**1 316**	**10 709**	**12 025**	**0.85**	**679**	**4 782**	**5 461**	**0.41**

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 and/or prescribed officers 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 as well, in some cases, through preservation funds or in direct investments. In addition AF Life provides group risk benefits which covers executive and staff life and disability insurance.

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

Independent non-executive directors (R'000)		2021	2020
M Ramplin (chair)		1 888	1 650
MD Collier	Resigned 31/12/2019	–	1 367
RM Head		1 118	1 154
T Dloti		1 179	879
N Nyembezi (chair)	Resigned 31/12/2019	–	1 441
BJ Memela-Khambula		863	913
NG Payne[1]		1 726	1 722
AM Mazwai	Appointed 9/11/2020	282	–
		7 056	9 126

1 *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 prior financial year which is not deemed a non-executive director fee and therefore excluded from the amount disclosed in the table above.*

41. Insurance risks

41.1 Overview

Insurance contracts are issued by the group's insurance subsidiary company designated as discontinued operations, namely Alexander Forbes Life. This insurance company is authorised and regulated by the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA) in South Africa.

The group also issues contracts which are classified as investment contracts. These contracts transfer market risk with no significant insurance risk. For accounting purposes the contracts issued to policyholders are classified as investment contracts and 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 insurance subsidiary, Alexander Forbes Life, transacts conventional 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 Life Limited (South Africa)	The company is a long -term insurance company providing risk benefits in the form of group life, disability, death and retail life products.

41.2 Assets and liabilities under insurance contracts

As at 31 March 2021, management were in the final stages of reaching agreement on the sale of the insurance policies held by Alexander Forbes Life Limited. The sale and transfer agreement will result in a transfer of all insurance policies, as well as all related liabilities and the reserves created for these policies to Sanlam Life Limited, a subsidiary of Sanlam Limited, under section 50 of the Insurance Act 18 of 2017, subject to regulatory approval. The disposal of the Alexander Forbes Life Limited business operations as opposed to the legal entity has resulted in a change to the assets and liabilities which are held for sale as set out in note 21.4. Upon disposal, the remaining insurance receivables and insurance payables balances (refer to notes 18 and 28 respectively) will be run down accordingly.

Rm	2021	2020
41.2.1 Insurance contract liabilities of insurance subsidiaries included in the statement of financial position (by nature of liability)		
Net policyholder liability under long-term insurance (life insurance) contracts (group life)	354	–
Continuing operations	64	–
Gross policyholder liability	191	–
Less: Reinsurers' share of policyholder liability	(127)	–
Discontinued operations	290	–
Gross policyholder liability	907	–
Less: Reinsurers' share of policyholder liability	(617)	–
Total Gross policyholder liability	**1 098**	**–**
Total Reinsurers' share of policyholder liability	**(744)**	**–**
41.2.2 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.		
Continuing operations		
IBNR (including Covid-19 reserve)	127	–
Reinsurance assets	**127**	–
Discontinued operations		
IBNR (including Covid-19 reserve)	5	–
Annuity claims in payment	523	–
Pending annuity claims	44	–
Notified annuity claims	45	–
Reinsurance assets	**617**	**–**
Reinsurance assets	**744**	**–**

Notes to the group financial statements continued

For the year ended 31 March 2021

41. Insurance risk continued

41.3 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.

Head of Actuarial Function (HAF)

The HAF of the long-term insurance (life insurance) subsidiary 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 HAF 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	**2021**	2020
Long-term insurance (life insurance)		
Alexander Forbes Life Limited		
Solvency capital requirements	**181**	169
Times cover	**2.78**	4.86

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

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 an audit and risk committee which evaluates, approves and monitors both insurance and reinsurance markets that the group operates in and reports back to the board with recommendations.

41.4 Long-term insurance (life insurance)

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 deteriorate. 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 R47.5 million (2020: R171.3 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 in a 35% increase in the reserves (R6.4 million). Sensitivity relating to the mortality and withdrawal assumptions on the Individual Life business is currently insignificant.

42. 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 2021

42. 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	2021	2020
Assets			
Financial assets held under multi-manager investment contracts			
Fair value through profit or loss	10	**328 245**	266 658
Cash and cash equivalents	10	**4 972**	5 927
General operations			
Financial assets			
Fair value through profit or loss	17	**993**	46
Fair value through other comprehensive income	17	**13**	13
At amortised cost	17	**36**	36
Trade and other receivables			
At amortised cost	19	**200**	220
Cash and cash equivalents			
At amortised cost		**2 288**	2 916
Fair value through profit or loss		**–**	1 043
Total financial assets		**336 747**	**276 859**
Liabilities			
Financial liabilities held under multi-manager investment contracts			
Fair value through profit or loss – designated	23	**333 217**	272 612
General operations			
Contingent consideration	11	**16**	–
Borrowings – financial liabilities held at amortised cost	25	**29**	101
Trade and other payables – financial liabilities held at amortised cost	30	**433**	446
Lease liabilities – financial liabilities held at amortised cost	32	**690**	822
Total financial liabilities		**334 385**	**273 981**

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.

42.1 Credit risk

42.1.1 Objectives, policies and process to manage credit risk

(i) Multi-manager investment operations

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

(ii) General operations

Financial assets

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

Trade and other receivables

Trade and other receivables are managed through ongoing review and impaired if objective evidence is established that the group will 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 Shortterm 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.

42.1.2 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	%
2021		
Between Aaa and A3[1]	**558**	**0.17**
Between Baa1 and B3[1]	**66 458**	**19.94**
Remainder includes equity securities and other assets with no specific credit risk rating	**266 201**	**79.89**
	333 217	**100.00**
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**

[1] *Ratings per Moody's credit ratings agency.*

Notes to the group financial statements continued

For the year ended 31 March 2021

42. Financial risk continued

42.1 Credit risk continued

42.1.2 Exposure to credit risk continued

Analysis of financial assets

Rm	2021	2020
Financial assets at fair value through profit or loss		
Money market instruments	5	4
Collective investment schemes	988	42
Financial assets at amortised cost		
Equity housing loans	33	33
Other loans	3	3
Financial assets at fair value through other comprehensive income – designated		
ASISA investment	13	13
	1 042	95

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 9% (2020: 7%) 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% 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.

A significant portion of the expected credit losses is computed using models which are based on historical loss rates and 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. The current economic environment under Covid-19 renders it imperative for entities to revisit the assumptions underlying the determination of expected credit losses, and to this end the group continues to perform rigorous individual assessments of material and other 'at risk' debtors, while also considering any new facts and circumstances as they become available.

42.1.2 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	More than 360 days past due	Total
31 March 2021						
Expected loss rate	2.0%	9.1%	16.7%	29.6%	28.6%	12.4%
Gross carrying amount – trade receivables	99	11	6	27	35	178
Contract assets	29	–	–	–	–	29
Loss allowance	(2)	(1)	(1)	(8)	(10)	(22)
Total	126	10	5	19	25	185
31 March 2020[1]						
Expected loss rate	1.7%	14.3%	10.0%	25.9%	29.0%	10.7%
Gross carrying amount – trade receivables	115	14	10	27	31	197
Contract assets	27	–	–	–	–	27
Loss allowance	(2)	(2)	(1)	(7)	(9)	(21)
Total	140	12	9	20	22	203

[1] *The age analysis for 31 March 2020 has been restated to include a more than 360 days past due category. This change is not considered material however provides enhanced disclosure and comparability when considering the current year analysis.*

Trade receivables are reflected net of an impairment of R21.9 million (2020: R20.7 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.

Impairment losses for cash and cash equivalents held at amortised cost were assessed and considered immaterial.

42.2 Liquidity risk

42.2.1 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 cyholder 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 2021

42. Financial risk continued
42.2 Liquidity risk continued
42.2.1 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.

42.2.2 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 five year credit facility of 28 million Namibian dollars is in place to finance the capital expenditure on the refurbishment of the Namibia Head office. The credit facility bears interest at the Namibia prime lending rate plus 1.20% margin per annum compounded daily. The interest is payable semi-annually in arrears, with the first payment due six months after al the conditions precedent under the facilities have been met. 50% of the facility amount will be repayable over 5 years in 10 equal instalments made semi-annually, with the first repayment due six months after the utilisation. Refer to note 24 for further details on the debt facility.

Liquidity analysis of assets and liabilities[1]

	Contractual cash flows (undiscounted)					
Rm	0 – 1 year	1 – 3 years	3 – 5 years	>5 years	Undated/linked	Total
2021						
Assets						
Financial assets held under multi-manager investment contracts	–	–	–	–	333 217	333 217
Financial assets	–	–	–	–	1 029	1 029
Trade and other receivables	200	–	–	–	–	200
Cash and cash equivalents	2 288	–	–	–	–	2 288
ASISA investment	–	–	–	–	13	13
Total financial assets	2 488	–	–	–	334 259	336 747
Liabilities						
Financial liabilities held under multi-manager investment contract[2]	–	–	–	–	333 232	333 232
Contingent consideration	8	8	–	–	–	16
Borrowings	8	14	13	–	–	35
Trade and other payables	433	–	–	–	–	433
Total financial liabilities	449	22	13	–	333 232	333 716

[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.*

42.2.2 Exposure to liquidity risk continued
Liquidity analysis of assets and liabilities[1]

	Contractual cash flows (undiscounted)					
Rm	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[1]	–	–	–	–	272 612	272 612
Borrowings	101	–	–	–	–	101
Trade and other payables	446	–	–	–	–	446
Total financial liabilities	**547**	**–**	**–**	**–**	**272 612**	**273 159**

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

42.3 Market risk
42.3.1 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 debt facility of 28 million Namibian dollars is in place and is subject to interest at the Namibia prime rate plus 1.20% payable bi-annually. At the end of the prior financial year, the group had an outstanding liability of R101 million on a revolving credit facility of R800 million which was settled in full in May 2020. Refer to note 24 for further details regarding the debt 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 2021

42. Financial risk continued

42.3 Market risk

42.3.1 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.

42.3.2 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 debt facility, with interest at the Namibia prime rate plus 1.20%. A 1% increase/decrease in the Namibia prime rate results in a pre-tax interest charge/saving of N$250 000. In 2020, the group's interest exposure would have been R2.2 million on the revolving credit facility which was subsequently settled. Refer to note 24.

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% (2020: 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		2021	2020
Weighted average rate	(ZAR: GBP)	21.3	18.5
Closing rate	(ZAR: GBP)	20.4	18.5

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.

42.3.2 Exposure to market risk continued

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

	31 March 2021		31 March 2020	
Million	USD	GBP	USD	GBP
Cash and cash equivalents	–	21	–	16
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	2021	2020
Amounts recognised in profit or loss		
Net loss on foreign currency due to movements in forward points included in finance costs[1]	(4)	2
Net gains/(losses) recognised in other comprehensive income		
Cash flow hedges	1	(4)
Foreign currency translation differences of foreign operations[2]	(20)	49

[1] Relates to foreign currency risk.

[2] Relates to currency translation risk.

Sensitivity

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

	31 March 2021		31 March 2020	
Rm	USD	GBP	USD	GBP
ZAR:US/GBP exchange rate – increase 10%[1]	(1)	42.4	(2.5)	61.8
ZAR:US/GBP exchange rate – decrease 10%[1]	1	(42.4)	2.5	(61.8)

[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 2021

42. Financial risk continued

42.4 Fair value hierarchy continued

42.4.1 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 2021 investments classified at Level 3 comprise approximately 3% (2020: 2%) of total financial assets measured at fair value.

42.4.1 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.

42.4.2 Financial assets and liabilities at fair value continued

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

	Fair value levels			
Rm	Level 1	Level 2	Level 3	Total fair value
2021				
Financial assets held under multi-manager investment contracts				
Equity securities – listed	117 456	–	1	117 457
Equity securities– unlisted	–	53	46	99
Preference shares – listed	104	–	–	104
Collective investment schemes	83 420	28 060	3 759	115 239
Debt securities – listed	142	19 815	–	19 957
Debt securities – government stock	–	33 924	–	33 924
Debentures – listed	2 072	–	–	2 072
Policy of insurance	–	18 093	6 207	24 300
Derivative financial instruments	62	–	–	62
Property investments	(3)	–	–	(3)
Unsettled trades	–	483	–	483
Money market instruments – listed	–	14 551	–	14 551
Total financial assets measured at fair value	203 253	114 979	10 013	328 245
General operations				
Financial assets:				
Money market instruments	–	5	–	5
Collective investment schemes	–	988	–	988
ASISA investment	–	–	13	13
Total financial assets measured at fair value	203 253	115 972	10 026	329 251
Expressed as a percentage (%)	62%	35%	3%	100%
Cash held under multi-manager investment contracts	–	4 972	–	4 972
	203 253	120 944	10 026	334 223

Notes to the group financial statements continued
For the year ended 31 March 2021

42. Financial risk continued
42.4 Fair value hierarchy continued
42.4.2 Financial assets and liabilities at value continued

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
Equity securities – 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
Debt securities – 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
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**

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

Rm	Fair value levels Level 1	Level 2	Level 3	Total fair value
2021				
Financial liabilities measured at fair value				
Financial liabilities held under multi-manager investment contracts	**–**	**323 219**	**10 013**	**333 232**
Contingent consideration	**–**	**–**	**16**	**16**
Total financial liabilities measured at fair value	**–**	**323 219**	**10 029**	**333 248**
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**

Transfers between Levels 1 and 2

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

42.4.3 Changes in Level 3 instruments
Summary of changes in group Level 3 instruments

Rm	Financial assets under multi-manager assets	Total
Financial assets		
Opening balance at 1 April 2020	**7 226**	7 226
Total gains recognised in profit or loss	**330**	330
Transfer of financial assets at FVTPL	**(8)**	(8)
Purchases	**3 399**	3 399
Disposals	**(934)**	(934)
Closing balance at 31 March 2021	**10 013**	**10 013**
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**

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

Notes to the group financial statements continued

For the year ended 31 March 2021

43. Risk and capital management

43.1 Capital management

43.1.1 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.

43.1.2 Available capital resources

The group's available capital and quality thereof is determined on a SAM basis in alignment to its tiering requirements. The group's capital supply (also known as Own Funds) is almost entirely funded by ordinary share capital offering the highest quality of capital to the group. The Group Own Funds are allocated to various tiers detailed below, of which Tier 3 consists of largely net deferred tax assets and the admissible portion of intangible assets.

Tier 1	Tier 2	Tier 3	Eligibility adjustment	Adjustment to own funds for pro rata interest	Eligible Own Funds to meet the SCR
2 554	–	235	–	–	2 789

The group does not have any qualifying Tier 2 debt at the reporting date.

43.1.3 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. It is expected that following the sale of AF LIfe, the Group would be regulated with a focus on its linked insurance business, AF Investments. Guidance from the Prudential Authority is awaited on the appropriate level of regulation and oversight for the Alexander Forbes Group.

43.1.3 Capital adequacy and solvency

Solo supervision

The solo insurance entity solvency on a prudential basis is shown below (31 March 2020 included for comparative purposes):

	31 March 2021			31 March 2020		
Regulated entity	**Own Funds**	**SCR**	**Cover ratio**	Own Funds	SCR	Cover ratio
Alexander Forbes Investments Limited	**576**	**481**	**1.20**	417	348	1.20
Alexander Forbes Life Limited	**504**	**181**	**2.78**	822	169	4.86

All solo entities remain solvent as at 31 March 2021 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 (long term) ▪ Non-SA regulated insurance (non-equivalent jurisdictions)
Other regulated entities	▪ Non-SA regulated financial entity ▪ Non-SA regulated financial insurance (equivalent jurisdiction)
13B and FAIS licensed entities	▪ SA regulated financial entities ▪ Non-regulated entities
Unregulated entities	▪ Holding companies

The group maintains a regulatory surplus of R1.353 billion and SCR cover ratio (Own Funds/SCR) of 1.94 as at 31 March 2021, compared to R2.060 billion and 2.57 respectively as at 31 March 2020.

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 R42.6 million (2020: R29.5 million), representing an excess of assets over liabilities of 4.73 times (2020: 6.62 times).

Notes to the group financial statements continued

For the year ended 31 March 2021

43. Risk and capital management continued

43.2 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.

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.

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 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.

43.2.3 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.

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 audit and risk committee	The group audit and risk 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.

43.2.4 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 2021

43. Risk and capital management continued

43.2 Enterprise-wide risk management (EWRM) continued

43.2.4 Risk appetite

Risk type	Risk appetite statements and measures
Business 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 42: Financial risk. Further, a discussion on insurance- related risks can be found under note 41: Insurance risk.

43.2.5 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.

43.2.6 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.

43.2 Enterprise-wide risk management (EWRM) continued

43.2.6 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 27.2 to these financial statements.

43.2.7 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.

Notes to the group financial statements continued

For the year ended 31 March 2021

43. Risk and capital management continued

43.2 Enterprise-wide risk management (EWRM) continued

43.2.7 Risk taxonomy continued

Covid-19

The Group saw good application of enterprise risk management principles and practices through the pandemic this year, especially through business continuity responses and the triggering of an out of cycle ORSA for the Group. This boosted integration of strategy, risk management and capital management as various levels of Management, in co-ordination with the board, deployed risk adjusted thinking and solutions into the business.

Business continuity management processes proved healthy as operations quickly adapted to lockdown conditions and the remote working environment. While business resilience was strong, interventions increased to protect the Group against the heightened threat of cyber risk events which still remains a high priority. Strategically, the value of the advice-led business stood us in good stead as the Group's consultants and advisors led the market to meaningfully impact on clients' businesses during an uncertain and distressing period.

Simultaneously, some business plans necessitated acceleration such as improved client experiences. Strategic and tactical discussions and decisions were well co-ordinated, and well aligned in responding to the changes in the environment, with much stakeholder engagement, lobbying of the regulators and leading with advice over the period.

The medium- and long-term impacts of the pandemic still remain uncertain since vaccine availability and rollout programmes will influence the direction that governments, societies and businesses take. Management remains alert to the fact that slow burn impacts may have unintended consequences and that these may create hidden tipping points for the Group. For Alexander Forbes, the Covid-19 experience highlighted the advantages of robust scenario planning and the complex and multi-layered ecosystem within which the Group exists. It has encouraged Management thinking beyond the immediate and has demonstrated the dangers of internal and insular mind-sets. Moving forward, the Group will need to consistently demonstrate strong crisis management capabilities and, given that these events represent external shocks, the Group will need to continue to build flexibility in its strategies, model and general operations.

Strong skill-sets and diverse experience will be needed to analyse and manage how the Group's strategic choices, product sets and more, may shift and evolve for changing environmental outcomes. It is acknowledged that this is likely to remain challenging given competing Management priorities and senior management will remain alert to the need to remain agile to effectively respond (and pre-empt) business circumstances.

43.2.8 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.

44. Consolidated and unconsolidated entities

44.1 Consolidated entities

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

			Economic interest	
Entity	Nature of business	Year-end date	2021 %	2020 %
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	**100**	90
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 Financial Planning Consultants Proprietary Limited	Financial planning	31 March	**100**	100
Alexander Forbes Financial Services Proprietary Limited	Provision of financial services	31 March	**100**	100
Alexander Forbes Group Services Proprietary Limited	Administration and support services	31 March	**100**	100
Alexander Forbes Health Proprietary Limited	Healthcare, wellness and related consulting, broking and actuarial services	31 March	**100**	100
Alexander Forbes Individual Client Administration Services Proprietary Limited	Financial services administration	31 March	**100**	100
Alexander Forbes 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
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 2021

44. Consolidated and unconsolidated entities continued

44.1 Consolidated entities continued

Entity	Nature of business	Year-end date	Economic interest 2021 %	Economic interest 2020 %
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
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
5. United Kingdom/Europe				
Alexander Forbes Channel Islands Limited	Financial services	31 March	**100**	100
Investment Solutions (Jersey) Limited	Multi-manager investment	31 March	**100**	100

44.2 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 (2020: 6) as fund manager which are not consolidated. It also invests certain policyholder assets with these trusts. The value of these investments at 31 March 2021 is R201 million (2020: R141 million) representing 2.53% (2020: 1.77%) of the total assets in the schemes 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 schemes.

45. Subsidiaries with material non-controlling interest and associates

45.1 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.

Rm	Alexander Forbes Investment Solutions Namibia Limited 2021	2020
Balance sheet information		
Total assets	**4 341**	3 221
Total liabilities	**(4 320)**	(3 198)
Total net assets	**21**	23
Summarised income statement		
Revenue	**21**	20
Profit before tax	**11**	12
Tax expense	**–**	–
Profit after tax	**11**	12
Other comprehensive income	**–**	–
Total comprehensive income	**11**	**12**
Dividends paid to non-controlling interest	**3**	3
Summarised cash flows		
Cash from operating activities	**(4)**	2
Cash from investing activities	**–**	11
Cash from financing activities	**–**	–
Net (decrease)/increase in cash and cash equivalents	**(4)**	13
Cash and cash equivalents at beginning of the year	**22**	9
Cash and cash equivalents at year-end	**18**	**22**

46. Events after reporting period

Transfer of business in terms of section 50 of the Insurance Act 18 of 2017

At 31 March 2021, management were in the final stages of reaching agreement on the sale of the insurance policies held by Alexander Forbes Life Limited. On 11 June 2021, the group entered into a binding agreement with Sanlam Life Limited, a subsidiary of Sanlam Limited, subject to certain conditions precedent (Proposed Transaction) for a total cash consideration of R100 million. The sale and transfer agreement will result in a transfer of all insurance policies, as well as all related liabilities and the reserves created for these policies under section 50 of the Insurance Act 18 of 2017, subject to regulatory approval. The disposal of the Alexander Forbes Life Limited business operations as opposed to the legal entity has resulted in a change to the assets and liabilities which are held for sale as set out in note 21.4.

At the time the financial statements were authorised for issue, the group had not yet fulfilled all the conditions precedent in the agreement. The transaction has been treated as a reportable non-adjusting event after the reporting date.

Alexander Forbes
Group Holdings Limited

FY2021 Company financial statements

for the year ended 31 March 2021

Company income statement

For the year ended 31 March 2021

Rm	Notes	2021	2020
Dividend revenue	1	**8**	2 019
Operating expenses		**(13)**	(16)
Operating profit		**(5)**	**2 003**
Non-trading and capital items		**(2)**	(1 349)
Investment income	2	**26**	15
Finance costs		**–**	1
Profit before taxation		**19**	**670**
Income tax expense		**(11)**	–
Profit for the year		**8**	**670**

Company statement of comprehensive income

For the year ended 31 March 2021

Rm	2021	2020
Profit for the year	**8**	670
Other comprehensive income	**–**	–
Total comprehensive income for the year	**8**	**670**

Company statement of financial position

For the year ended 31 March 2021

Rm	Notes	2021	2020
Assets			
Investment in subsidiary	3	**4 823**	4 402
Receivables from group companies		**71**	41
Financial assets	4	**123**	–
Trade and other receivables		**2**	1
Cash and cash equivalents		**412**	1 073
Total assets		**5 431**	**5 517**
Equity and liabilities			
Share capital	5	**6 277**	5 874
Non-distributable reserves		**125**	63
Accumulated loss		**(1 447)**	(425)
Total equity		**4 955**	**5 512**
Liabilities			
Other payables		**1**	4
Loans from group companies		**475**	–
Tax liability		**–**	1
Total liabilities		**476**	**5**
Total equity and liabilities		**5 431**	**5 517**

Company statement of cash flows

For the year ended 31 March 2021

Rm	Notes	2021	2020
Cash flows from operating activities			
Cash utilised in operations	6	**(18)**	(20)
Interest received	2	**26**	15
Dividend received	1	**–**	1 721
Dividends paid		**(1 030)**	(779)
Tax paid	7	**(12)**	(11)
Net cash (outflow)/inflow from operating activities		**(1 034)**	**926**
Cash flows from investing activities			
Payment for financial assets	4	**(123)**	–
Cash flows received from/(paid to) group companies	8	**496**	(7)
Net cash inflow/(outflow) from financing activities		**373**	**(7)**
Increase in cash and cash equivalents		**(661)**	919
Cash and cash equivalents at the beginning of the period		**1 073**	154
Cash and cash equivalents at the end of the period		**412**	**1 073**

Company statement of changes in equity

For the year ended 31 March 2021

Rm	Share capital	Non distributable reserves	Accumulated loss	Total equity
At 31 March 2019	**6 192**	**43**	**(351)**	**5 884**
Dividends paid	–	–	(779)	(779)
Movement in share-based payment reserve	–	34	–	34
Settlement of share based payment reserve[1]	–	(14)	–	(14)
Share cancellation[2]	(318)	–	–	(318)
Unrealised gain on share cancellation[3]	–	–	35	35
Profit for the year	–	–	670	670
At 31 March 2020	**5 874**	**63**	**(425)**	**5 512**
Dividends paid	**–**	**–**	**(1 030)**	**(1 030)**
Movement in share-based payment reserve	**–**	**70**	**–**	**70**
Settlement of share based payment reserve[4]	**–**	**(8)**	**–**	**(8)**
Empowerment transaction[5]	**403**	**–**	**–**	**403**
Profit for the year	**–**	**–**	**8**	**8**
At 31 March 2021	**6 277**	**125**	**(1 447)**	**4 955**

[1] Shares amounting to R4m relating to the forfeitable share scheme was settled, in addition R10m relating to the 2018 retension share scheme was also settled.
[2] The group cancelled 53 568 809 shares which were withdrawn on the JSE on 26 August 2009.
[3] 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.
[4] Shares with a cost of R16m and a fair value of R8m relating to the forfeitable share scheme was settled.
[5] The Company issued 118 019 747 ordinary shares to an empowerment partner, African Rainbow Capital (ARC), comprising of 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 Alexander Forbes Group Holdings Limited and ARC on 28 September 2016 in terms of which ARC would exchange it's 10% shareholding in Alexander Forbes Limited for shares in Alexander Forbes Group Holdings Limited. The transaction was executed at market value and the increase in share capital offset by the reduction in non-controlling interests resulted in no dilution to existing shareholders.

Notes to the company financial statements

For the year ended 31 March 2021

1. Dividend revenue

Rm	2021	2020
Dividends received from subsidiary	**–**	1 721
Dividend in specie	**8**	298
	8	**2 019**

2. Investment income

Rm	2021	2020
Interest income	**26**	15

3. Investment in subsidiary

Rm	2021	2020
Opening balance	**4 402**	5 748
Empowerment transaction[1]	**421**	–
Impairment of investment in subsidiary[2]	**–**	(1 346)
Closing balance	**4 823**	**4 402**

[1] 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 and was executed at market value. The increase in share capital offset by the reduction in non-controlling interests resulted in no dilution to existing shareholders. 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.
[2] 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.

Rm	2021	2020
Current financial assets	**123**	–
4.1 Analysis of financial assets		
Financial assets at fair value through profit or loss		
Collective investment schemes[1]	**123**	**–**

[1] The entity has invested in the IS Superior Yield Unit Trust product , which is managed by Alexander Forbes Investments Limited, a fellow subsidiary. The underlying portfolio mix of the IS Superior Yield Unit Trust has changed during the financial year and has therefore been reclassified to financial assets from cash and cash equivalents.

Rm	2021	2020
5. Share capital		
Share capital at no par value	**6 277**	5 874

	2021		2020	
	Number of shares '000	**Share capital at no par value Rm**	Number of shares '000	Share capital at no par value Rm
5.1 Share capital				
Authorised				
Ordinary shares at no par value	**2 500 000**	**–**	2 500 000	–
Issued				
Ordinary shares at no par value	**1 401 541**	**6 277**	1 287 858	5 874
	1 401 541	**6 277**	**1 287 858**	**5 874**
5.2 Movement in share capital				
Opening balance	**1 287 858**	**5 874**	1 341 427	6 192
Empowerment transaction	**113 683**	**403**		
Share cancellation	**–**	**–**	(53 569)	(318)
Closing balance	**1 401 541**	**6 277**	**1 287 858**	**5 874**

Notes to the company financial statements continued

For the year ended 31 March 2021

5.3 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 R7.0 million (2020: R5.6 million) during the current financial year.

5.4 Non-distributable reserve

Rm	Notes	2021	2020
Share-based payment reserve		**125**	63

5.4.1 Share-based payment reserve

Rm	2021	2020
Opening balance	**63**	43
Charged to group entities	**70**	34
Settlement of share incentive schemes	**(8)**	(14)
Closing balance	**125**	**63**

6. Cash utilised in operations

Rm	2021	2020
Profit before taxation	**19**	670
Items disclosed separately:		
Investment income	**(26)**	(15)
Dividends received	**(8)**	(2 019)
Finance costs	**–**	(1)
Adjusted for non cash items:		
Impairment of investment in subsidiary	**–**	1 346
Other non-cash items	**–**	1
Movement in working capital balances:		
Payables	**(3)**	(2)
	(18)	**(20)**

7. Tax paid

Rm	2021	2020
Tax payable at the beginning of the year	**(1)**	12
Charge in income statement	**(11)**	–
Tax receivable/(payable) as at year end	**–**	(1)
Net tax paid	**(12)**	**11**

8. Related party disclosure

List of related party relationships

Major shareholders

The owners of the company are detailed in Annexure A.

African Rainbow Capital Financial Services Holdings Proprietary Limited (ARC), a subsidiary of African Rainbow Capital holds a 35.09% interest in the company. Mercer Africa Limited, a subsidiary of the US-listed Marsh & McLennan Companies Inc., holds a 14.33% interest in the company.

Refer to note 40.1 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.

8.1 Summary of related party transactions

Transactions between related parties comprise non-interest-bearing loans and are repayable on demand. Refer to note 9.

Transactions with subsidiaries

Rm	2021	2020
8.2 Loans to group companies		
Loans to group companies		
Opening balance	**44**	–
Cash (outflow)/inflow to group companies	**(24)**	10
Loan advanced to group companies	**–**	44
Share-based payments settlement	**(24)**	(34)
Share-based payments	**70**	–
Empowerment transaction	**(19)**	34
Closing balance	**71**	**44**

Rm	2021	2020
8.3 Loans from group companies		
Loan balances classified as intercompany loans		
Opening balance	**(3)**	–
Cash (outflow)/inflow to group companies	**(472)**	(3)
Closing balance	**(475)**	**(3)**

9. Events after reporting period

Alexander Forbes Group Holdings Limited received R70 million in cash from Alexander Forbes Limited as settlement for the intercompany loan due.

The directors of the company's subsidiary Alexander Forbes Acquisition Proprietary Limited declared a dividend of R474 million to Alexander Group Holdings Limited. The dividend was declared in-specie and comprises the intercompany loan payable to Alexander Forbes Acquisition Proprietary Limited from Alexander Group Holdings Limited at 31 March 2021.

Annexure A – shareholding information

Analysis of the shareholding at 31 March 2021

	2021	
	Analysis of shareholders	Number of shares as a % of total
Beneficial shareholders holding 5% or more of the company's listed ordinary share capital		
African Rainbow Capital	491 826 963	35.09
Mercer Africa Limited	200 800 000	14.33
Government Employees Pension Fund	70 851 607	5.06
	763 478 570	54.47
Investment management interests above 3% of the company's listed ordinary share capital		
Abax Investments Proprietary Limited	152 734 696	10.90
Coronation Fund Managers Limited	83 216 234	5.94
Visio Capital Management Proprietary Limited	81 375 786	5.81
Public Investment Corporation Limited	73 838 732	5.27
	391 165 448	27.91

Shareholding spread at 31 March 2021

Size of holding	Number of shareholders	% of total	Number of shares	% of total
1 – 1 000	6 783	83.68	594 479	0.04
1 001 – 10 000	735	9.07	2 557 148	0.18
10 001 – 100 000	303	3.74	10 769 590	0.77
100 001 – 1 000 000	192	2.37	69 505 084	4.96
1 000 001 +	93	1.15	1 318 115 108	94.05
	8 106	100	1 401 541 409	100

Shareholder type at 31 March 2021

	Shareholders and percentage of issued share capital		
	Number of shareholders	Number of shares	% of total
Public	8 094	586 287 977	41.83
Non-public	12	815 253 432	58.17
African Rainbow Capital	1	491 826 963	35.09
Mercer Africa Limited	1	200 800 000	14.33
Alexander Forbes Acquisition Proprietary Limited	1	37 652 918	2.69
Alexander Forbes Isilulu Trust	1	39 070 700	2.79
Alexander Forbes FSP Trust	1	40 135 748	2.86
Alexander Forbes Community Trust	1	4 451 126	0.32
Executive directors and prescribed officers	6	1 315 977	0.09
Total	8 106	1 401 541 409	100

Annexure A – shareholding information continued

Analysis of the shareholding at 31 March 2021

	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

	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**

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, AM Mazwai

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
Private Bag X9000, Saxonwold, 2132

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

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Securing your financial well-being