Alexander Forbes Group Holdings Limited

ANNUAL FINANCIAL STATEMENTS

ALEXANDERFORBES
Securing your financial well-being

CONTENTS

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

It is the responsibility of the independent auditors to report on the fair presentation of the financial statements. Their unmodified audit report appears on pages 9 to 15.

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

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

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

Directors' approval of annual financial statements

The group and company financial statements have been prepared in accordance with IFRS under the supervision of Mr BP Bydawell, CA(SA), CFA (acting group chief financial officer) and were approved by the board of directors on 9 June 2017 and are signed on their behalf by:

MS Moloko
Chairman

AA Darfoor
Group chief executive

CERTIFICATE BY THE COMPANY SECRETARY

I hereby confirm, in my capacity as company secretary of Alexander Forbes Group Holdings Limited, that for the year ended 31 March 2017, the company has filed all required returns and notices in terms of the Companies Act of South Africa, 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.

JE Salvado
Company secretary

DIRECTORS' REPORT
for the year ended 31 March 2017

The board of directors is pleased to present the results of the Alexander Forbes Group Holdings Limited for the year ended 31 March 2017.

Nature of business

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

Review of operations

Consolidated operating income net of direct expenses

Operating income net of direct expenses (hereinafter referred to as 'operating income') represents gross revenue net of direct product costs. The group's gross revenue is derived from fees charged for consulting, administration and the management of investments through multi-manager portfolios. In addition, operating income includes the net result from both long-term and short-term insurance operations.

The group produced operating income from continuing operations of R3 435 million for the year ended 31 March 2017, up 1% when compared to the previous financial year.

Consolidated profit from operations

Operating profits from continuing operations before non-trading and capital items increased by 3% to R933 million when compared to the previous financial year. The divisional performance review is reflected below. This result reflects the significant efforts made to reduce costs and drive efficiencies in the operations.

Operating expenses of R2 502 million were 0.5% higher than the previous year. Given the inflationary environment and contractual escalations inherent in certain costs, the cost containment is considered commendable.

The overall group trading margin on net revenue is 27.2% compared to the 26.7% for the previous financial year. The increase in trading margin further emphasises the group's efforts to enhance operational efficiencies and reduce costs.

Non-trading and capital items

Non-trading and capital items of R137 million (2016: R140 million) include the ongoing accounting amortisation of intangible assets amounting to R117 million (2016: R124 million), once-off costs incurred in defining the group's strategy as well as the results of the cell-captive insurance facility which are consolidated into the group's results. The accounting for amortisation has no impact on the cash flows of the group.

Investment income

Investment income of R156 million (2016: R93 million income) is generated from the corporate cash balances managed through the group's treasury department. The significant cash balances recorded at 31 March 2017 arise from the sale of our international consulting practice, Lane Clark & Peacock LLP (LCP), and through the subscription of shares by African Rainbow Capital.

Investment income related to policyholder investments includes R22 million (2016: R70 million) related to individual policyholder funds in AF Investments (previously Investment Solutions) that are liable for fund level taxes and for which an equal tax liability is raised. This income (and related tax expense) should theoretically be excluded when assessing the group's own investment income.

Finance costs

Finance costs for the year ended 31 March 2017 increased to R89 million from R69 million in the prior year. The increase is largely due to a drawdown on the revolving credit facility and increases in the JIBAR interest rate during the year. In addition to the revolving credit facility, other finance costs include interest accrued on various liabilities.

Accounting for Alexander Forbes shares held in policyholder investment portfolios

In terms of International Financial Reporting Standards (IFRS) any Alexander Forbes shares acquired by underlying asset managers and held by the group's multi-manager investment subsidiary for policyholders (the shares) are required to be accounted for in Alexander Forbes's consolidated financial statements as treasury shares and result in the elimination of any fair value gains or losses made on the shares. Refer to note 11.

This accounting treatment has the effect that fair value movements in respect of linked investment policy assets and liabilities that would normally be offset (and economically should be offset) are not being matched in the income statement. The resultant mismatch between the asset and liability movement does not reflect the economic substance of the transactions. The impact of this mismatch results in an accounting profit or loss that is reported in Alexander Forbes's consolidated income statement, whereas no actual economic profit or loss will ever be realised by the group. The reported loss of R2 million (2016: R59 million profit) arising from the accounting for policyholder investments as treasury shares for the year is separately disclosed in the income statement.

Profit before and after tax from continuing operations

After non-trading items, finance charges and the effect of the policyholder investments explained above, the group's profit before taxation from continuing operations of R887 million for the year ended 31 March 2017 is 4% lower than the previous financial year.

The tax rate excluding the policyholder tax is 28.2%, resulting in profit after tax of R621 million for the year ended 31 March 2017.

Discontinued operations

The business results reflected as discontinued operations comprise Lane Clark & Peacock LLP together with its subsidiaries in Ireland and the Netherlands (LCP), Alexander Forbes's Kenyan operations and Alexander Forbes Insurance Consulting Practice. The disposal of LCP was concluded on 19 December 2016 and the effects of the disposal are included in the results for the year under review. The results of discontinued operations are further detailed in note 22.

Items to consider when analysing the group's results

There are certain significant items which affect the reported results of the group. These items are correctly reported under IFRS, however they may not necessarily reflect the economic

DIRECTORS' REPORT (CONTINUED)

for the year ended 31 March 2017

substance of the results. Investors are requested to consider the following items when preparing an analysis of the results.

(a) *Accounting for property lease*
The accounting treatment for long-term leases, particularly at the Sandton head office, continues to have a small positive impact on the group's growth rate. The impact of the IFRS accounting for the property lease is isolated in the segmental analysis.

(b) *Capitalisation of intangible assets and the related amortisation*
Non-trading and capital items include the ongoing accounting amortisation of the intangible assets amounting to R117 million for the year ended 31 March 2017 (2016: R124 million). The capitalisation of intangible assets and the related amortisation resulted from the required accounting treatment at the time of the private equity acquisition of the group under common control in 2007. As the holding company that was established at the time remains in existence (and is now the listed entity) 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.

(c) *Accounting for Alexander Forbes shares held in policyholder investment portfolios*
As discussed, this accounting treatment has the effect that fair value movements in respect of linked investment policy assets and liabilities that would normally be offset (and economically should be offset) are not being matched in the income statement. The resultant mismatch between the asset and liability movement does not reflect the economic substance of the transactions.

(d) *Investment income and taxation payable on behalf of policyholders*
The group's tax rate compared to profit before tax is high as a result of taxation payable on behalf of policyholders being included in this amount (refer to the investment income discussion as well as note 8).

Divisional review of operations

Group segmental income and profit analysis

	Operating income net of direct expenses			Profit from operations before non-trading and capital items		
Rm	**2017**	%	2016	**2017**	%	2016
Institutional clients						
Consulting	**802**	(2)	818	**74**	(9)	81
Retirements	**421**	12	375	**100**	27	79
Investments	**640**	–	641	**276**	–	277
Group risk	**57**	(24)	75	**15**	(40)	25
	1 920	1	1 909	**465**	1	462
Retail clients						
Wealth and investments	**797**	5	758	**378**	15	329
Retail insurance	**477**	4	458	**88**	(4)	92
	1 274	5	1 216	**466**	11	421
Emerging markets	**241**	(11)	270	**32**	(51)	65
Total group before items below	**3 435**	1	3 395	**963**	2	948
Accounting for property leases				**(26)**		(30)
Accounting for conditional share scheme costs				**(4)**		(13)
Total group	**3 435**	1	3 395	**933**	3	905

The segmental analysis provided reflects the operating structure under which management currently reports. The table reflects a change in presentation from the segmental report presented in the prior year's results. Owing to the change in structure and the reallocation of certain business lines, the prior year's numbers have been represented to provide the appropriate comparative numbers.

DIRECTORS' REPORT (CONTINUED)

for the year ended 31 March 2017

The following is a brief summary of divisional trading results for the year ended 31 March 2017.

Institutional clients

The institutional clients division delivered R1 920 million of operating income, which is 1% higher than the prior year. Business units within this division include:

- Consulting – which includes actuarial consulting, healthcare actuarial and consulting, and fund administration and consulting to standalone retirement funds;
- Retirements – which includes fund administration and consulting to umbrella retirement funds and beneficiary funds;
- Investments – investment services, including a range of investment portfolios, advice-led solutions and alternative investments; and
- Group risk – group risk and disability insurance through Alexander Forbes Life.

Expenses were prudently managed at a 1% growth year on year, a very pleasing outcome in the current economic environment and was as a direct result of strong management focus on cost and operational efficiencies. As a result profit from operations increased by 1% to R465 million for the year ended 31 March 2017.

(i) Consulting

New business opportunities were impacted across this business unit as a result of delayed decision-making at trustee and corporate levels. We firmly believe that our value proposition remains relevant and we see strong momentum in clients continuing to value our expertise and experience as a trusted adviser in delivering favourable outcomes and experiences across their financial well-being as the outlook improves. In line with this, we launched AFRIS (Alexander Forbes Retirement Income Solutions in April 2017), which is our institutional living annuity solution available to standalone retirement fund clients.

The operating income from the consulting and administration business to standalone retirement funds contracted by 3% when compared to the previous financial year. This was impacted by a 7% decrease in the number of active member records due mainly to the loss of a large standalone retirement fund client which has chosen to insource its administration. The cost base in administration was reduced accordingly for this lost client. The operating income from the healthcare consulting business increased by 1% when compared to the previous financial year. Healthcare broking income increased 10% year on year as a result of an increase in the regulated cap for commission income for broking services and new business wins. Health management solutions income reduced year on year on the back of the loss of a public sector client, with the cost base being reduced accordingly.

(ii) Retirements

The Alexander Forbes Retirement Fund (AFRF) continues to be a market leader in the umbrella fund industry, providing relevant and cost-effective solutions to the South African market and the Alexander Forbes Coreplan umbrella fund continues to be innovative and provides low-cost simple solutions with a strong growth trajectory. In October 2016 we launched a number of new innovative offerings to our umbrella funds, including an in-fund preservation and in-fund living annuity solution. In February 2017 we launched a group retirement annuity solution, further demonstrating our commitment to providing members with cost-effective solutions to preserve their retirement fund savings.

The umbrella fund operating profit increased by 7% from the previous financial year. This is supported by the increase in the number of active member records for our umbrella retirement funds which increased by 4% from the previous year and the increase in the number of umbrella fund clients (participating employers) by 5% from the previous year. Closing assets under management (AuM) for the umbrella funds increased by 5% year on year to R68.4 billion at 31 March 2017. This was higher than the market growth in AuM of 3.6% in the year thanks to new business wins and portfolio performance.

Included in the retirements division is beneficiary fund consulting and administration, the latter being a service offering we launched in June 2016. The operating income for the combination of umbrella fund and beneficiary fund consulting and administration services increased by 12% from the previous financial year. Strict cost management and operational efficiencies had profit from operations increasing by 27% from the previous year.

(iii) Investments (previously Investment Solutions)

The operating income for the Investments segment was marginally down at 0.2% for the year ended 31 March 2017. The low return environment persisted with all major asset classes' returns being below inflation. Net negative ongoing cash flows were also experienced, which is prevalent in the retirement fund industry. Although the segment delivered strong new business flows of R9.9 billion for the year ended 31 March 2017, these flows were offset by net ongoing client cash outflows of R14.1 billion (the difference between ongoing contributions and benefit payments) and client losses of R3.1 billion for the same period.

Closing institutional assets under management (including assets under administration) slightly increased by 1.2% to R284.8 billion as at 31 March 2017, of which R235.8 billion are institutional assets under investment management.

DIRECTORS' REPORT (CONTINUED)

for the year ended 31 March 2017

A summary of the institutional investments' cash flows is reflected below:

Rbn	2017	%	2016
Inflows	**37.8**	10	34.4
New business	**9.9**		13.0
Ongoing contributions	**27.9**		21.4
Outflows	**(45.1)**	16	(38.9)
Outflows due to client losses	**(3.1)**		(4.0)
Withdrawals for benefit payments	**(42.0)**		(34.9)
Net cash flows	**(7.3)**	62	(4.5)

Operating expenses were flat year on year, resulting in profit from operations increasing by 0.6% to R276 million for the year ended 31 March 2017.

Representing R700 billion in retirement assets, the Investments division continues to focus on providing a wide array of investment services ranging from investment portfolios to advice-led solutions and alternative opportunities. The investment philosophy revolves around outcome-based investing with a clear mission to help clients secure their financial well-being while managing the risk of uncertain and challenging economic environments.

(iv) Group risk

AF Life group risk grew annualised premium income by 11% to R439 million at 31 March 2017. Despite the pleasing increase in new business, claims experience was negatively impacted by the continued trend in disability claims with disabilities having a longer rehabilitation period owing to the nature of the disabilities experienced, including an increase in mental health and cancer-related disabilities. The underwriting result before interest earnings was impacted by the increased claims and required increased reserving.

Retail clients

The retail clients division delivered R1 274 million of operating income, which is 5% higher than the previous year. Business units within this division include:

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

(i) Wealth and investments

Growth in operating income increased 5% to R797 million for the year ended 31 March 2017. The operating income split was 64% from asset-based income and 36% from consulting and advisory fees also linked to asset values.

Over the period assets being preserved on exit and retirement declined marginally from 46% to 45%. The FPC business saw improved traction with an improved capture rate of exit and retirement flows from 33% to 35%.

Assets under advisement grew by 4% to R64.7 billion at 31 March 2017. Assets under administration grew by 2.9% to R59.8 billion. Assets under management grew by 7% to R51.6 billion. The flows from FPC to AF products remained constant at 89%. The business's focus continues to be on servicing the institutional client base while expanding the business's footprint in discretionary assets and expanding the distribution channels to include independent financial advisers.

Profit from operations increased by 15% to R378 million on the back of a 2% reduction in operating expenses.

(ii) Retail insurance businesses

Gross written premium in the Alexander Forbes short-term insurance business increased by 8% to R1.5 billion for the year ended 31 March 2017, with the business continuing to grow based on enhanced product offerings and good service levels. The loss ratio for the AF Insurance business ended on 71.5% for the year, slightly below the target of 72%. This represents a significant improvement on the 76.3% reported in the prior year.

To address adverse claims experience in the prior year and the first half of the current year, decisive management action was taken to reduce the loss ratio.

The AF Life individual insurance business accounts for 1% of the retail clients' business operating income. Over the period the business increased its focus on distribution channels and product innovation, which led to an increase in new life policy sales by 33%. The business launched an internal call centre and introduced a non-underwritten product, which is proving very successful and has contributed to the increase in the life policyholder book. The business remains subscale and as a result incurred an operating loss for the year.

The combined retail insurance businesses produced operating income net of direct expenses of R477 million, an increase of 4% over the prior year. Expenses rose by 6% over the prior year, resulting in profit from operations decreasing by 4% to R88 million.

Emerging Markets (previously known as AfriNet and covering all operations in Africa outside South Africa)

Alexander Forbes Emerging Markets (AFEM) currently operates in five countries across Africa – Namibia, Botswana, Zambia, Uganda and Nigeria. Economic growth in all these markets subdued and is well below the longer-term potential.

AFEM's total profit from ongoing operations declined by 51% to R32 million for the year ended 31 March 2017.

DIRECTORS' REPORT (CONTINUED)

for the year ended 31 March 2017

Operations in Kenya have been classified as discontinued.

With the Government of Botswana insourcing its Botswana Public Officers Pension Fund (BPOPF) in 2016 AFEM lost one of its largest clients and operating income consequently declined by 11% for the year. Downsizing and redundancy costs in Botswana mainly contributed to the overall cost growth of 2%. Members under administration naturally decreased as a result of the client loss in Botswana. Excluding the BPOPF impact, operating income grew at 2%. Further measures to improve the operating leverage in Botswana included reducing overheads alongside a buildout of retail consumer lines to enhance the revenue. The impact of these initiatives will be felt in the next financial year.

In line with the stated target to grow the share of retail business lines in AFEM, Namibia increased retail revenue by 10% year on year. The development of assets under management remained resilient, increasing by 2%.

Conditions in Nigeria continued to be challenging, with a systemic shortage of foreign currency hampering business progress alongside a steady devaluation of the local currency against the rand depressing the consolidated result in our home currency. Our business operations in Nigeria remain small for the time being.

AFEM has defined a multi-hub continental growth strategy with operating structures in Namibia and Botswana. This operating structure will enable sound organic and inorganic growth in the coming financial years. The pension reform agenda pursued by many governments across the African continent in view of the general demographic development and the continued urbanisation underpin the increasing relevance of our existing and future markets to Alexander Forbes in our endeavour to become a globally distinctive pan-African financial services leader.

Operations and technology

On 7 April 2017 the group announced a significant contractual agreement with a leading technology provider, Sapiens. Under this agreement Sapiens will provide a wide range of offerings – including key components of the Sapiens Digital Suite – to power Alexander Forbes's client proposition and enhance its digital capability through a modern technology platform with an improved customer experience. The financial commitment relating to this contract amounts to $51 million over the next four financial years. The costs of development will be capitalised and depreciated over the expected useful life of the system. More significantly, the single host system will allow for rationalisation of our current disparate systems and is expected to deliver a net reduction in costs over the next five years.

The group has entered into a foreign currency hedge contract which substantially reduces the foreign currency risk associated with the US dollar-based commitments. The average rate achieved over the hedge period was R13.88 to the US dollar.

Financial position and dividends

Financial position and capital requirements

In December 2016 the group disposed of its investment in LCP. The sale proceeds amounted to £75.4 million, of which £69 million was received and repatriated to South Africa during the year under review and the balance is to be received in the next financial year. In addition the group entered into an agreement with African Rainbow Capital (ARC) in terms of which ARC subscribed for 10% of the equity in the African operations for R753 million. These two transactions have resulted in the group having significant cash on hand as at the year-end.

The board has considered and approved a capital allocation strategy with regard to this cash available which includes the following:

- a special dividend to shareholders of 23 cents in addition to the final declared dividend. Further information on this dividend is reflected below;
- a general share buy-back as approved by the shareholders on 27 March 2017 which will be implemented as soon as possible and within the JSE's trading rules;
- an acquisition programme, targeting small bolt-on value-enhancing businesses in South Africa and Africa; and
- investment in modernising technology to position the company for improved efficiency and client service.

The financial position of the group remains strong and all regulated entities within the group comply with current solvency, liquidity and regulatory capital adequacy requirements.

The group is appropriately positioned for the pending introduction of consolidated supervision by the regulators. The current reporting requirements to the regulator already incorporate the expected formal framework.

As at 31 March 2017 the theoretical consolidated regulatory capital position, using the measures and interpretations under the Solvency Assessment and Management (SAM) standard, is a surplus of R2.3 billion (before the proposed dividend distribution). The surplus estimation above does not include any benefit that may be achieved from the Investments division or the group using an approved internal model for capital determination.

Final dividend

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

Notice is hereby given that the directors have declared a final gross cash dividend of 23 cents (18.4 cents net of dividend withholding tax) per ordinary share for the year ended 31 March 2017. In addition the directors have declared a special dividend of 23 cents (18.4 cents net of dividend

DIRECTORS' REPORT (CONTINUED)
for the year ended 31 March 2017

withholding tax) per ordinary share for the year ended 31 March 2017.

Both dividends above have been declared from income reserves. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt. The issued number of shares at the date of declaration is 1 341 426 963.

The salient dates for the dividend will be as follows:

- Last day of trade to receive a dividend
  Tuesday, 4 July 2017
- Shares commence trading 'ex' dividend
  Wednesday, 5 July 2017
- Record date
  Friday, 7 July 2017
- Payment date
  Monday, 10 July 2017

Share certificates may not be replaced with electronic ones or be converted to paper ones between Wednesday, 5 July 2017 and Friday, 7 July 2017, both days inclusive.

Prospects

The group's strategy, Ambition 2022, is focused on helping customers achieve a lifetime of financial well-being and security. This is delivered through a five-pillar strategy supporting the group's ambition of becoming a globally distinctive pan-African financial services leader.

Under Ambition 2022 the group has focused on accelerating its strategy to be a trusted partner for financial solutions for every stage, successfully shifting towards operating as a leaner, more focused group that is no longer 'siloed' into different businesses and that offers a clear value proposition.

In summary, Ambition 2022 will focus on the following:

- leveraging the group's market-leading institutional business to drive retail and emerging market growth;
- driving the delivery of positive operating leverage with a focus on maintaining cost per member per month by at least 2% below inflation; and
- building a strong ecosystem to drive growth, with effective strategic partnerships with Mercer and ARC.

The group also completed two significant transactions: selling its 60% interest in the UK-based consulting business, Lane Clark & Peacock, for R1.3 billion and African Rainbow Capital acquiring a 10% shareholding in Alexander Forbes Limited (a wholly-owned subsidiary of the group) as a strategic empowerment partner. Together these transactions provide capital for investments and acquisitions.

The group is emerging as a leaner, customer-focused business that is well positioned to create substantial value for shareholders in its next growth phase as a leading financial services group in South Africa and other select emerging markets with a diversified portfolio and profitable business serving end consumers.

Share capital

Authorised

The authorised share capital of the company comprises 2.5 billion ordinary shares and 45 million B preference shares.

Issued

There were no ordinary shares issued during the year under review. In the prior year the company issued 39 million shares to the Alexander Forbes Employee Share Option Plan, as communicated to shareholders in a circular dated 13 May 2015. The total number of ordinary shares in issue at year-end remains unchanged from the prior year at 1 341 426 963.

Shareholders

A list of significant shareholders is included in Annexure A.

Borrowing powers

In terms of the memorandum of incorporation, the borrowing powers of the company are unrestricted and the directors may exercise all the powers of the company to borrow money.

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 48: Consolidated and unconsolidated entities to these financial statements.

Significant resolutions

Significant resolutions for the year include the following:

- Approval for the introduction of an empowerment shareholder, African Rainbow Capital (ARC). ARC acquired a 10% interest in the African operations of the group with effect from 20 January 2017.
- Approval was given to the board on 27 March 2017 enabling the board to buy back shares of the company. Any shares bought back will not exceed 5% of the issued share capital at the beginning of the financial year.
- During December 2016 the directors obtained approval to dispose of the entire 60% financial interest in Lane Clark & Peacock LLP (LCP). The results of LCP were significant to the group.

Directors

Mr AA Darfoor was appointed on 1 September 2016 as group chief executive. Mr DM Viljoen, who fulfilled the role of interim group chief executive prior to Mr Darfoor and group chief financial officer, resigned and stepped down from the board on 30 April 2017. Mr BP Bydawell has been appointed as acting group chief financial officer. The board extends its heartfelt thanks to Mr Viljoen for his dedication and service to the group over the past 14 years.

The directors at the date of approval of this report are:

Independent directors

MD Collier[1]
RM Kgosana
D Konar
BJ Memela
HP Meyer

DIRECTORS' REPORT (CONTINUED)

for the year ended 31 March 2017

Non-executive directors
MS Moloko (chairman)
DJ Anderson[2]
WS O' Regan[1]

Executive directors
AA Darfoor[1] (appointed 1 September 2016)
Position: group chief executive

DM Viljoen (resigned 30 April 2017)
Position: group chief financial officer

BP Bydawell (appointed 30 April 2017)
Position: acting group chief financial officer

1. British.
2. Australian.

Directors' interests in shares and contracts

The directors' interests in the ordinary shares of the company and details of transactions with directors are disclosed in note 44: Related party disclosure.

Directors' emoluments

Directors' emoluments are disclosed in note 44: Related party disclosure.

Events after reporting date

Capital commitment

On 7 April 2017 the group announced a significant contractual agreement relating to system and process development. The financial commitment relating to this contract amounts to $51 million over the next four financial years of which $11 million will be paid within 12 months, and the costs of development will be capitalised and depreciated over the expected useful life of the system. The group has entered into a foreign currency hedge contract in order to reduce the currency risk associated with this contract. The hedge is designed to cover 75% of the commitment at an effective exchange rate of R13.88 to the US dollar.

Sovereign downgrade

In April 2017 Standard & Poor's (S&P) and Fitch downgraded South Africa's foreign currency rating to sub-investment grade, commonly referred to as 'junk status'. Moody's, however, retained its foreign currency rating at a lower medium grade, but lowered its outlook from negative to negative watch. The local currency rating has not yet been downgraded by Moody's. The group has considered the impact of the downgrade with specific reference to the valuations of its financial and non-financial assets and liabilities. Whilst the economic impact on future earnings cannot yet be determined there is no reported revaluation required on the reported assets and liabilities subsequent to this announcement.

In addition to a review of the financial and non-financial assets, the group considered its capital requirement and established that the downgrade increased the group's solvency capital requirement by R60 million. The group reported a surplus in regulatory capital of R2.3 billion at 31 March 2017.

Registered office

Details of the registered office of the company are as follows:

Physical address
Alexander Forbes
115 West Street
Sandown, Sandton
2196
South Africa

Postal address
PO Box 787240
Sandton
2146
South Africa

The company's registration number is 2006/025226/06.

Company secretary

The company secretary at the date of publication of this report is Ms JE Salvado.

Auditors

PricewaterhouseCoopers Inc.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Alexander Forbes Group Holdings Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Alexander Forbes Group Holdings Limited and its subsidiaries (the Group) as at 31 March 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

What we have audited

Alexander Forbes Group Holdings Limited's consolidated and separate financial statements set out on pages 16 to 107 comprise:

- the consolidated and separate statements of financial position as at 31 March 2017;
- the consolidated and separate income statements and statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

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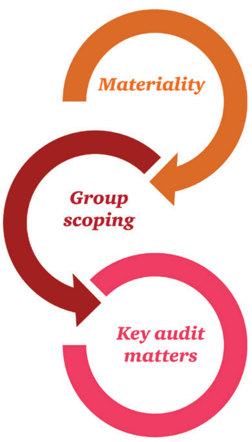
<tr><td rowspan="3">
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<td>Overall Group materiality
• R53 million.</td></tr>
<tr><td>Group audit scope
Our audit for the year ended 31 March 2017 comprised of full scope audits of the following components of the Group:
• Alexander Forbes Group Holdings Limited and its subsidiaries;
• Alexander Forbes Life Limited;
• Alexander Forbes Financial Services Holdings Proprietary Limited and its subsidiaries;
• Alexander Forbes Insurance Limited and its subsidiaries;
• Alexander Forbes Emerging Markets Investments Proprietary Limited and its subsidiaries;
• Investment Solutions Holdings Limited and its subsidiaries; and
• Alexander Forbes International Limited and its subsidiaries.

The operations in the following countries were subject to audit procedures:
• South Africa;
• Botswana;
• Kenya;
• Namibia;
• Nigeria; and
• The United Kingdom.</td></tr>
<tr><td>Key audit matters
• Goodwill impairment assessment.
• Provision for errors and omissions claims.
• Introduction of an empowerment partner.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

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

Materiality

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

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

Overall Group materiality	R53 million.
How we determined it	5% of consolidated continuing and discontinued profit before tax adjusted to remove the profit on sale of the Group's UK based consulting business, Lane Clark & Peacock (LCP).
Rationale for the materiality benchmark applied	We chose consolidated continuing and discontinued profit before tax, adjusted to remove the profit on sale of the LCP business, as the materiality benchmark because, in our view, it is the benchmark against which the Group is most commonly measured by IFRS users and is the most reflective benchmark of the operations for the majority of the year. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector. We removed the profit on sale of the LCP business because of the once-off nature of this transaction.

How we tailored our group audit scope

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

We conducted an audit of the most significant operations. For the work performed by local auditors within PwC South Africa or from other PwC network audit firms 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. For the work performed by foreign auditors not part of the PwC network operating under our instructions, we issued group instructions and performed cross reviews on their audit working papers on an ongoing basis and during our visit to the other auditors in London. We kept regular communication with audit teams throughout the year and appropriately directed their audits.

Further audit procedures were performed by the Group engagement team, including substantive review procedures over the remaining balances and the consolidation process. The work carried out in the operations, together with these additional procedures performed at the Group level, provided us with sufficient evidence to express an opinion on the Group as a whole.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

Key audit matters

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

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

Key audit matters relevant to the consolidated financial statements	How our audit addressed the key audit matters
Goodwill impairment assessment The Group's goodwill amounting to R3.4 billion as at 31 March 2017 (2016: R4 billion) arose upon its reorganisation in 2007. We considered the goodwill impairment assessment to be a matter of most significance to our audit due to the magnitude of the goodwill balance and because the directors' assessment of the value in use (value in use is used to describe the present value of future cash flows derived from the use of an asset) of the Group's cash generating units (CGUs) involves significant judgement and critical assumptions about the future results of the business and in determining the discount rates applied to the future cash flow forecasts. For the year ended 31 March 2017, management performed an impairment assessment over the goodwill balance by calculating the value in use for each CGU using a discounted cash flow method. These models used free cash flows for each CGU for five years, with a terminal growth rate applied after the fifth year. Refer to the Group's accounting policies and note 15 for the disclosure and measurement of goodwill which includes the disclosures made by the directors on the critical assumptions, significant estimates and judgements used in concluding on the assessment of the impairment of goodwill.	We tested assumptions and methodologies used in the goodwill impairment assessment performed by the Group, in particular those relating to the discount rate and growth rates: • We used our valuations expertise to evaluate these assumptions with reference to valuations of similar entities. • We compared the key assumptions to externally derived data where possible, including market expectations of investment return, projected economic growth and interest rates. • We applied sensitivities in evaluating the directors' assessment of the planned growth rate in cash flows. • We compared growth rate assumptions with historical results, economic outlook and industry forecasts. Furthermore, the discount rate used by management was compared with market data and industry research. Based on the results of our procedures, we accepted management's assumptions as falling within reasonable ranges. In testing the valuation model: • The calculations used in the model were reperformed to test accuracy and the key inputs were agreed to underlying data. • We evaluated management's cash flow forecasts by performing a comparison of the historical budgets against actual results. Our component audit teams compared the cash flow projections per CGU to the budget. The component audit teams challenged management on the reasonability of these cash flow projections by comparing expected cash flow, terminal values and growth assumptions to historical results, management approved forecasts and independent sources. We then stress tested the assumptions used by analysing the impact on results of using other growth rates and discount rates. We found that headroom remained between the stress-tested value in use calculations and the carrying values of the CGUs.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

Key audit matters relevant to the consolidated financial statements	How our audit addressed the key audit matters
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 IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. This was determined to be a key audit matter due to the level of judgement used by management in determining both the likelihood of negative outcomes of the associated claims, as well as the potential magnitude of each outcome. Furthermore, the Group is assessing a claim which could potentially be material, but which cannot be reasonably quantified at the date of approving the financial statements. The Group has insurance related to any claims of this nature and if this claim does materialise it is the intention of Group management to seek reimbursement from the insurance underwriters of any outflows of cash. The errors and omissions claims policy, the significant estimates and the process of determining the provision amounts and the critical assumptions and judgements applied are disclosed in the Group accounting policies and in note 29.	We considered the accounting for the provision for errors and omissions claims in terms of the Group's accounting policies and IFRS by independently evaluating the conclusions made by management on the likelihood and potential magnitude of a sample of claims. We assessed and tested the controls over the identification, evaluation, provisioning and reporting of various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions. We also tested the controls around the reporting of incidents and quarterly declarations made by divisional management to the board of directors. We assessed the risk ratings assigned by management by inspection of the evidence relating to the assigned risk rating for a sample of claims. We circulated legal confirmation letters and instructions to component audit teams to further identify claims not reported by management. We compared a sample of claims paid, to the provisions raised in previous periods and assessed whether management's provisioning process predicted the outcome within a reasonable range. We inspected the insurance policies in place to consider the insurance policy values and key agreement terms. We obtained a confirmation letter from the lead insurer subscribing to the primary layer of the most significant potential claim to assess the existence of a reimbursement asset in the event that the insurance policy is triggered.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

Key audit matters relevant to the consolidated financial statements	How our audit addressed the key audit matters
Introduction of an empowerment partner During the current financial year, African Rainbow Capital ("ARC") was introduced as an empowerment shareholder into the African operations of the Group through an issue of shares by a subsidiary of the Group, Alexander Forbes Limited. This was determined to be a key audit matter due to the significance of the transaction to the Group, because of the accounting complexities of transactions of this nature and because of the level of judgement used by management in the valuation and accounting classification of the Share-based Payment expense component. Refer to note 5.1 of the annual financial statements for disclosures made by the directors regarding the Share-based Payment expense component of this transaction and also refer to the disclosures included as the critical assumptions and judgements applied when preparing the financial statements.	We made use of our accounting technical expertise to: • Assess whether the transaction falls within the scope of IFRS 2 – *Share-based Payment*; • Assess whether the Share-based Payment results in an expense or intangible asset in terms of the requirements of financial reporting guide 2 issued by the South African Institute of Chartered Accountants (SAICA); and • Assess the grant date and vesting date of the transaction in terms of the requirements of IFRS 2 – *Share-based Payment.* We also made use of our valuations expertise in the performance of our work as follows: • We inspected the valuation methodology adopted and considered the appropriateness of the assumptions applied in the valuation model to obtain evidence in respect of the Share-based Payment expense; and • We tested the inputs into the model by inspection of evidence used by management and we tested the data underlying the model. Based on the results of our work performed, we accepted the accounting treatment of this transaction. We also accepted that the IFRS 2 – *Share-based Payment* expense as falling within a reasonable range of our independent reperformance.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa and the Shareholding Information, which we obtained prior to the date of this audit report, and the other information included in the Integrated Annual Report 2017, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the Shareholders of Alexander Forbes Group Holdings Limited

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that based on available statutory records, PricewaterhouseCoopers Inc. has been the auditor of Alexander Forbes Group Holdings Limited for 43 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Ranesh Premlall Hariparsad
Registered Auditor

Johannesburg
9 June 2017

ACCOUNTING POLICIES

for the year ended 31 March 2017

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 2017.

Basis of preparation

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

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

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

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

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

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

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

Standards, amendments and interpretations effective in 2017

The following standards, amendments and interpretations have been adopted by the group for the first time for the financial year ended 31 March 2017. The adoption of these amendments did not have a significant impact on the current period or any prior period and is not likely to affect future periods.

Effective date	Standard, amendment or interpretation
1 January 2016	Annual improvements cycle 2012 – 2014
	Clarification of acceptable methods of depreciation and amortisation – Amendments to IAS 16 and IAS 38
	Disclosure initiative – Amendments to IAS 1
	Amendments regarding the application of the consolidation exception – Amendments to IFRS 10 and IFRS 12

Standards, amendments and interpretations not yet effective

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the group as at the reporting date of 31 March 2017.

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

Effective date	Standard, amendment or interpretation
1 January 2018	IFRS 9 *Financial Instruments*

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The group currently classifies its financial assets under two categories, financial assets at fair value through profit or loss and loans and receivables.

The financial assets held by the group mainly include the following:

- financial assets held under multi-manager investment contracts currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under IFRS 9;
- financial assets of insurance and cell-captive contracts currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under IFRS 9;
- equity and debt securities currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under IFRS 9; and
- other financial assets currently classified as loans and receivables and measured at amortised cost which appear to meet the conditions for classification at amortised cost under IFRS 9.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

Effective date	Standard, amendment or interpretation
	While the group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets. There will be no impact on the group's accounting for financial liabilities currently carried at amortised cost. In addition, the derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed. The requirement to present in other comprehensive income (OCI) changes in fair value of financial liabilities (designated at fair value through profit or loss) due to own credit risk will not affect the group. The IASB allows this exception where such split presentation would result in an accounting mismatch. Currently the group does not apply hedge accounting. Further, at this stage there are no future plans to use hedge accounting and, accordingly, the change in hedge accounting rules will not impact the group. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost. While the group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The group does not intend to adopt IFRS 9 before its mandatory date.
1 January 2018	IFRS 15 *Revenue from Contracts with Customers* The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services, and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Management is currently assessing the effects of applying the new standard on the group's financial statements and has identified the following areas that are likely to be affected: • Consulting fees – The application of IFRS 15 to consulting fees earned in respect of actuarial and other advisory services may result in deferral of revenue recognition where the performance obligations are satisfied at a point in time. Further, the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. • Multi-manager investment fees – The application of IFRS 15 to initial administration fees could result in early recognition of such fees if placement of assets under management is regarded as a separate performance obligation. Currently such fees are brought to account upon inception of the investment contract and recognised on a straight-line basis over the expected period of the contract. By the same token the up-front costs incurred in the form of initial administration fees could result in early recognition of such fees if placement of assets under management is regarded as a separate performance obligation. • Accounting for certain costs incurred in fulfilling a contract – Certain costs which are currently expensed may need to be recognised as an asset under IFRS 15. • IFRS 15 requires significant disclosures compared to the current standard. While some of the disclosures are available in the group's accounting system, the application of IFRS 15 is expected to have a significant impact on the accounting systems used to collate financial statements disclosures. The group intends to apply practical expedients where applicable.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

Effective date	Standard, amendment or interpretation
	As previously reported, the group does not expect significant impact on recognition and measurement of revenue as a result of adopting this IFRS. However, the group is still assessing the impact of the new disclosure requirements on its accounting systems. IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the group: 1 April 2018.
1 January 2019	IFRS 16 *Leases* IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the group's operating leases, mainly the head office building lease. As at the reporting date the group has non-cancellable operating lease commitments of R1 511 million (refer to note 35: Commitments). However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. Expected date of adoption by the group: 1 April 2019.

New standard issued subsequent to year-end but not effective

IFRS 17 applies to insurance contracts issued, to all reinsurance contracts, and to investment contracts with discretionary participating features if an entity also issues insurance contracts.

This standard replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (CSM) representing the unearned profit of the contract. The CSM is amortised to profit or loss on a straight-line basis. This standard requires changes in cash flows related to future services to be recognised against the CSM.

Under IFRS 17 entities have an accounting policy choice to recognise the impact of changes in discount rates and other assumptions that relate to financial risks either in profit or loss or in other comprehensive income (OCI).

This standard is expected to have a significant impact on the group. IFRS 17 was recently issued and as a result the group is yet to assess the full impact of this standard.

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

Consolidation

(a) Subsidiaries

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

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the group incurs in connection with a business combination are expensed as incurred.

If the business combination is achieved in stages the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, with the resulting gains or losses on remeasurement recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

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

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

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

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

(b) Non-controlling interests

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

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

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

(c) Structured entities

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

(d) Associates

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

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

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

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

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

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

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

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

(e) Collective investment schemes

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

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

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

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

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

Foreign currency

(a) Functional and presentation currency

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

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

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

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

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

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

(c) Foreign exchange gains and losses arising on consolidation

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

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

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

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

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated

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for the year ended 31 March 2017

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

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

Property and equipment

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

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

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

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

Goodwill

Goodwill arises on the acquisition of subsidiaries and associates.

The group measures goodwill at the acquisition date as:

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

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

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

Intangible assets

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

(a) Purchased and developed computer software

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

Purchased computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over the useful life of the asset. Costs that are directly associated with the production of identifiable and unique software products, which will be controlled by the group and generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. The directly associated costs include employee costs and an appropriate portion of relevant overheads of the system development team. All other costs associated with developing or maintaining computer software programs are recognised in profit or loss as incurred.

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

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

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

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

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

(c) Deferred acquisition costs (DAC)

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

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

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

(d) Trademarks and licences

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

Financial assets

The group classifies its financial assets into the following categories:

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

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

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

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

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

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

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

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

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

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

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

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

(b) Loans and receivables

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

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

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

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

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

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables. Any sale or reclassification of a more than an insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the group from classifying investment securities as held to maturity for the current and the following two financial years.

The only class of financial asset classified as held to maturity is preference shares held for securitisation operations. Held-to-maturity financial assets are carried at amortised cost using the effective interest method, less any impairment losses.

(d) Available-for-sale financial assets

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

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

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

Impairment of financial assets

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

(a) Financial assets carried at amortised cost

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

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

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

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

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

(b) Assets classified as available-for-sale

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

Impairment of non-financial assets

(a) Goodwill

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

(b) Impairment of other non-financial assets

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

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

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

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. 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.

All derivative instruments of the group are carried as assets when the fair value is positive and as liabilities when the fair value is negative. 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.

At the inception of the transaction the group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be, and have been, highly effective in offsetting changes in cash flows of hedged items. The fair values of derivative instruments used for hedging purposes are disclosed in the notes to the financial statements.

Changes in the fair value of derivative instruments are recognised immediately in profit or loss.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

Cash and cash equivalents

Cash and cash equivalents include the following:

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

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

Contract work in progress

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

Equity

(a) Share capital

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

(b) Dividend distributions

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

(c) Treasury shares

Where any group company purchases the company's equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders 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 equity holders.

(d) Share-based payment reserve

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

Classification of insurance and investment contracts

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

Insurance contracts

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

(a) Short-term insurance contracts

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

(b) Short-term insurance liabilities

The following are classified as short-term insurance liabilities:

Unearned premiums

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 insurance-related payables from underwriting activities.

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.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

(c) Long-term insurance contracts

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

(d) Long-term insurance liabilities

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

The liability is valued using a discounted cash flow approach. This approach takes the sum of future expected benefit payments and administration expenses that are directly related to the contract, deducts the expected premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions 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.

Discretionary margins unwind as these risks are met over the term of each policy. Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid. The long-term insurance liabilities are recalculated annually by independent actuaries.

(e) Receivables and payables related to insurance contracts

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

(f) Embedded derivatives

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

(g) Deferred policy acquisition costs (DPAC)

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

For long-term insurance contracts commissions and other acquisition costs are recognised in profit or loss when incurred. The portion of the premium which recoups these costs is included in the valuation of long-term insurance contract liabilities. The commission and other acquisition costs are therefore implicitly deferred over the period of the contract in the calculation of the liabilities under long-term insurance contracts.

(h) Value of business acquired (VOBA)

On acquisition of a portfolio of contracts, either directly from another insurer or through the acquisition of a subsidiary company, the group recognises an intangible asset representing the VOBA.

The VOBA represents the present value of future profits embedded in acquired insurance contracts. The group amortises the VOBA over the effective life of the acquired contracts on the same basis as DPAC. The group assesses the value for impairment annually. This amortisation and any impairment are recognised in profit or loss.

(i) Liability adequacy test

At each reporting date, for contracts measured on a retrospective basis, liability adequacy tests for insurance contracts are performed to ensure the adequacy of the contract liabilities. In performing these tests current best estimates of future contractual cash flows and claims-handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. For contracts measured on the financial soundness valuation basis, the financial soundness basis is a discounted cash flow method which meets the requirements of a liability adequacy test. Any deficiency is immediately charged to profit or loss.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

(j) 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.

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

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

Financial liabilities

The group classifies its financial liabilities in the following categories:

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

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

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

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

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

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

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

This category has two subcategories:

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

A financial liability is classified as held for trading if the linked financial asset associated with this liability is acquired principally for the purpose of selling in the short

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

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

A financial liability is designated as fair value through profit or loss where the group determines such a designation will eliminate an accounting mismatch because the related assets are carried at fair value through profit or loss. All classes of financial liabilities classified on the statement of financial position as 'liabilities of cell-captive insurance contracts' are designated as fair value through profit or loss.

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

(b) Financial liabilities at amortised cost

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

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

Deferred tax

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

Deferred tax is not recognised for the following temporary differences:

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

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

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

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

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

Employee benefits

(a) Pension obligations

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

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

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

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

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

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

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

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

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

Past service costs are recognised immediately in profit or loss.

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

(b) Post-retirement medical obligations

In terms of certain employment contracts the group provides post-retirement 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.

The post-retirement medical obligation has been partly funded through an insurance arrangement with a subsidiary company of the group.

(c) Short-term employee benefits

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

(d) Termination benefits

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

Share-based payments

(a) Employee related

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

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

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

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for the year ended 31 March 2017

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

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

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

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

(b) Non-employee related

For equity-settled share-based payment transactions, the group measures the goods or services received, and the corresponding increase in equity, directly at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the group cannot estimate reliably the fair value of the goods or services received, it measures their value, and the corresponding increase in equity, indirectly by reference to the fair value of the equity instruments granted.

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

Provisions

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

Leases

(a) Finance leases

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

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

(b) Operating leases

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

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

Contingencies and commitments

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

Income from operations

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

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

Income recognition – general operations

(a) Financial services

- *Consulting fees* – comprise fees earned in respect of actuarial and other advisory services. Income is recognised based on the stage of completion as the related services are rendered. The stage of

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

completion is determined with reference to the services performed to date as a percentage of total services to be performed.

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

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

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

Income recognition – financing operations

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

Income recognition – insurance operations

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

Profit from operations before non-trading and capital items

The profit from operations before non-trading and capital items is made up of trading activities of the group. The trading activities are those revenues and expenses generated by the business operations of the group which are regularly reported to the board of directors when making resource allocation decisions and assessing operational 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 operating in nature.

Non-trading and capital items

Non-trading activities relate to items such as the group professional indemnity insurance cell, adjustments arising due to business combinations, non-recurring items linked to corporate finance activities, items related to historical client settlement, impairment losses and recoveries, and capital gains or losses on sale of non-current assets. Items of a non-

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

trading nature do not form part of management's consideration of the operational performance or allocation of resources of the group.

Investment income

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

Finance costs

Finance costs comprise interest expense on borrowings and unwinding of discount on provisions and contingent consideration and fair value losses on financial assets at fair value through profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Income tax

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

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

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

(a) Current tax

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

(b) Deferred tax

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

Segment reporting

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

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

Non-current assets held for sale

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

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

Discontinued operations

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

Critical assumptions and judgements

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

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

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

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2017

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 33: Insurance payables.

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

   The estimation of the ultimate liability arising from claims under short-term insurance contracts has several sources of uncertainty. The risk environment can change suddenly and unexpectedly owing to a wide range of events or influences. There is no absolute certainty in respect of identifying risks at an early stage, measuring them sufficiently or correctly estimating their real hazard potential. Over time the group has developed a methodology that is aimed at establishing insurance provisions that have a reasonable likelihood of being adequate to settle all its insurance obligations. Refer to note 33: Insurance payables for more details.

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

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

4. **Goodwill**

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

5. **Fair value**

   Financial instruments

   The group's policy for determining the fair value of financial instruments is described in the accounting policies. The group holds a number of financial assets and liabilities that are designated at fair value through profit or loss. Full disclosure of the valuation hierarchy and sensitivities is contained in the risk management section of this report. Refer to note 46: Financial risk.

   Non-employee-related share-based payment expense

   The fair value of Alexander Forbes Limited's share used in determining the share-based payment expense was derived from the listed share price of the company. Management used judgement when determining the following critical assumptions applied in the valuation:

   - control premium;
   - minority discount factor; and
   - marketability discount factor.

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

6. **Retirement benefit obligations**

   The present value of the post-retirement medical benefit obligations and the defined benefit pension funds is determined on an actuarial basis based on various assumptions. The assumptions used in determining the net cost (income) for the post-retirement medical benefit obligation and the defined benefit pension fund include, inter alia, the discount rate which is used to determine the present value of estimated future cash outflows expected to settle the obligation. The group, in conjunction with a professional actuary, determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related post-retirement medical benefit obligation and the defined benefit pension funds.

   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-retirement medical benefit obligations are based in part on current market conditions. Additional information is disclosed in note 27: Employee benefits.

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

GROUP INCOME STATEMENT

for the year ended 31 March 2017

Rm	Notes	2017	Restated 2016
Continuing operations			
Fee and commission income	2	**3 933**	3 875
Direct expenses attributable to fee and commission income	2	**(1 062)**	(1 020)
Net income from insurance operations	3	**564**	540
Insurance premiums earned		**2 318**	2 123
Less: Amounts ceded to reinsurers		**(1 399)**	(1 258)
Plus: Investment income from insurance operations		**37**	32
Less: Insurance claims and withdrawals		**(1 686)**	(1 507)
Plus: Insurance claims and benefits covered by reinsurance contracts		**1 294**	1 150
Operating income net of direct expenses		**3 435**	3 395
Operating expenses	4	**(2 502)**	(2 490)
Profit from operations before non-trading and capital items		**933**	905
Non-trading and capital items	5	**(137)**	(140)
Operating profit		**796**	765
Investment income	6	**178**	163
Finance costs	7	**(89)**	(69)
Reported (loss)/profit arising from accounting for policyholder investments in treasury shares	11	**(2)**	59
Share of net profit of associates (net of income tax)	17	**4**	4
Profit before taxation		**887**	922
Income tax expense	8	**(266)**	(301)
Income tax expense relating to corporate profits		**(244)**	(231)
Income tax expense on policyholder investment returns		**(22)**	(70)
Profit for the year from continuing operations		**621**	621
Discontinued operations			
Profit on discontinued operations (net of income tax)	22	**953**	253
Profit for the year		**1 574**	874
Profit attributable to:			
Equity holders		**1 465**	729
Non-controlling interest	9	**109**	145
		1 574	874
Basic earnings per share (cents)			
– From continuing operations		**46.7**	47.3
– From discontinued operations		**67.8**	9.6
– From total operations	10	**114.5**	56.9
Diluted earnings per share (cents)			
– From continuing operations		**46.4**	46.9
– From discontinued operations		**67.4**	9.5
– From total operations	10	**113.8**	56.4

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2017

Rm	Note	2017	2016
Profit for the year		**1 574**	874
Foreign currency translation differences of foreign operations		**(329)**	198
Foreign currency translation reserve of disposed operations reclassified to profit or loss	22.2	**(209)**	2
Release of available-for-sale reserve		**–**	(5)
Other comprehensive income for the year that will be reclassified to profit or loss		**(538)**	195
Remeasurement of post-employment benefit obligations		**13**	–
Other comprehensive income that will not be reclassified to profit or loss		**13**	–
Total comprehensive income for the year		**1 049**	1 069
Total comprehensive income attributable to:			
Equity holders		**968**	903
Non-controlling interest		**81**	166
Total comprehensive income for the year		**1 049**	1 069

GROUP STATEMENT OF FINANCIAL POSITION

at 31 March 2017

Rm	Notes	2017	Restated 2016
ASSETS			
Financial assets held under multi-manager investment contracts	11	**281 498**	276 385
Financial assets of insurance and cell-captive facilities	12	**320**	253
Property and equipment	13	**202**	355
Purchased and developed computer software	14	**163**	139
Goodwill	15	**3 355**	3 995
Intangible assets	16	**462**	681
Investment in associates	17	**13**	8
Deferred tax assets	28	**148**	157
Financial assets	18	**357**	362
Insurance receivables	19	**1 137**	981
Tax assets	43	**53**	4
Trade and other receivables	20	**398**	929
Cash and cash equivalents	21	**6 263**	4 877
Assets of disposal group classified as held for sale	22	**66**	131
Total assets		**294 435**	289 257
EQUITY AND LIABILITIES			
Share capital		**6 192**	6 192
Treasury shares		**(160)**	(181)
Accumulated profit/(loss)		**1 205**	(267)
Other reserves		**(336)**	157
Equity holders' funds	23	**6 901**	5 901
Non-controlling interest		**218**	255
Total equity		**7 119**	6 156
Financial liabilities held under multi-manager investment contracts	24	**281 604**	276 509
Liabilities of insurance and cell-captive facilities	25	**320**	253
Borrowings	26	**725**	705
Employee benefits	27	**160**	166
Deferred tax liabilities	28	**199**	262
Provisions	29	**291**	352
Finance lease liabilities	30	**75**	80
Operating lease liabilities	31	**182**	266
Deferred income	32	**5**	34
Insurance payables	33	**2 960**	2 878
Trade and other payables	34	**781**	1 518
Tax liabilities	43	**3**	35
Liabilities of disposal group classified as held for sale	22	**11**	43
Total liabilities		**287 316**	283 101
Total equity and liabilities		**294 435**	289 257

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

Rm	Notes	2017	Restated 2016
Cash flows from operating activities			
Cash generated from operations	37	**1 091**	1 056
Interest received	38	**140**	79
Interest paid	39	**(84)**	(62)
Net cash flows (paid to)/received from insurance and policyholder contracts	41	**(272)**	441
Net cash flows (paid to)/received from policyholder investment contracts	42	**(1 007)**	5 688
Taxation paid	43	**(378)**	(467)
Dividends paid		**(509)**	(352)
Cash flows from operating activities – discontinued operations		**250**	220
Net cash (outflow)/inflow from operating activities		**(769)**	6 603
Cash flows from investing activities			
Proceeds from sale of subsidiaries and businesses	22	**883**	(2)
Dividends received from associates		**–**	5
Payments for financial assets		**(192)**	(260)
Proceeds from disposal of financial assets		**219**	206
Payments for capital expenditure incurred on property, equipment and computer software		**(125)**	(166)
Cash flows from investing activities – discontinued operations		**(9)**	(16)
Net cash inflow/(outflow) from investing activities		**776**	(233)
Cash flows from financing activities			
Repayment of borrowings	26	**(83)**	(383)
Proceeds from borrowings raised		**100**	84
Proceeds from non-controlling interests		**744**	–
Payments made to non-controlling interests		**(113)**	(11)
Cash flows from financing activities – discontinued operations		**(117)**	(90)
Net cash inflow/(outflow) from financing activities		**531**	(400)
Increase in cash and cash equivalents		**538**	5 970
Cash and cash equivalents at the beginning of the year		**15 748**	9 674
Exchange (loss)/gain on foreign cash and cash equivalents		**(199)**	104
Cash and cash equivalents at the end of the year		**16 087**	15 748
Analysed as follows:			
Cash and cash equivalents of disposal groups classified as held for sale	22	**11**	13
Cash and cash equivalents of continuing operations	21	**6 263**	4 877
Cash held under multi-manager investment contracts		**9 813**	10 820
Cash held under cell-captive insurance contracts		**–**	38
		16 087	15 748

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2017

Rm	Share capital	Treasury shares	Other reserves	Accumu-lated profit	Total equity holders' funds	Non-controlling interest	Total equity
At 31 March 2015	6 192	(166)	(36)	(640)	5 350	190	5 540
Total comprehensive income	–	–	174	729	903	166	1 069
Profit for the year	–	–	–	729	729	145	874
Other comprehensive income	–	–	174	–	174	21	195
Total transactions with owners of the company	–	(15)	19	(356)	(352)	(101)	(453)
Issue of shares*	–	–	–	–	–	–	–
Purchase of treasury shares in policyholder assets	–	(15)	–	–	(15)	–	(15)
Movement in share-based payment reserve	–	–	19	–	19	–	19
Dividends paid	–	–	–	(352)	(352)	(127)	(479)
Other movements in non-controlling interest**	–	–	–	(4)	(4)	26	22
At 31 March 2016	**6 192**	**(181)**	**157**	**(267)**	**5 901**	**255**	**6 156**
Total comprehensive income	**–**	**–**	**(510)**	**1 478**	**968**	**81**	**1 049**
Profit for the year	**–**	**–**	**–**	**1 465**	**1 465**	**109**	**1 574**
Other comprehensive income	**–**	**–**	**(510)**	**13**	**(497)**	**(28)**	**(525)**
Total transactions with owners of the company	**–**	**21**	**17**	**(6)**	**32**	**(118)**	**(86)**
Introduction of empowerment partner***	**–**	**–**	**5**	**521**	**526**	**222**	**748**
Sale of treasury shares in policyholder assets	**–**	**21**	**–**	**–**	**21**	**–**	**21**
Movement in share-based payment reserve	**–**	**–**	**12**	**–**	**12**	**–**	**12**
Dividends paid	**–**	**–**	**–**	**(509)**	**(509)**	**(197)**	**(706)**
Loss on shareholder transactions****	**–**	**–**	**–**	**(18)**	**(18)**	**(4)**	**(22)**
Other movements in non-controlling interest**	**–**	**–**	**–**	**–**	**–**	**(139)**	**(139)**
At 31 March 2017	**6 192**	**(160)**	**(336)**	**1 205**	**6 901**	**218**	**7 119**

* During the prior year the company issued 39 million shares to the Employee Share Option Plan for 1 cent per share.
** Included in these amounts are changes owing to acquisitions and disposals of equity held by non-controlling interests.
*** This amount relates to a disposal of equity interest in Alexander Forbes Limited to ARC.
**** During the year a subsidiary, Investment Solutions Holdings Limited, purchased the remaining 49.99% stake in Caveo Fund Solutions Proprietary Limited from a non-controlling interest.

GROUP SEGMENTAL INCOME AND PROFIT ANALYSIS

for the year ended 31 March 2017

Rm	Operating income net of direct expenses 2017	%	2016	Profit from operations before non-trading and capital items 2017	%	2016
Institutional clients						
Consulting	**802**	(2)	818	**74**	(9)	81
Retirements	**421**	12	375	**100**	27	79
Investments	**640**	–	641	**276**	–	277
Group risk	**57**	(24)	75	**15**	(40)	25
	1 920	1	1 909	**465**	1	462
Retail clients						
Wealth and investments	**797**	5	758	**378**	15	329
Retail insurance	**477**	4	458	**88**	(4)	92
	1 274	5	1 216	**466**	11	421
Emerging markets	**241**	(11)	270	**32**	(51)	65
Total group before items below	**3 435**	1	3 395	**963**	2	948
Accounting for property leases	**–**		–	**(26)**		(30)
Accounting for conditional share scheme costs	**–**		–	**(4)**		(13)
Total group	**3 435**	1	3 395	**933**	3	905

Rm	Depreciation and amortisation 2017	%	2016
Institutional clients			
Consulting	**3**		4
Retirements	**6**		5
Investments	**10**		8
Group risk	**2**		1
	21	17	18
Retail clients			
Wealth and investments	**7**		5
Retail insurance	**4**		5
	11	10	10
Emerging markets	**3**	–	3
Total before unallocated items	**35**	13	31
Unallocated			
Corporate services	**66**		56
Discontinued operations	**15**		22
Total group	**116**	6	109

GROUP SEGMENTAL INCOME AND PROFIT ANALYSIS (CONTINUED)

for the year ended 31 March 2017

The segmental analysis provided above reflects the operating structure under which management currently reports. The above table reflects a change in presentation from the segmental report presented in the prior-year results. Owing to the change in structure and the reallocation of certain business lines the prior year's numbers have been represented to provide the appropriate comparative numbers.

The group's executive committee, which includes the chief executive, the chief financial officer and the divisional managing directors, examines the group's performance both from a product and geographic perspective and has identified seven reportable segments of its business.

Institutional clients – within institutional clients, there are four strategic operating segments and these are described below:

- Consulting – which includes actuarial consulting, healthcare actuarial and consulting, and fund administration and consulting to standalone retirement funds;
- Retirements – which includes fund administration and consulting to umbrella retirement funds and beneficiary funds;
- Investments – investment services including a range of investment portfolios, advice-led solutions and alternative investments; and
- Group risk – group risk and disability insurance through Alexander Forbes Life.

Retail clients – within retail clients, there are two strategic operating segments which are described below:

- Wealth and investments – offers financial advice and administration and management of investments. This segment incorporates financial planning consultants (FPCs), AF Individual Client Administration (AFICA), AF Preservation Fund; and retail assets under management in AF Investments; and
- Retail insurance – this segment comprises AF Insurance, which provides short-term insurance solutions to individuals and the AF Life individual insurance business.

Emerging markets – this geographical segment offers financial services products in Africa (outside South Africa). It focuses on and meets the demands of each local market, as well as adapts business products to local legislation.

Within the divisional units above, business units offer different products and services, and require different technology and marketing strategies.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2017

1. Foreign currency exchange rates

Certain transactions of the group occur in foreign currencies. The most material of these currencies, prior to the disposal of LCP, is the pound sterling. These transactions have been translated using the exchange rates below. Other less material foreign subsidiaries have been translated to rand in line with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, using the weighted average rates for income statement items and the closing rates for items in the statement of financial position.

Rm		**2017**	2016
Weighted average rate	(rand:sterling)	**19.0**	20.8
Closing rate	(rand:sterling)	**16.8**	21.2

2. Fee and commission income

Rm	**2017**	2016
Brokerage fees and commission income	**20**	22
Fee income from consulting and administrative services	**2 084**	2 082
Fee income from investment management activities	**1 790**	1 736
Other income	**39**	35
	3 933	3 875
Direct expenses related to fees and commission income relate to sub-agent expenses, commissions paid and asset management fees	**(1 062)**	(1 020)

Fee income from investment management activities is based on financial assets held at fair value through profit or loss.

3. Net income from insurance operations

	Long-term insurance		Short-term insurance		Total	
Rm	**2017**	2016	**2017**	2016	**2017**	2016
Gross earned premiums	**443**	395	**1 875**	1 728	**2 318**	2 123
Gross written premiums*	**443**	395	**1 924**	1 755	**2 367**	2 150
Less: Movement in unearned premium provision	**–**	–	**(49)**	(27)	**(49)**	(27)
Reinsurers' share thereof	**(306)**	(271)	**(1 093)**	(987)	**(1 399)**	(1 258)
Net earned premiums	**137**	124	**782**	741	**919**	865
Net investment income from insurance operations	**11**	12	**26**	20	**37**	32
Net expenses of insurance contracts	**(7)**	(5)	**(21)**	(22)	**(28)**	(27)
Net premium and investment income	**141**	131	**787**	739	**928**	870
Gross claims and transfers to policyholders' funds	**(314)**	(265)	**(1 344)**	(1 215)	**(1 658)**	(1 480)
Reinsurers' share thereof	**258**	229	**1 036**	921	**1 294**	1 150
Net claims and transfers to policyholders' funds	**(56)**	(36)	**(308)**	(294)	**(364)**	(330)
Net income from insurance operations	**85**	95	**479**	445	**564**	540

* Gross written premium for the short-term insurance includes reinsurance commission of R291 million (2016: R282 million) for the year ended 31 March 2017.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

4. Operating expenses

Rm	2017	2016
Operating expenses classified by nature are as follows:		
Amortisation	**(31)**	(16)
Purchased and developed computer software (refer to note 14)	**(31)**	(16)
Intangible assets (refer to note 16)	**–**	–
Computer and IT costs	**(177)**	(137)
Depreciation (refer to note 13)	**(70)**	(71)
Leasehold improvements	**(2)**	(2)
Computer equipment	**(59)**	(61)
Furniture fittings, office equipment and other assets	**(9)**	(8)
External auditors' remuneration	**(32)**	(27)
Audit service – fees for audit	**(26)**	(23)
Non-audit service	**(6)**	(4)
Insurance costs	**(68)**	(69)
Premises' operating costs	**(46)**	(35)
Operating lease charges	**(200)**	(184)
Premises – actual charges	**(230)**	(214)
– accounting for contractual escalations	**30**	30
Staff costs*	**(1 456)**	(1 508)
Salaries, wages and other benefits	**(1 419)**	(1 475)
Share-based payments	**(17)**	(19)
Termination benefits	**(13)**	(7)
Retirement benefit contributions – defined contribution plans	**(7)**	(7)
Other operating expenses	**(422)**	(443)
Total operating expenses	**(2 502)**	(2 490)

* Staff costs include executive directors' and non-executive directors' remuneration. Refer to note 44 for a detailed analysis.

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

5. Non-trading and capital items

Rm	2017	2016
Non-trading:		
Professional indemnity insurance cell-captive result	**30**	(9)
Amortisation of intangible assets arising from business combination	**(117)**	(124)
Costs relating to strategic consulting engagement	**(39)**	–
Other non-trading items (refer to note 5.1)	**(11)**	(7)
	(137)	(140)
Amortisation of intangible assets arising from business combination		
Purchased and developed computer software (refer to note 14)	**(17)**	(16)
Intangible assets (refer to note 16)	**(100)**	(108)
	(117)	(124)

5.1 During the year, African Rainbow Capital Proprietary Limited (ARC), a wholly-owned subsidiary of Ubuntu-Botho Investments Proprietary Limited, was introduced to the group as an empowerment shareholder with an issue of shares by a subsidiary of the group, Alexander Forbes Limited (AFL). The difference between the consideration paid by ARC for their 10% equity holding in AFL and the fair value resulted in a share-based payment expense of R5 million. In the determination of the fair value the market capitalisation of AFGH was used and adjusted for subsidiaries not owned by AFL. Other adjustment factors include a control premium, a minority discount and a marketability discount.

Other non-trading items include developed software written off.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

6. Investment income*

Rm	2017	2016
Interest income	**115**	77
Investment and dividend income	**33**	21
Foreign exchange gains/(losses) on intergroup loans	**8**	(5)
	156	93
Multi-manager operations		
Investment income linked to policyholder tax expense	**22**	70
Total investment income	**178**	163
Investment income is derived from the following categories of financial assets:		
Loans receivable	**115**	77
Financial assets designated at fair value	**63**	86
	178	163

* Restated.

7. Finance costs

Rm	2017	2016
Finance costs derived from financial liabilities classified and carried at amortised costs:		
Interest on borrowings	**(66)**	(57)
Other interest	**(23)**	(12)
	(89)	(69)

8. Income tax expense*

Rm	2017	2016
South African income tax		
Current tax	**(268)**	(248)
Current year	**(274)**	(210)
Prior years	**6**	(38)
Deferred tax	**33**	39
Current year	**26**	32
Prior years	**7**	7
Foreign income tax		
Current tax	**(4)**	(16)
Current year	**(4)**	(16)
Prior years	**–**	–
Foreign withholding tax	**(5)**	(6)
Income tax expense relating to corporate profits	**(244)**	(231)
Income tax expense on policyholder investment returns	**(22)**	(70)
Current tax – current year	**(24)**	(108)
Deferred – current year	**2**	38
Income tax expense	**(266)**	(301)

* Restated.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

%	2017	2016
8. Income tax expense* (continued)		
The standard South African income tax rate for companies is reconciled to the group's actual tax rate as follows:		
South African income tax rate for companies	**28.0**	28.0
Adjusted for the effects of:		
Foreign withholding tax	**0.6**	0.7
Policyholder tax	**2.5**	7.6
Unutilised tax losses (net of prior-year assessment loss utilised)	**0.1**	3.2
Exempt income	**(1.2)**	(0.1)
Disallowed expenses		
Legal fees	**0.6**	0.1
Donations	**0.2**	0.2
Goodwill	**0.2**	–
Fair value adjustment of treasury shares	**0.1**	(1.8)
Loss on disposal of investment in subsidiary	**0.4**	(4.6)
Sundry items	**(0.1)**	(0.2)
Foreign tax rates	**(0.4)**	0.3
Prior-year underprovision (net of prior-year overprovision)	**(1.5)**	(0.8)
Adjustment for capital gains included in taxable income	**0.5**	–
Effective tax rate per income statement	**30.0**	32.6

* Restated.

9. Profit attributable to non-controlling interest

	2017	2016
Profit attributable to non-controlling interest	**109**	145

The profits attributable to non-controlling interest result mainly from a non-controlling interest in LCP (disposed of in the current year) and ARC. Other non-controlling interests relate to certain operations within the emerging markets business unit. Details of non-wholly-owned subsidiaries are provided in Note 48: Consolidated and unconsolidated entities.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

10. Earnings per share

10.1 Basic earnings per share

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

10.2 Headline earnings per ordinary share

Headline earnings per share is calculated by excluding applicable non-trading and capital gains and losses from the profit attributable to ordinary shareholders and dividing the resultant headline earnings by the weighted average number of ordinary shares in issue during the period. Headline earnings are defined in Circular 2/2015 issued by the South African Institute of Chartered Accountants.

10.3 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 ordinary shares.

			2017	2016
10.4	**Number of shares**			
	Weighted average number of shares	(million)	**1 341**	1 334
	Weighted average shares held by policyholders classified as treasury shares	(million)	**(19)**	(17)
	Weighted average treasury shares	(million)	**(42)**	(35)
	Weighted average number of shares in issue	(million)	**1 280**	1 282
	Dilutive shares	(million)	**7**	10
	Diluted weighted average number of shares	(million)	**1 287**	1 292
	Actual number of shares in issue	(million)	**1 341**	1 341
	Actual treasury shares	(million)	**(59)**	(61)
	Actual number of shares	(million)	**1 282**	1 280
10.5	**Calculation of basic and headline earnings from total operations**			
	Profit attributable to equity holders	(Rm)	**1 465**	729
	Adjusting items:			
	– Profit on disposal of subsidiary – discontinued operations	(Rm)	**(796)**	(1)
	– Loss on disposal of subsidiary – continuing operations	(Rm)	**–**	3
	– Impairment of goodwill and intangible assets	(Rm)	**14**	–
	– Impairment of net assets of disposal groups held for sale	(Rm)	**–**	13
	Headline earnings for the year	(Rm)	**683**	744
	Earnings per share from total operations			
	Basic earnings per share	(cents)	**114.5**	56.9
	Headline earnings per share	(cents)	**53.4**	58.1
	Diluted basic earnings per share	(cents)	**113.8**	56.4
	Diluted headline earnings per share	(cents)	**53.1**	57.6

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

10. Earnings per share (continued)

10.6 Calculation of basic and headline earnings from continuing operations

		2017	2016
Profit after tax from continuing operations	(Rm)	**621**	621
Less: Profit attributable to non-controlling interests	(Rm)	**(23)**	(15)
Profit attributable to equity holders	(Rm)	**598**	606
Adjusted for:			
– Loss on disposal of subsidiary	(Rm)	**–**	3
– Developed software written off	(Rm)	**6**	–
Headline profit from continuing operations	(Rm)	**604**	609
Basic earnings per share from continuing operations	(cents)	**46.7**	47.3
Headline earnings per share from continuing operations	(cents)	**47.2**	47.6
Diluted earnings per share from continuing operations	(cents)	**46.4**	46.9
Diluted headline earnings per share from continuing operations	(cents)	**47.0**	47.1

10.7 Calculation of basic and headline earnings from discontinued operations

		2017	2016
Profit after tax from discontinued operations	(Rm)	**953**	253
Less: Profit attributable to non-controlling interests	(Rm)	**(86)**	(130)
Profit from discontinued operations attributable to equity holders	(Rm)	**867**	123
Adjusted for:			
– Profit on disposal of subsidiary	(Rm)	**(796)**	(1)
– Impairment of goodwill and intangible assets	(Rm)	**8**	–
– Impairment of assets held for sale	(Rm)	**–**	13
Headline earnings from discontinued operations	(Rm)	**79**	135
Basic earnings per share from discontinued operations	(cents)	**67.8**	9.6
Headline earnings per share from discontinued operations	(cents)	**6.2**	10.5
Diluted basic earnings per share from discontinued operations	(cents)	**67.4**	9.5
Diluted headline earnings per share from discontinued operations	(cents)	**6.1**	10.5

11. Financial assets held under multi-manager investment contracts

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

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

Rm	**2017**	2016
A reconciliation between financial assets held under multi-manager and unit trust investment contracts:		
Opening balance	**276 385**	262 004
*Movement during the year:**		
Premium inflow	**40 010**	39 520
Withdrawals	**(45 264)**	(43 709)
Investment returns after tax	**12 701**	21 069
Policyholder fees charged/investment portfolio expenses	**(2 325)**	(2 825)
Consolidated funds**	**–**	364
Other	**(9)**	(38)
Closing balance	**281 498**	276 385

* This amount is economically offset by a corresponding movement in financial liabilities held under multi-manager investment contracts (refer to note 24).
** These are funds that are consolidated when the group's interest in the funds increases above the 20% threshold.

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

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

	2017	2016
Financial assets designated as fair value through profit or loss		
Equity securities – listed	**114 883**	113 103
– unlisted	**413**	12
Preference shares – listed	**437**	515
Collective investment schemes***	**71 746**	70 515
Debt securities – listed	**22 926**	21 584
– government stock	**13 736**	14 656
Debentures – listed	**3 363**	3 613
– unlisted	**3**	–
Policy of insurance***	**24 874**	23 896
Derivative financial instruments	**1**	1
Money market	**19 303**	17 670
Cash and cash equivalents		
Cash	**9 813**	10 820
Total financial assets held under multi-manager investment contracts	**281 498**	276 385

*** The assets underlying these investments similarly consist of largely listed equity securities, debt securities and money market investments.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

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

11.3 Reconciliation of assets held under multi-manager investment contracts

As a result of the group being listed, the investments by underlying asset managers in the Alexander Forbes Group Holdings' listed shares are recognised as treasury shares and all fair value adjustments recognised on these treasury shares are reversed, while the corresponding fair value of the limited liability continues to be recognised in the income statement. The resultant loss for the year of R2 million (2016: profit of R59 million) has been disclosed separately on the face of the income statement. This treatment also affects the number of shares in issue, the impact of which is disclosed in note 10.

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

Rm	2017	2016
Total financial assets held under multi-manager investment contracts (per statement of financial position)	**281 498**	276 385
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	**137**	157
Financial effects of accounting for policyholder investments as treasury shares – prior year	**(33)**	26
– current year	**2**	(59)
Total financial assets held for policyholders under multi-manager investment contracts	**281 604**	276 509

12. Financial assets of insurance and cell-captive facilities

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

	2017	2016
Financial assets designated as 'fair value through profit or loss'		
Money market	**172**	104
Cash and cash equivalents		
Cash	**–**	38
Reinsurance assets		
Receivables	**41**	26
Reinsurers' share of outstanding claims	**2**	2
Reinsurers' share of unearned premium provision	**102**	80
Reinsurers' share of IBNR provision	**3**	3
Total financial assets attributable to policyholders and cell shareholders' interests in cell-captive insurance companies	**320**	253

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

Rm	Leasehold improvements	Computer equipment	Furniture and fittings, office equipment and other assets	Total
13. Property and equipment				
2017				
Carrying value				
Cost	**31**	**279**	**94**	**404**
Accumulated depreciation and accumulated impairment losses	**(10)**	**(168)**	**(24)**	**(202)**
Carrying value at 31 March 2017	**21**	**111**	**70**	**202**
Cost				
Balance at 1 April 2016	**147**	**320**	**180**	**647**
Additions to enhance existing operations	**7**	**28**	**13**	**48**
Disposals	**(98)**	**(58)**	**(76)**	**(232)**
Transfer to disposal group held for sale	**–**	**(2)**	**(8)**	**(10)**
Foreign subsidiaries' exchange differences	**(25)**	**(9)**	**(15)**	**(49)**
Balance at 31 March 2017	**31**	**279**	**94**	**404**
Accumulated depreciation and accumulated impairment losses				
Balance at 1 April 2016	**(47)**	**(158)**	**(87)**	**(292)**
Depreciation charge for the year	**(6)**	**(64)**	**(12)**	**(82)**
Continuing operations	**(2)**	**(59)**	**(9)**	**(70)**
Discontinued operations	**(4)**	**(5)**	**(3)**	**(12)**
Disposals	**32**	**47**	**58**	**137**
Transfer to disposal group held for sale	**–**	**–**	**6**	**6**
Foreign subsidiaries' exchange differences	**11**	**7**	**11**	**29**
Balance at 31 March 2017	**(10)**	**(168)**	**(24)**	**(202)**
2016				
Carrying value				
Cost	147	320	180	647
Accumulated depreciation and accumulated impairment losses	(47)	(158)	(87)	(292)
Carrying value at 31 March 2016	100	162	93	355
Cost				
Balance at 1 April 2015	119	251	154	524
Additions to enhance existing operations	2	76	15	93
Disposals	–	(15)	(4)	(19)
Transfer to disposal group held for sale	3	–	(3)	–
Foreign subsidiaries' exchange differences	23	8	18	49
Balance at 31 March 2016	147	320	180	647
Accumulated depreciation and accumulated impairment losses				
Balance at 1 April 2015	(28)	(97)	(68)	(193)
Depreciation charge for the year	(10)	(68)	(12)	(90)
Continuing operations	(2)	(61)	(8)	(71)
Discontinued operations	(8)	(7)	(4)	(19)
Disposals	–	15	4	19
Foreign subsidiaries' exchange differences	(9)	(8)	(11)	(28)
Balance at 31 March 2016	(47)	(158)	(87)	(292)

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

13. Property and equipment (continued)

Furniture and fittings, office equipment and other assets include freehold land and buildings owned by the group, which have a carrying value of R10 million (2016: R11 million). A register of freehold land and buildings is available for inspection by authorised representatives at the registered office of the company.

Rm	2017	2016
Included in property and equipment are assets capitalised as part of a finance lease. The net book value of these assets is as follows:		
Furniture and fittings	24	27
Cost	38	38
Accumulated depreciation	(14)	(11)
Computer equipment	20	26
Cost	45	45
Accumulated depreciation	(25)	(19)

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

14. Purchased and developed computer software

Rm	In use	In development	2017 Total	2016 Total
Carrying value				
Cost	356	45	401	356
Accumulated amortisation and accumulated impairment losses	(238)	–	(238)	(217)
Balance at 31 March	118	45	163	139
Cost				
Opening balance	323	33	356	268
Movement during the year:				
Additions to enhance existing operations	63	21	84	90
Disposals	(28)	–	(28)	(5)
Transfer to assets held for sale	(6)	–	(6)	–
Transfer to in use	9	(9)	–	–
Foreign subsidiaries' exchange differences	(5)	–	(5)	3
Closing balance	356	45	401	356
Accumulated amortisation and accumulated impairment losses				
Opening balance	(217)	–	(217)	(184)
Movement during the year:				
Amortisation for the year	(34)	–	(34)	(19)
Continuing operations	(31)	–	(31)	(16)
Discontinued operations	(3)	–	(3)	(3)
Amortisation charge arising from business combination	(17)	–	(17)	(16)
Transfer to assets held for sale	3	–	3	–
Accumulated amortisation on disposals	23	–	23	5
Foreign subsidiaries' exchange differences	4	–	4	(3)
Closing balance	(238)	–	(238)	(217)

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

Rm	2017	2016
15. Goodwill		
15.1 Carrying value	**3 355**	3 995
15.2 Reconciliation of movement in carrying value		
Opening balance	**3 995**	3 899
Movement during the year:		
Emerging markets – impairment	**(8)**	–
International Financial Services – disposal of subsidiary	**(505)**	–
– foreign currency exchange movement	**(127)**	96
Closing balance	**3 355**	3 995
15.3 Analysis of goodwill balances per cash-generating unit		
SA Risk and Insurance Services		
AF Insurance – Personal Services	**445**	445
SA Financial Services		
Financial Services	**1 126**	1 126
AF Life	**317**	317
SA AF Investments	**1 392**	1 392
Emerging markets	**75**	83
International Financial Services		
Lane Clark & Peacock	**–**	632
	3 355	3 995

During the year the group disposed of its LCP business in the UK. Goodwill ascribed to this cash-generating unit (CGU) was disposed of as part of the sale. In addition, the group classified operations in East Africa within the emerging markets business unit as held for sale. The carrying value of goodwill associated with this business of R8 million was impaired.

15.4 Impairment review of goodwill

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

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

Key assumptions used include:

	South Africa		Emerging markets	
%	**2017**	2016	**2017**	2016
Discount rates	**13.3**	14.3	**14.3**	12.8
Terminal growth rate	**5.2**	5.2	**5.2**	6.1
Average growth rate in operating income net of direct expenses	**6 – 15**	6 – 13	**15**	14

Sensitivity analysis

A sensitivity analysis had been performed on each of the base case assumptions used for assessing the goodwill with other variables held constant. Consideration of sensitivities to key assumptions can evolve from one financial year to the next.

The board has considered the surplus of value in use 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

16. Intangible assets

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

	Rm	2017	2016
16.1	**Carrying value**		
	Cost	**1 482**	1 762
	Accumulated amortisation and accumulated impairment losses	**(1 020)**	(1 081)
	Balance at 31 March	**462**	681
16.2	**Analysis of intangible assets**		
	Customer lists	**308**	460
	Trade names	**154**	221
		462	681
16.3	**Reconciliation of movement in carrying value**		
	Opening balance	**681**	764
	Movement during the year:		
	Disposal	**(94)**	–
	Amortisation charge arising from IFRS 3 *Business Combinations* (refer to note 5)	**(100)**	(108)
	Continuing operations	**(100)**	(108)
	Foreign subsidiaries' exchange differences	**(25)**	25
	Closing balance	**462**	681

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

Rm	2017	2016
17. Investment in associates		
17.1 Equity-accounted carrying value		
Cost	**2**	2
Share of cumulative post-acquisition reserves	**11**	6
	13	8
17.2 Reconciliation of movement in equity-accounted carrying value		
Opening balance	**8**	9
Movement during the year:		
Dividends received from associates	**–**	(5)
Share of profits of associates	**4**	4
Other	**1**	–
Closing balance	**13**	8

At 31 March 2017 the group had a financial interest in two associates, Alexander Forbes Insurance Brokers Kenya (Kenya Insurance Brokers), classified as a disposal group held for sale, and Alexander Forbes Financial Services Zambia (AF Zambia). Kenya Insurance Brokers operates as a short-term insurance broker and AF Zambia operates as a pension fund administrator. Both exclusively operate in their country of incorporation. Refer to notes 22 and 48 for further detail.

Rm	2017	2016
18. Financial assets		
18.1 Total financial assets		
Non-current financial assets	**98**	92
Current financial assets	**259**	270
	357	362
18.2 Analysis of financial assets		
Financial assets designated as fair value through profit or loss	**260**	267
Money market instruments	**92**	76
Collective investment schemes	**129**	153
Bonds	**39**	38
Financial assets classified as loans and receivables	**97**	95
Equity release housing loans	**30**	34
Other loans	**67**	61
	357	362

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

Rm	2017	2016
19. Insurance receivables		
Insurance brokerage income receivable and other insurance balances	**323**	261
Reinsurance brokerage income receivables	**109**	55
Receivables from short-term insurance contracts	**255**	277
Premium debtors	**7**	7
Reinsurers' share of unearned premium provision	**28**	25
Reinsurers' share of outstanding claims provision	**175**	204
Reinsurers' share of IBNR provision	**45**	41
Receivable from long-term insurance contracts	**425**	368
Premium debtors	**47**	51
Reinsurers' share of policyholder liability (group life)	**378**	317
Other insurance-related receivables	**25**	20
	1 137	981

A reconciliation of the receivables from short-term and long-term insurance contracts with the payables from such contracts is provided in note 33 to these financial statements.

20. Trade and other receivables

Rm	2017	2016
Financial assets		
Trade receivables	**146**	459
Other receivables	**196**	91
	342	550
Non-financial assets		
Accrued and not billed balances	**24**	300
Prepayments	**32**	79
	398	929

Included in trade and other receivables are impairments of trade receivables of R4.6 million (2016: R5.1 million).

21. Cash and cash equivalents

Rm	2017	2016
21.1 Total cash and cash equivalents		
Cash and bank balances	**4 173**	4 140
Short-term deposits	**2 090**	737
	6 263	4 877
21.2 Analysis of cash resources		
Total cash and cash equivalents	**6 263**	4 877
Less: Restricted cash relating to policyholder balances, capital and regulatory requirements and other restrictions	**(3 805)**	(3 859)
Available cash resources	**2 458**	1 018
21.3 Cash and cash equivalents included in policyholder and cell-owner assets are as follows:		
Multi-manager and unit trust investment contracts	**9 813**	10 820
Cell-captive insurance facilities	**–**	38
	9 813	10 858

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

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

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

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

In December 2016 the group sold the majority of its international segment. Management received an offer for this segment in November 2016, following a strategic decision to place greater focus on the group's core business, being retirement benefits and multi-manager investments.

The international segment was not previously classified as held for sale or as a discontinued operation. The comparative group income statement and statement of comprehensive income have been restated to show the discontinued operation separately from continuing operations.

In addition, the group committed to a plan to sell the Alexander Forbes Compensation Technologies (AFCT) business to BEE private investors and management early in 2015. In June 2016 the group finalised the sale of this business. The AFCT business was previously classified as a discontinued operation.

Rm	2017	2016
Fee and commission income	1 339	2 099
Operating income net of direct expenses	**1 339**	2 099
Operating expenses	(1 155)	(1 789)
Profit from operations before non-trading and capital items	**184**	310
Non-trading and capital items*	(8)	(18)
Operating income	**176**	292
Investment income	–	4
Finance costs	(1)	(1)
Profit before tax	**175**	295
Income tax expense	(18)	(43)
Profit for the year from discontinued operations	**157**	252
Profit on disposals	796	1
Total profit from discontinued operations	**953**	253

* Non-trading and capital items relate to an impairment of R8 million on goodwill within East Africa (emerging markets). The prior year includes an impairment of R10 million relating to the present value of the proposed sale price of Alexander Forbes Compensation Technologies and an impairment of R8 million relating to the net assets of the LCP operation in Europe.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

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

22.2 Disposal of subsidiaries, associates and businesses

The disposals of subsidiaries and associates in the year include the disposal of Alexander Forbes International operations (LCP), AFCT and Alexander Forbes Zimbabwe (emerging markets). Disposals in 2016 include Lane Clark & Peacock Belgium CVBA.

Rm	2017	2016
Carrying value of net assets sold	**(292)**	(4)
Intangible assets disposed of	**(75)**	–
Non-controlling interest	**129**	–
Goodwill disposed of	**(505)**	–
Foreign currency translation reserve of disposed entities	**209**	2
	(534)	(2)
Net proceeds on disposal	**1 330**	3
Profit on disposal of subsidiaries	**796**	1
Net proceeds on disposal	**1 330**	3
Less: Profit share receivable	**(105)**	–
Net consideration received in cash	**1 225**	3
Cash and cash equivalents disposed of	**(342)**	(5)
Net cash outflow	**883**	(2)

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

At 31 March 2017 the operations within East Africa (emerging markets) have been classified as discontinued. The assets and liabilities of this operation are classified as assets and liabilities of disposal of groups classified as held for sale. Goodwill of R8 million was impaired in the current year.

The comparative March 2016 disclosure consists of the assets and liabilities of the operations classified as held for sale at that date, being Alexander Forbes Compensation Technologies.

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

Rm	2017	2016
Long-term assets	**5**	3
Deferred tax asset	**1**	–
Trade and other receivables	**47**	8
Other current assets	**2**	107
Cash and cash equivalents	**11**	13
Total assets	**66**	131
Deferred tax liability	**–**	30
Provisions – non-current	**–**	6
Trade and other payables	**11**	7
Total liabilities	**11**	43

Rm	2017	2016

23. Equity holders' funds

23.1 Total equity holders' funds

Rm	2017	2016
Share capital at no par value (refer to note 23.2)	**6 192**	6 192
Treasury shares (refer to note 23.3)	**(160)**	(181)
Non-distributable reserves	**(336)**	157
Share-based payment reserve	**53**	36
Other reserves (refer to note 23.5)	**(389)**	121
Accumulated profit/(loss)	**1 205**	(267)
	6 901	5 901

23.2 Analysis of share capital

	2017 Number of shares '000	**2017** Share capital at no par value Rm	2016 Number of shares '000	2016 Share capital at no par value Rm
Authorised				
Ordinary shares each	**2 500 000**	**–**	2 500 000	–
Non-convertible redeemable B preference shares	**45 000**	**–**	45 000	–
Issued				
Ordinary shares	**1 341 427**	**6 192**	1 341 427	6 192
	1 341 427	**6 192**	1 341 427	6 192

Reconciliation of movement in ordinary shares

	2017 Number of shares '000	**2017** Share capital Rm	2016 Number of shares '000	2016 Share capital Rm
Opening balance	**1 341 427**	**6 192**	1 302 356	6 192
Shares issued to the Employee Share Option Plan (refer to note 23.3.1)	**–**	**–**	39 071	–
Closing balance	**1 341 427**	**6 192**	1 341 427	6 192

23.3 Treasury shares

Rm	2017	2016
Opening balance	**(181)**	(166)
Movement during the year:		
Purchase/(disposal) of treasury shares in policyholder assets	**21**	(15)
Closing balance	**(160)**	(181)

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

23. Equity holders' funds (continued)

23.3 Treasury shares (continued)

23.3.1 BEE Employee Share Option Plan (ESOP)

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

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

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

The shares are entitled to 30% of the dividends distributed to ordinary shareholders. The trust is restricted from disposing of or encumbering these shares during the term of the trust. Dividends distributed by the trust are treated as employee benefits. Dividend income earned by the trust and subsequently distributed to qualifying employees was R3.9 million (2016: R2.7 million) during the current financial year.

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

	Rm	2017	2016
23.4	**Share-based payment reserve**		
	Opening balance	**36**	17
	Expensed to income statement	**17**	19
	Closing balance	**53**	36

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

23.4.1 Forfeitable shares issued to staff at the listing

Under this scheme shares are awarded to employees which will vest at a future date if the employee remains employed. The employee participates in the benefits of the share during the vesting period. Shares are forfeited if the employee ceases to be an employee of the group. To hedge exposure to the shares issued under this scheme the group acquired 3 200 000 shares at R7.50 per share. The group has no legal or constructive obligation to repurchase or settle the award in cash. The shares are held on behalf of the employees by a trust which was set up specifically for this purpose. The trust is consolidated and the shares are reflected as treasury shares. The employees are entitled to dividend distributions during the vesting period. The table below reflects the forfeitable shares issued. In each case the vesting period for the shares is three years.

	Number of employees	Shares per employee	Total shares issued
2014 tranche	3 050	1 000	3 050 000
2015 tranche	3 194	200	638 800
2016 tranche	2 954	200	590 800

Movement in the number of shares allocated is as follows:

'000	2017	2016
At 1 April	**2 956**	2 766
Granted	**591**	639
Forfeited	**(514)**	(449)
31 March	**3 033**	2 956

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

23. Equity holders' funds (continued)

23.4 Share-based payment reserve (continued)

23.4.1 Forfeitable shares issued to staff at the listing (continued)

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

		Total shares granted	
'000	Vesting date	**2017**	2016
2014 tranche	24 July 2017	**2 035**	2 384
2015 tranche	31 July 2018	**468**	572
2016 tranche	24 July 2019	**530**	–
		3 033	2 956

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

23.4.2 Conditional share incentive scheme

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

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

Movement in the number of shares outstanding is as follows:

'000	**2017**	2016
At 1 April	**29 620**	15 031
Granted	**20 131**	17 204
Forfeited	**(9 227)**	(2 615)
31 March	**40 524**	29 620

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

		Total shares granted	
'000	Vesting date	**2017**	2016
2014 tranche	24 July 2017	**10 800**	13 576
2015 tranche	4 August 2018	**12 803**	16 044
2016 tranche	24 July 2019	**16 921**	–
		40 524	29 620

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

	Rm	**2017**	2016
23.5	**Other reserves**		
	Foreign currency translation reserve	**61**	571
	Redemption reserve*	**(449)**	(449)
	Other reserves	**(1)**	(1)
		(389)	121

* The group redeemed the B preference shares, previously carried at R211 610, at their fair value of R178 million. The B preference shares were classified as equity instruments of the group, therefore the difference between the redemption proceeds and the original carrying value of the B preference shares has been recorded within equity (redemption reserve). The balance of the reserve arose on redemption of preference shares relating to the private equity transaction.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

Rm	2017	2016
24. Financial liabilities held under multi-manager investment contracts		
24.1 Movement of liabilities under multi-manager and unit trust investment contracts		
Opening balance	**276 509**	262 172
*Movement during the year:**		
Premium inflows	**40 010**	39 520
Withdrawals	**(45 264)**	(43 709)
Investment return net of taxation	**9 965**	21 010
Policyholder fees charged/investment portfolio expenses	**(2 337)**	(2 825)
Consolidated funds**	**–**	364
Other	**2 721**	(23)
Closing balance	**281 604**	276 509

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

** These are funds that are consolidated when the group's interest in the funds increase above the 20% threshold.

Rm	2017	2016
24.2 Discounted maturity analysis of liabilities under multi-manager and unit trust investment contracts		
Open ended	**281 604**	276 509
	281 604	276 509

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

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

Rm	2017	2016
Financial liabilities linked to investment contracts	**281 604**	276 509
	281 604	276 509

25. Liabilities of insurance and cell-captive facilities

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

Rm	2017	2016
Short-term insurance technical liabilities	**310**	219
Gross unearned premium provision	**293**	213
Gross outstanding claims provision	**14**	2
Gross IBNR provision	**3**	4
Long-term insurance technical liabilities		
Policyholder liability	**(1)**	–
Insurance liabilities of cell-captive insurance facilities	**309**	219
Other liabilities attributable to policyholders and cell owners	**11**	34
Cell owners' interest*	**20**	29
(Receivables)/payables*	**(7)**	5
Taxation (receivable)/payable	**(2)**	–
	320	253

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

26. Borrowings

Rm	2017	2016
26.1 Analysis of borrowings		
Revolving credit facility (refer to note 26.4)	**719**	701
Other	**6**	4
	725	705

Rm	Revolving credit facility	Other	2017 Total	2016 Total
26.2 Reconciliation of movement in borrowings				
Opening balance	**701**	**4**	**705**	1 000
Movements for the year:				
Interest accrued	**66**	**2**	**68**	57
Interest paid	**(65)**	**–**	**(65)**	(53)
Borrowings repaid	**(83)**	**–**	**(83)**	(383)
Borrowings raised	**100**	**–**	**100**	84
Closing balance	**719**	**6**	**725**	705

Rm	2017	2016
26.3 Discounted maturity analysis of borrowings		
Due within one year	**725**	705

26.4 Revolving credit facility

The credit facility bears interest at JIBAR plus 1.25% per annum compounded quarterly. The interest is payable quarterly while the capital is repayable annually together with any unpaid interest on 31 March 2017. The facility is renewable annually for a 12-month period. Renewal is subject to an annual credit review by the lender and the financing needs of the group.

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

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

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

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

26.5 Financial covenants

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

27. Employee benefits

27.1 Total employee benefits

Rm	2017	2016
Defined benefit pension fund obligation – South Africa (refer to note 27.2)	**–**	–
Post-retirement medical benefit obligation – South Africa (refer to note 27.3)	**108**	116
Provision for leave pay (refer to note 27.4)	**52**	50
	160	166

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

27.2 Defined benefit pension fund obligation – South Africa

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

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

The fund is valued by a statutory actuary on a tri-annual basis, with a full actuarial assessment being completed on 31 March 2017. 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 2017 comprised six active members and 70 pensioners.

A portion of fund assets are managed by our subsidiary, AF Investments, and the total value is R196 million (2016: R200 million). Another portion of the fund assets is invested with a financial institution with a credit rating of Baa2 per Moody's. These assets are secured by South African government bonds. As such Alexander Forbes pension fund will be entitled to the proceeds of the bonds should the financial institution default.

Rm	2017	2016
Present value of benefit obligation	**(147)**	(155)
Fair market value of the plan assets	**206**	212
	59	57
Impact of asset ceiling	**(59)**	(57)
Total	**–**	–

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

27. Employee benefits (continued)

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

Reconciliation of movements

Rm	Present value of obligation	Fair value of plan assets	Total	Impact of asset ceiling	Total
At 31 March 2015	(155)	210	55	(55)	–
Current service costs	(1)	–	(1)	–	(1)
Interest expense	(12)	16	4	–	4
Remeasurements	2*	(4)	(2)	–	(2)
Contributions	–	2	2	–	2
Past service costs	(1)	–	(1)	–	(1)
Payment from plans					
Benefits paid	12	(12)	–	–	–
Adjustment to the asset ceiling	–	–	–	(2)	(2)
At 31 March 2016	**(155)**	**212**	**57**	**(57)**	**–**
Current service costs	**(2)**	**–**	**(2)**	**–**	**(2)**
Interest expense	**(14)**	**19**	**5**	**–**	**5**
Remeasurements	**9**	**(11)**	**(2)**	**–**	**(2)**
Contributions	**–**	**1**	**1**	**–**	**1**
Past service costs	**–**	**–**	**–**	**–**	**–**
Payment from plans	**–**	**–**	**–**	**–**	**–**
Benefits paid	**15**	**(15)**	**–**	**–**	**–**
Adjustment to the asset ceiling	**–**	**–**	**–**	**(2)**	**(2)**
At 31 March 2017	**(147)**	**206**	**59**	**(59)**	**–**

* Remeasurement specifically due to change in economic assumptions.

%	2017	2016	2015
The principal actuarial assumptions applied are as follows:			
Discount rate	**9.2**	9.4	8.0
Inflation rate	**6.3**	7.1	5.8
Salary increase rate	**7.3**	8.1	6.8
Pension increase allowance	**6.3**	7.1	5.8

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

Rm	Change in assumption	Increase in obligation	Decrease in obligation
Discount rate	**1.0%**	**(8.8)**	**10.6**
Inflation rate	**1.0%**	**10.7**	**(9.1)**

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 2017

27. Employee benefits (continued)

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

The components of plan assets are as follows:

%	2017	2016
Cash	**3.92**	8.30
Equity		
Listed equities	**16.63**	14.09
Unlisted equities	**6.53**	7.70
Bonds	**53.04**	49.99
Property	**3.71**	3.06
International		
Equity	**11.09**	12.08
Bonds	**0.10**	1.00
Cash	**2.38**	2.00
Property	**0.33**	0.18
Other	**0.58**	0.20
Other	**1.69**	1.40
	100.00	100.00

27.3 Post-retirement 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 2017 this applies to a total of 275 people (2016: 345) and comprises 35 active employees (2016: 89) and 240 pensioners (2016: 256). 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 2017. The post-retirement medical obligation is partly funded through a cell-captive insurance arrangement. The assets of the insurance cell totalled R60 million at 31 March 2017 (2016: R62 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

27. Employee benefits (continued)

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

Rm		**2017**	2016
The latest actuarial valuation reflected the following:			
Medical benefit obligation		**98**	105
Hardship fund liability		**10**	11
Recognised liability in the statement of financial position		**108**	116
A reconciliation of the movement in the post-retirement medical benefit obligation in South Africa is as follows:			
Opening balance		**105**	107
Current service costs		**2**	1
Interest expense		**13**	8
Remeasurements		**(13)**	(3)
Benefits paid		**(9)**	(8)
Closing balance		**98**	105
The principal actuarial assumptions applied are as follows:			
Discount rate	(%)	**9.9**	10.3
Inflation (CPIX) rate	(%)	**7.0**	7.9
Retirement age	(years)	**60/65**	60/65

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 defined benefit obligation to changes in the principal actuarial assumptions above is as follows:

Rm	**Change in assumption**	**Increase in obligation**	**Decrease in obligation**
Discount rate	**1.0%**	**10.8**	**(9.0)**
Inflation (CPIX) rate	**1.0%**	**10.8**	**(9.1)**

Rm	**2017**	2016
27.4 Provision for leave pay		
Opening balance	**50**	60
Movement during the year:		
Increase in provision	**19**	7
Decrease in provision	**(17)**	(18)
Foreign subsidiaries' exchange differences	**–**	1
Closing balance	**52**	50

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 2017

	Rm	2017	2016
28.	**Deferred taxation***		
28.1	**Net deferred tax liability balance**		
	Deferred tax assets (refer to note 28.3)	**148**	157
	Deferred tax liabilities (refer to note 28.4)	**(199)**	(262)
		(51)	(105)
28.2	**Reconciliation of movement in the net deferred tax liability balance**		
	Opening balance	**(105)**	(174)
	Movement during the year:		
	Credit per income statement	**35**	78
	Charge to income statement relating to operations discontinued in the current year	**1**	(2)
	Transfer to asset groups held for sale	**(1)**	–
	Disposal as a result of the sale of a business	**17**	–
	Foreign subsidiaries' exchange differences	**2**	(7)
	Closing balance	**(51)**	(105)
28.3	**Analysis of deferred tax assets**		
	Retirement benefit obligations	**16**	11
	Deferred income	**2**	1
	Calculated tax losses	**11**	1
	Provisions	**50**	63
	Operating lease liability	**50**	43
	Other items	**19**	38
	Total deferred tax assets	**148**	157
28.4	**Analysis of deferred tax liabilities**		
	Deferred tax on policyholder assets	**(64)**	(73)
	Accelerated tax allowances, provisions and other items	**(5)**	(4)
	Deferred tax recognised in terms of IFRS 3 *Business Combination***	**(130)**	(185)
	Total deferred tax liabilities	**(199)**	(262)

* Restated.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

29. Provisions

Rm	2017	2016
Proposed client settlements (refer to note 29.2)	**97**	100
Provision for errors and omissions claims (refer to note 29.3)	**194**	249
Other	**–**	3
Total	**291**	352

29.1 Analysis and reconciliation of movement in provisions

Rm	Proposed client settlements	Provision for errors and omissions claims	Other	Total
Balance at 31 March 2015	98	208	11	317
Movement during the year:				
Net increase in provision	5	26	–	31
Payments made	(3)	(23)	(12)	(38)
Foreign subsidiaries' exchange differences	–	38	4	42
Balance at 31 March 2016	**100**	**249**	**3**	**352**
Movement during the year:				
Net increase/(decrease) in provision	**2**	**(4)**	**(1)**	**(3)**
Payments made	**(5)**	**–**	**–**	**(5)**
Disposal of subsidiary	**–**	**–**	**(2)**	**(2)**
Foreign subsidiaries' exchange differences	**–**	**(51)**	**–**	**(51)**
Balance at 31 March 2017	**97**	**194**	**–**	**291**

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

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

29.2 Provision for client settlements and other legal claims

The group voluntarily appointed independent legal advisers to conduct a full review of past and current business practices across all of the South African operations in 2006. The results of the review were fully disclosed and published on the group's website. Following this review the provision for proposed client settlements for historical business practices, including the practice referred to as 'bulking' (refer to note 36.2 for further details on 'bulking'), was made. Interest accrues on this provision at the prime lending rate less 4% up to the date of settlement payments.

To date the group has made substantial progress in relation to the client settlement process, with the vast majority of all retirement funds that received offers having accepted the settlement offer.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

29. Provisions (continued)

29.3 Provision for errors and omissions claims

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

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

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

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

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

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

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

Critical assumptions and judgements

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

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

29.4 Other provisions

Other provisions include the following:

- Provision for clawback of commissions received by the group. This provision is based on historical client lapse experience. However, it may not be representative of future client lapse experience, which will affect the quantum of commission required to be repaid to insurers.
- Provision for contractual obligations in relation to premises leases entered into in the United Kingdom, which require the relevant buildings to be refurbished at the end of the lease term. The nature of the actual expenditure and quantum thereof will only be determined at the end of the lease term.
- Provision for onerous premises leases. This provision is based on management's best estimate but conditions may change regarding the likelihood, timing and commercial terms of sublease arrangements in respect of unoccupied office space.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

Rm	Future minimum lease payments	Interest	Present value of minimum lease payments at 31 March 2017	Present value of minimum lease payments at 31 March 2016
30. Finance lease liability				
Not later than one year	**9**	**–**	**9**	8
Later than one year but not later than five years	**43**	**4**	**39**	36
Later than five years	**34**	**7**	**27**	36
	86	**11**	**75**	80

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

Rm	2017	2016
31. Operating lease liability		
Premises lease deferral	**182**	266

The operating lease liability relates to the premises lease deferral which is the accelerated recognition of lease costs resulting from straight-lining of lease expenses (with no recognition of time value of money) in terms of IAS 17. The significant lease to which this deferral relates is 115 West Street, Sandton (starting from October 2012). The escalation is 7.5% per annum.

Rm	2017	2016
32. Deferred income		
Commission income on insurance and investment products	**5**	34

The deferred income is recorded in Financial Services and relates to income deferred to cover future servicing costs, together with a reasonable margin thereon.

Rm	2017	2016
33. Insurance payables		
33.1 Total insurance payables		
Payables from insurance contracts		
Insurance payables from broking activities	**15**	27
Claims float held for insurance operations	**35**	38
Policyholder liability under long-term insurance contracts (group life)	**399**	331
Payables from insurance-related activities		
Reinsurance creditors	**489**	428
Reinsurance commission	**3**	–
Payables from short-term insurance contracts	**325**	358
Gross unearned premium provision	**43**	42
Gross outstanding claims provision	**220**	259
Gross IBNR provision	**62**	57
Payables from umbrella retirement fund activities*	**1 694**	1 696
	2 960	2 878

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

33. Insurance payables (continued)

33.2 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	**2017**	2016
Gross policyholder liability (refer to note 33.1 above)	**399**	331
Less: Reinsurance assets relating to the policyholder liability (refer to note 19)	**(378)**	(317)
Net liability to policyholders	**21**	14
A reconciliation of the movement in the net policyholder liability is as follows:		
Opening balance	**14**	19
Movement during the year:		
Net increase/(decrease) in claims experience	**7**	(5)
Closing balance	**21**	14

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

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

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

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

The process for determining assumptions used are as follows:

- ***IBNR multiple***
  The multiples of monthly premium used to determine IBNR liabilities are compared annually with actual reporting lags for claims in the respective product lines.
- ***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 policy and overhead expenses and within policy expenses, between new business, maintenance and claims.
- ***Investment income***
  Estimates are made as to future investment income and are tested against market conditions as at the valuation date, taking into account the terms of the liabilities. Inflation assumptions are tested against market conditions and, with regard to consistency, are tested against interest rate assumptions.
- ***Tax***
  Allowance is made for future taxation and taxation relief.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

33. Insurance payables (continued)

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

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

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

Also refer to note 45.5: Long-term insurance.

Rm	2017	2016
33.3 Net payables from short-term insurance contracts		
The net payables from short-term insurance contracts arise from short-term insurance business written by the short-term insurance subsidiaries of the group. The net payables position comprises:		
Payables from short-term insurance contracts (refer to note 33.1)	**325**	358
Less: Receivables from short-term insurance contracts (refer to note 19)	**(255)**	(277)
Net payables from short-term insurance contracts	**70**	81
A reconciliation of the movement in the net payables is as follows:		
Opening balance	**81**	74
Movement during the year:		
Net claims incurred	**(11)**	7
Closing balance	**70**	81

Critical assumptions and judgements

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

34. Trade and other payables

Rm	2017	2016
Financial liabilities		
Trade payables	**275**	584
Accrued expenses	**174**	148
Other payables	**197**	257
	646	989
Non-financial liabilities		
Employee-based accruals	**135**	529
	781	1 518

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

35. Commitments

35.1 Operating lease commitments

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

Rm	Premises	Furniture and fittings, office equipment and other assets	2017 Total	2016 Total
Due within one year	185	2	187	235
Due between one to five years	765	1	766	1 167
Due after five years	558	–	558	1 063
	1 508	3	1 511	2 465

Rm	2017	2016
35.2 Capital commitments		
Commitments in respect of capital expenditure approved by directors:		
Not contracted for	1	10
	1	10

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

Subsequent to year-end the group announced a significant contractual agreement relating to system and process development. Refer to note 50: Events after reporting period for more information.

36. Contingencies

36.1 Overview

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

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

36.2 Client settlements arising from historical business practices

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

Rm	2017	2016
37. Cash generated from operations		
Profit before taxation from continuing operations	**887**	922
Items disclosed separately:		
Net interest expense	**(89)**	(93)
Non-cash items:		
Depreciation of property and equipment	**70**	71
Amortisation of intangible assets and software	**148**	140
Included in operating expenses	**31**	16
Included in non-trading and capital items	**117**	124
Movement in operating lease liability	**20**	28
Relating to South African operations	**26**	16
Relating to UK operations	**(6)**	12
Net movement in provisions	**(19)**	42
Non-cash movement in provisions	**(5)**	68
Payments made out of provisions	**(14)**	(26)
Reported loss arising from accounting for policyholder investments in treasury shares	**2**	(59)
Movement in working capital (refer to note 40)	**26**	(18)
Foreign exchange movements on intercompany loans	**17**	8
Share-based payments	**17**	19
Movement in other non-cash items	**12**	(4)
	1 091	1 056
38. Interest received		
Investment income per income statement	**178**	163
Less non-cash investment income from financial assets	**(16)**	(14)
Exclude policyholder-related interest	**(22)**	(70)
Interest received	**140**	79
39. Interest paid		
Finance costs per income statement	**(89)**	(69)
Non-cash finance costs	**5**	7
Finance costs paid	**(84)**	(62)
40. Movement in working capital		
Movement in working capital balances		
Trade and other receivables	**96**	(44)
Trade and other payables	**(70)**	26
	26	(18)

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

Rm	2017	2016
41. Operating cash flows relating to insurance and policyholder balances		
Insurance receivables	**(156)**	(161)
Insurance payables	**83**	340
Movement in policyholder working capital balances	**(221)**	192
Investment income relating to policyholder tax expense	**22**	70
	(272)	441
42. Cash flows from policyholder investment contracts		
Premium inflows	**40 010**	39 673
Investments made net of disinvestments	**4 248**	9 686
Movement in cell-captive insurance facilities	**–**	38
Investment withdrawals	**(45 265)**	(43 709)
	(1 007)	5 688
43. Taxation paid		
Taxation payable at the beginning of the year	**(35)**	(119)
Prepaid tax at the beginning of the year	**4**	3
Charge in income statement	**(278)**	(272)
Policyholder tax charge in income statement	**(22)**	(108)
Charge to income statement for operations discontinued and disposed of in the year included in discontinued operations	**–**	(3)
Adjusted for:		
Reclassification of disposal groups held for sale	**–**	–
Foreign currency translation reserve	**3**	1
Prepaid taxation at the end of the year	**(53)**	(4)
Taxation payable at the end of the year	**3**	35
Tax paid	**(378)**	(467)

44. Related party disclosure

List of related party relationships

44.1 Major shareholders

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

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

44.2 Material non-controlling interest

During the year under review African Rainbow Capital (ARC) acquired 10% of the African operations from the group.

44.3 Subsidiaries, joint ventures and associates

Details of subsidiaries, joint ventures and associates, which are considered material to the group and in respect of which the group has a continuing interest, are provided in note 48: Consolidated and unconsolidated entities to these financial statements.

44.4 Post-employment benefit plans

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

44.5 Directors

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

44.6 Prescribed officers

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

44.7 Key management personnel

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

Summary of related party transactions

44.8 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.

44.9 Transactions with subsidiaries and joint ventures

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

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

44.10 Transactions with associates

There were no material transactions with associates and no dividends (2016: R5 million) were received from Alexander Forbes Insurance Brokers Kenya Limited during the year.

44.11 Transactions with post-employment benefit plans

Contributions to retirement benefit plans amounted to R2 million (2016: R2 million) to the defined benefit fund and R8 million (2016: R8 million) to the post-retirement medical obligation plan, as detailed in note 27 'Employee benefits'. There are no amounts outstanding at year-end. Assets of the retirement benefit plans are invested through Investment Solutions Limited; these assets amount to R196 million (2016: R200 million).

The retirement benefit plans of the group are compulsory funds and as such key management are participants in the fund. At 31 March 2017 the investments held through the retirement benefit plans by key management are R32 million (2016: R34 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

44. Related party disclosure (continued)

44.12 Transactions with directors

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

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

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

Executive directors' and chairman's remuneration paid to current office holders during the current and prior years are detailed below. The bonus for the 2017 year reflects the amount accrued and approved by the remuneration committee for the year ended 31 March 2017 and paid in June 2017.

R'000	Salary	Bonus	Benefit and allowances	Retirement fund contributions	Total
Executive directors and prescribed officers					
2017					
AA Darfoor (group chief executive)[1]	**3 589**	**3 930**	**1 068**	**28**	**8 615**
DM Viljoen (group chief financial officer)[2]	**3 949**	**–**	**97**	**637**	**4 683**
D Msibi* (managing director)[2]	**2 534**	**–**	**58**	**408**	**3 000**
P Edwards* (managing director)[3]	**2 711**	**–**	**406**	**369**	**3 486**
S Reddy* (chief executive officer: retail clients)	**2 672**	**2 541**	**106**	**329**	**5 648**
S Price* (group chief operating officer)	**2 316**	**2 247**	**54**	**298**	**4 915**
V Naicker* (group chief risk officer)	**2 549**	**2 345**	**52**	**267**	**5 213**
Total for the year	**20 320**	**11 063**	**1 841**	**2 336**	**35 560**
2016					
E Chr Kieswetter (group chief executive)	5 153	–	166	540	5 859
DM Viljoen (group chief financial officer)	3 608	5 200	121	583	9 512
D Msibi* (managing director)	2 503	2 000	69	403	4 975
P Edwards* (managing director)	2 581	2 700	99	462	5 842
S Reddy* (chief executive officer: retail clients)[4]	1 781	2 100	19	219	4 119
Total for the year	15 626	12 000	474	2 207	30 307

* Prescribed officers.

[1] Mr AA Darfoor assumed the role of group chief executive from 1 September 2016.

[2] Mr DM Viljoen and Mr D Msibi stepped down from their roles on 30 April 2017.

[3] Mr P Edwards resigned as managing director on 31 March 2017.

[4] Ms S Reddy was a prescribed officer for eight months during the prior year.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

44. Related party disclosure (continued)

44.12 Transactions with directors (continued)

		Salary	Bonus	Benefits and allowances	Retirement fund contributions	Total
2017						
G Stobart* (managing director)	(£'000)	**220**	**315**	**157**	**–**	**692**
Total for the year	(R'000)	**4 180**	**5 985**	**2 983**	**–**	**13 148**
2016						
G Stobart* (managing director)	(£'000)	255	210	8	49	522
Total for the year	(R'000)	5 304	4 452	159	1 015	10 930

* Prescribed officer.

Long-term incentive share plan (LTIP)

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

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

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

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

2014 tranche

These shares vest on 24 July 2017. Thirty per cent of the shares vest if the company achieves a three-year compound growth rate in normalised headline earnings per share (HEPS) of nominal GDP (i.e. GDP plus inflation) and 100% of the shares will vest if the growth rate is nominal GDP plus 10% (ten percentage points). A pro rata proportion of shares will vest based on any growth rate between these two points. At a compound growth rate in HEPS below nominal GDP all conditional shares are forfeited.

2015 tranche

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

2016 tranche

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

44. Related party disclosure (continued)

44.12 Transactions with directors (continued)

’000	2016 tranche	2015 tranche	2014 tranche
Number of ordinary shares**			
AA Darfoor (group chief executive)	1 350	–	–
S Reddy* (chief executive officer: retail clients)	475	472	–
S Price* (group chief operating officer)	450	450	250
V Naicker* (group chief risk officer)	450	304	300
	2 725	1 226	550

* Prescribed officers.

** Mr DM Viljoen, Mr D Msibi and Mr P Edwards stepped down from their roles and have forfeited all current and past tranche allocations.

’000	2017	2016
Total shares held by key management		
DM Viljoen (group chief financial officer)	**2 272**	2 272
D Msibi* (managing director)	**255**	255
P Edwards* (managing director)	**–**	288
G Stobart* (managing director)	**950**	1 524
RM Kgosana (independent non-executive director)	**20**	20
	3 497	4 359

* Prescribed officers.

There have been no changes in shareholding by key management from 31 March 2017 to the date of approval of the financial statements.

Other transactions with key management

Members of key management have personal investments in AF Investments amounting to R30 million (2016: R27 million). Certain members also insure their personal assets through Alexander Forbes Insurance. These transactions are all concluded at market rates on an arm’s length basis.

Non-executive directors’ fees and remuneration

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

R’000	2017	2016
Independent non-executive directors		
M Collier	**2 000**	1 463
D Konar	**2 536**	2 138
RM Kgosana	**1 100**	718
H Meyer	**788**	776
T Memela-Kambula	**900**	380
MS Moloko* (chairman)	**4 271**	1 893
B Petersen (resigned in the 2016 financial year)	**–**	385
Total for the year	**11 595**	7 753

* Mr Moloko was retained as the executive chairman for an interim period during the current and previous financial year. An additional fee was approved by the remuneration committee for this executive role which was terminated on 1 September 2016.

Directors’ fees consist of a combination of standard fees plus additional fees for committee or subcommittee membership over and above the standard working programme.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

45. Insurance risk

45.1 Overview

The group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those that transfer significant insurance risk, being 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. Such insurance contracts are issued by the group's insurance subsidiary companies, namely Alexander Forbes Insurance and Alexander Forbes Life, as detailed below. These insurance companies are authorised and regulated by the Financial Services Board (FSB) in South Africa and Namibia, the Financial Services Authority (FSA) in Gibraltar and the FSA in the United Kingdom.

The group also issues contracts which are classified as investment contracts. These contracts transfer financial risk with no significant insurance risk. Financial risk is defined as the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of process or rates or credit index or other variable. The group's multi-manager investment subsidiaries operate under long-term insurance licences and they too are authorised and regulated by the FSB in South Africa and Namibia and the FSA in the United Kingdom. These licences are issued in order for the multi-manager to issue only linked investment policies and thus these businesses do not assume any insurance risk. For accounting purposes the contracts issued to policyholders are classified as investment contracts. The assets arising from these investment contracts are directly matched by linked obligations to the policyholders and the assets and linked obligations are separately reflected in the group statement of financial position as 'Financial assets held under multi-manager investment contracts' and 'Financial liabilities held under multi-manager investment contracts' respectively.

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

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

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

Rm	**2017**	2016
45.2 Insurance contract liabilities of insurance subsidiaries included in the statement of financial position (by nature of liability)		
Net unearned premium provision from short-term insurance contracts	**15**	17
Gross unearned premium provision	**43**	42
Less: Reinsurers' share of unearned premium provision	**(28)**	(25)
Net outstanding claims provision from short-term insurance contracts	**45**	56
Gross outstanding claims provision	**220**	259
Less: Reinsurers' share of outstanding claims provision	**(175)**	(203)
Net IBNR provision from short-term insurance contracts	**17**	16
Gross IBNR provision	**62**	57
Less: Reinsurers' share of IBNR provision	**(45)**	(41)
Policyholder liability under long-term insurance contracts (group life)	**21**	14
Gross policyholder liability	**399**	331
Less: Reinsurers' share of policyholder liability	**(378)**	(317)
Net liabilities under insurance contracts	**98**	103

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

45. Insurance risk (continued)

45.3 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 committees

The risk committee comprises four members, a non-executive chairman with risk management expertise, and three executive directors. The committee is constituted to assist and support the board with regard to its risk management responsibilities, together with the other board subcommittees including the audit, investment and remuneration committees. The committee deals with specialised risks related to insurance business being conducted by the company. Individuals with specialised industry and product knowledge are invited to the committee and are also being co-opted on an ongoing basis. Furthermore, the committee is specifically responsible for the following: governance, enterprise-wide risk, compliance, information technology, reinsurance market security, protection of personal information and treating customers fairly.

Audit committees

There are audit committees for each business division within the group. These audit committees report to the group audit committee and to the operational boards of directors. The relevant business audit committee deals with the insurance subsidiary that reports into that business operation. These committees serve to satisfy the group and operational boards of directors that adequate internal and financial controls are in place and that material risks are managed appropriately. More specifically, these committees are responsible for reviewing the financial statements and accounting policies, the effectiveness of the management information and systems of internal control, compliance with statutory and regulatory requirements, interim and final reports, the effectiveness of the internal audit function, external audit plans and findings on their respective reports. These committees report directly to the relevant board of directors and comprise three non-executive directors, including a chairman. The committee meetings are attended by the external and internal auditors and are held at least quarterly.

Statutory actuaries

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

Capital adequacy requirements

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

Rm	**2017**	2016
Long-term insurance		
Alexander Forbes Life Limited		
Capital adequacy requirement	**229**	218
Times cover	**1.67**	1.67

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

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

45. Insurance risk (continued)

45.3 General management of insurance risk (continued)

Rm	2017	2016
Short-term insurance		
Alexander Forbes Insurance		
Solvency capital requirement	**121**	113
Net assets	**229**	186

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

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

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

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

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

The majority of the subsidiary's insurance contracts are 'short-tail', meaning that any claim is settled within one year after the loss date. The subsidiary's 'long-tail' exposures are limited to personal accident, third-party motor and public liability. Claims in respect of long-tail business comprised less than 10% of the incurred claims over the past financial year and are not considered to be a major risk to the group.

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

Exposure to catastrophe risk is estimated by analysing the motor and property book to identify areas of concentration. The subsidiary's concentration exposure for its personal lines book is considered to be in the Johannesburg area and the event has been identified as a possible earthquake or a severe hailstorm. This assessment is done annually at renewal of the catastrophe programme and reinsurance protection is purchased on a non-proportional basis accordingly, thereby limiting the exposure to the subsidiary. The current gross exposure is R4 million (2016: R4 million). Current net exposure is R1 million (2016: R1 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

45. Insurance risk (continued)

45.3 General management of insurance risk (continued)

Mitigation of insurance risks

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

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

45.4 Personal lines short-term insurance

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

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

45.5 Long-term insurance

Terms and conditions of insurance contracts

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

Risks that arise from insurance contracts

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

An individual insurance product was launched during the 2006 financial year. A level premium version of the individual life product was introduced during the 2015 financial year. As at 31 March 2017 it remains a relatively immaterial part of the overall life insurance exposure. The product is subject to mortality, morbidity, withdrawal and expense risk.

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

As at 31 March 2017 the group had exposure with the supporting actuarial reserves of approximately R56 million (2016: R46 million) in group insurance business. The individual life business has no exposure and reflects a negative actuarial reserves asset of R37 million (2016: R32 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

45. Insurance risk (continued)

45.5 Long-term insurance (continued)

Mitigation of insurance risk

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

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

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

Sensitivity analysis

The most critical assumption underlying the liabilities relating to group insurance is the rate of recovery from illness or disability associated with claims in payment. The sensitivity to a recovery rate 20% lower than assumed is less than R54 million (2016: R43 million). The sensitivity to assumptions on negative liabilities comprising mortality, withdrawal and renewal risks arising from the individual insurance contracts is currently insignificant.

46. Financial risk

Introduction

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

Credit risk

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

Liquidity risk

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

Market risk

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

Interest rate risk

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

Currency risk

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

46. Financial risk (continued)

Other price risk

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

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

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

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

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

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

Nature of financial assets and liabilities

(i) Multi-manager investment operations

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

(ii) Cell-captive insurance facilities

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

(iii) General operations

The financial assets and liabilities arising from general operations result from the insurance broking and consulting operations; employee benefit consulting, administration and management operations; and insurance operations conducted by the group's short-term personal lines insurer, Alexander Forbes Insurance, and the group's long-term group life insurer, Alexander Forbes Life.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

46. Financial risk (continued)

Nature of financial assets and liabilities (continued)

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

Financial assets and liabilities of the group

Rm	2017	2016
Assets		
Financial assets held under multi-manager investment contracts		
Fair value through profit or loss – designated	**271 685**	265 565
Loans and receivables	**9 813**	10 820
Financial assets of insurance and cell-captive facilities		
Fair value through profit or loss – designated	**172**	104
Balances relating to insurance contracts – carried at fair value	**148**	111
Cash and cash equivalents	**–**	38
General operations		
Financial assets		
Fair value through profit or loss – designated	**260**	267
Loans and receivables	**97**	95
Insurance receivables		
Balances relating to insurance contracts – carried as loans and receivables	**1 137**	981
Trade and other receivables		
Loans and receivables	**342**	550
Cash and cash equivalents	**6 263**	4 877
Total financial assets	**289 917**	283 408
Liabilities		
Financial liabilities held under multi-manager investment contracts		
Fair value through profit or loss – designated	**281 604**	276 509
Liabilities of insurance and cell-captive facilities		
Balances relating to insurance contracts – carried at fair value	**320**	253
General operations		
Borrowings		
Financial liabilities held at amortised cost	**725**	705
Insurance payables		
Financial liabilities held at amortised cost	**2 960**	2 878
Trade and other payables		
Financial liabilities held at amortised cost	**646**	989
Total financial liabilities	**286 255**	281 334

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

46. Financial risk (continued)

46.1 Credit risk

46.1.1 Objectives, policies and process to manage credit risk

(i) *Multi-manager investment operations*

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

(ii) *General operations*

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

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

Cash and cash equivalents
The group has policies that limit the amount of credit exposure to any one financial institution including the requirements by the Short-term and Long-term Insurance Act for minimum levels of asset spreading that are applicable to the insurance subsidiary companies. The financial institutions used in the current and prior financial year had ratings of between Aa2 and Baa2, as determined by external credit ratings agency Moody's.

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

46.1.2 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

Institution where held	Financial assets Rm	%
2017		
Between Aaa and A3*	**2 048**	**0.73**
Between Baa1 and B3*	**59 799**	**21.29**
Remainder includes equity securities and other assets which do not expose the group to credit risk		**77.98**
		100.00
2016		
Between Aaa and A3*	540	0.21
Between Baa1 and B3*	52 274	20.12
Remainder includes equity securities and other assets which do not expose the group to credit risk		79.67
		100.00

* Ratings per Moody's credit ratings agency.

(ii) *General operations*

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

46. Financial risk (continued)
46.1 Credit risk (continued)
46.1.2 Exposure to credit risk (continued)
Analysis of financial assets

Rm	2017	2016
Financial assets designated at fair value through profit or loss		
Money market instruments	**92**	76
Collective investment schemes	**129**	153
Bonds/debt securities	**39**	38
Financial assets classified as loans and receivables		
Equity housing loans	**30**	34
Other loans	**67**	61
	357	362

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

Top 20 clients
The group's top 20 clients' overall revenue represent approximately 3% (2016: 2%) of operating income net of direct expenses and the total of this amount is aged within three months. No single client contributes more than 0.4% (2016: 0.4%) of the group's operating income net of direct expenses.

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

Rm	Current 0 – 30 days	Past due 30 – 60 days	Past due 60 – 90 days	Past due 90+ days	Total
2017					
Insurance receivables	**1 031**	**45**	**21**	**40**	**1 137**
Trade receivables	**111**	**12**	**2**	**21**	**146**
Other receivables	**71**	**–**	**–**	**125**	**196**
	1 213	**57**	**23**	**186**	**1 479**
2016					
Insurance receivables	594	16	15	356	981
Trade receivables	309	88	22	40	459
Other receivables	63	4	4	20	91
	966	108	41	416	1 531

Trade receivables are reflected net of an impairment of R4.6 million (2016: R5.1 million). The majority of the trade receivables fall within 90 days.

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

The financial institutions used in the current and prior financial year had ratings of between Aaa and Baa2, as determined by external credit rating agency Moody's.

During the current year there have been no changes to the fair values of the financial assets of general operations presented above due to changes in the credit risk associated with these assets. Subsequent to year-end certain credit rating agencies downgraded South Africa's foreign currency rating to sub-investment grade (refer to note 50: Events after reporting period for further information).

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

46. Financial risk (continued)

46.2 Liquidity risk

46.2.1 Objectives, policies and process to manage liquidity risk

(i) Multi-manager investment operations

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

In addition, liquidity risk arising from unexpected lapses and withdrawals is limited through policy terms and conditions that restrict claims to the value and timing at which the assets are realised. The maturity analysis of these policyholders' liabilities is detailed in the note to these financial statements called 'Financial liabilities held under multi-manager investment contracts' and these liabilities are mostly open-ended as per note 24.2.

(ii) General operations

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

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

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

46.2.2 Exposure to liquidity risk

(i) Multi-manager investment operations

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

(ii) General operations

A revolving credit facility of R1 billion is in place and is renewable annually with a notice period of three months. The interest rate is JIBAR plus 1.25%, payable quarterly. The group's ability to generate cash, and the positive credit ratings of the company, positions the group well to negotiate annually for the best available terms.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

46. Financial risk (continued)

46.2 Credit risk (continued)

46.2.2 Exposure to liquidity risk (continued)

Liquidity analysis of assets and liabilities

Rm	Contractual cash flows (undiscounted) 0 – 1 year	1 – 3 years	3 – 5 years	>5 years	Undated/ Linked	Total
2017						
Assets						
Financial assets held under multi-manager investment contracts	–	–	–	–	281 498	281 498
Financial assets of insurance and cell-captive facilities	–	–	–	–	320	320
Financial assets	290	9	15	2	41	357
Insurance receivables	264	–	–	–	873	1 137
Trade and other receivables	316	15	2	–	9	342
Cash and cash equivalents	6 263	–	–	–	–	6 263
Total financial assets	7 133	24	17	2	282 741	289 917
Liabilities						
Financial liabilities held under multi-manager investment contract*	–	–	–	–	281 604	281 604
Financial liabilities of insurance and cell-captive facilities*	–	–	–	–	320	320
Borrowings	725	–	–	–	–	725
Insurance payables	–	–	–	–	2 960	2 960
Trade and other payables	645	1	–	–	–	646
Total financial liabilities	1 370	1	–	–	284 884	286 255
2016						
Assets						
Financial assets held under multi-manager investment contracts	–	–	–	–	276 385	276 385
Financial assets of insurance and cell-captive facilities	–	–	–	–	253	253
Financial assets	267	–	–	5	90	362
Insurance receivables	664	–	–	–	317	981
Trade and other receivables	540	10	–	–	–	550
Cash and cash equivalents	4 877	–	–	–	–	4 877
Total financial assets	6 348	10	–	5	277 045	283 408
Liabilities						
Financial liabilities held under multi-manager investment contract*	–	–	–	–	276 509	276 509
Financial liabilities of insurance and cell-captive facilities*	–	–	–	–	253	253
Borrowings	705	–	–	–	–	705
Insurance payables	852	–	–	–	2 026	2 878
Trade and other payables	940	–	–	–	49	989
Total financial liabilities	2 497	–	–	–	278 837	281 334

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

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

46. Financial risk (continued)

46.3 Market risk

46.3.1 Objectives, policies and processes to manage market risk

(i) Multi-manager investment operations

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

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

(ii) General operations

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

A revolving credit facility of R1 billion is in place and is subject to interest at JIBAR plus 1.25%, payable quarterly.

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

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

Other price risk
The group monitors the risk associated with the fee income attributable to the equity assets under management in the multi-manager investment operations. The exposure to equity markets is monitored and specific advice is taken on the economic outlook with regard to this fee income. The group does consider various derivative instruments to protect this income stream.

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

46.3.2 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

46. Financial risk (continued)

46.3 Market risk (continued)

46.3.2 Exposure to market risk (continued)

(ii) General operations

Interest rate risk

The group's income and operating cash flows are substantially independent of changes in market interest rates, except for interest costs on provisions for client settlements which are sensitive to short-term interest rates. This impact is offset by the effect of short-term interest rate movements on interest earned on cash balances. The interest rate on borrowings is linked to JIBAR. A 1% increase/decrease in JIBAR results in a pre-tax interest charge/saving of R7.7 million (2016: R7.7 million).

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

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

A revolving credit facility is in place with interest at JIBAR plus 1.25%.

Currency risk

The group operates primarily in South Africa and has certain operations in other African countries. Approximately 7% (2016: 6%) of the group's trading results from operations is derived from its operations in Africa outside South Africa.

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

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

Concentration risk

The group is not exposed to any significant concentration risk.

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 2017

46. Financial risk (continued)

46.4 Fair value hierarchy

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

46.4.1 Valuation methods and assumptions for valuation techniques

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

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' also requires significant judgement. The group considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Level 1
Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturities, equity securities and derivative contracts.

Level 2
Level 2 financial assets primarily include government and agency securities and certain corporate debt securities, such as private fixed maturities. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined using relevant information generated by market transactions involving comparable securities. They are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security's duration, also taking into consideration issuer-specific credit quality and liquidity. These valuation methodologies have been studied and evaluated by the group and the resulting prices determined to be representative of exit values.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, reported secondary trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. Additional observable inputs are used when available, and as may be appropriate.

Derivatives
As disclosed in Note 11.2, the net fair value of derivative positions is approximately R1 million at 31 March 2017 (2016: R1 million). All of these derivative contracts are traded in the over-the-counter (OTC) derivative market and are classified in Levels 1 and 2. The fair values of derivative assets and liabilities traded in the OTC market are determined using quantitative models that require use of the contractual terms of the derivative instruments and multiple market inputs, including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors, which are then applied to value the positions. The predominance of market inputs is actively quoted and can be validated through external sources or reliably interpolated if less observable.

The credit risk of the counterparty and of the group is considered in determining the fair values of all OTC derivative asset and liability positions, respectively, after taking into account the effects of master netting agreements and collateral arrangements. In each reporting period the group values its derivative positions using the standard swap curve and evaluates whether to adjust the embedded credit spread to reflect change in counterparty or its own credit standing.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

46. Financial risk (continued)

46.4 Fair value hierarchy (continued)

46.4.1 Valuation methods and assumptions for valuation techniques (continued)

Level 3

Level 3 investments primarily include listed and unlisted equity securities and collective investment schemes whose traded prices are not considered liquid enough to justify Level 2 observation. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement. The group applies various due-diligence procedures, as considered appropriate, to validate these non-binding broker quotes for reasonableness, based on its understanding of the markets, including use of internally developed assumptions about inputs a market participant would use to price the security.

The group issues a significant number of investment contracts that are designated at fair value through profit or loss. These investment contracts are not quoted in active markets and their fair values are determined by using valuation techniques. Such techniques (for example, valuation models) are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices. A variety of factors are considered in the group's valuation techniques, including time value, credit risk (both own and counterparty), embedded derivatives (such as unit-linking features), volatility factors (including contract holder behaviour), servicing costs and activity in similar instruments. Since significant inputs are based on unobservable inputs, these investment contract liabilities are classified as Level 3 instruments in the fair value hierarchy.

At 31 March 2017 investments classified at Level 3 comprise approximately 1% (2016: 1%) of total financial assets.

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

Instrument	Valuation technique	Significant inputs
Suspended listed equities	Exchange trade price	Last exchange traded price
Community property company assets	Discounted cash flow model	Capitalisation rates and discount rates
Infrastructure and development assets	Equity	Equity
	Distribution discount model, cost, mark to market, price earnings multiple and liquidation value	Interest rates and exchange traded prices
	Debt	Debt
	Discounted cash flow model	Interest rates fixed and floating

The group's overall profit or loss is not sensitive to the inputs of the models applied to derive fair value.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

46. Financial risk (continued)

46.4 Fair value hierarchy (continued)

46.4.2 Financial assets and liabilities at fair value

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

	Fair value levels			Total
Rm	Level 1	Level 2	Level 3	fair value
2017				
Financial assets held under multi-manager investment contracts				
Equity securities – listed	112 582	2 301	–	114 883
– unlisted	–	24	389	413
Preference shares – listed	437	–	–	437
Collective investment schemes	68 832	2 914	–	71 746
Debt securities – listed	31	22 895	–	22 926
– government stock	358	13 378	–	13 736
Debentures – listed	3 363	–	–	3 363
– unlisted	–	3	–	3
Policy of insurance		22 492	2 382	24 874
Derivative financial instruments	–	1	–	1
Money market instruments – listed	–	19 303	–	19 303
	185 603	83 311	2 771	271 685
Financial assets of cell-captive insurance facilities				
Money market instruments – listed	172	–	–	172
Balances relating to insurance contracts	–	148	–	148
	172	148	–	320
General operations				
Financial assets:				
Bonds	–	39	–	39
Money market instruments	–	92	–	92
Collective investment schemes	–	129	–	129
	–	260	–	260
Total financial assets measured at fair value	185 775	83 719	2 771	272 265
Expressed as a percentage (%)	68	31	1	100
Cash held under multi-manager investment contracts	–	9 813	–	9 813
	–	9 813	-	9 813

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

46. Financial risk (continued)

46.4 Fair value hierarchy (continued)

46.4.2 Financial assets and liabilities at fair value (continued)

Group financial assets measured at fair value according to the fair value hierarchy

Rm		Fair value levels Level 1	Level 2	Level 3	Total fair value
2016					
Financial assets held under multi-manager investment contracts					
Equity securities – listed		111 009	2 094	–	113 103
– unlisted		–	–	12	12
Preference shares – listed		515	–	–	515
Collective investment schemes		69 035	1 478	2	70 515
Debt securities – listed		297	21 287	–	21 584
– government stock		–	14 656	–	14 656
Debentures – listed		3 613	–	–	3 613
Policy of insurance		–	22 339	1 557	23 896
Derivative financial instruments		1	–	–	1
Money market instruments – listed		13	17 635	22	17 670
		184 483	79 489	1 593	265 565
Financial assets of cell-captive insurance facilities					
Money market instruments – listed		104	–	–	104
Balances relating to insurance contracts		–	111	–	111
		104	111	–	215
General operations					
Financial assets:					
Bonds		–	38	–	38
Money market instruments		–	76	–	76
Collective investment schemes		–	153	–	153
		–	267	–	267
Total financial assets measured at fair value		184 587	79 867	1 593	266 047
Expressed as a percentage	(%)	69	30	1	100
Cash held under multi-manager investment contracts		–	10 820	–	10 820
Cash held under cell-captive insurance contracts		–	38	–	38
		–	10 858	–	10 858

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

46. Financial risk (continued)

46.4 Fair value hierarchy (continued)

46.4.2 Financial assets and liabilities at fair value (continued)

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

Rm	Fair value levels Level 1	Level 2	Level 3	Total fair value
2017				
Financial liabilities measured at fair value				
Financial liabilities held under multi-manager investment contracts	**–**	**281 604**	**–**	**281 604**
Financial assets of insurance and cell-captive facilities	**–**	**320**	**–**	**320**
Total financial liabilities measured at fair value	**–**	**281 924**	**–**	**281 924**
2016				
Financial liabilities measured at fair value				
Financial liabilities held under multi-manager investment contracts	–	276 509	–	276 509
Financial liabilities of insurance and cell-captive facilities	–	253	–	253
Total financial liabilities measured at fair value	–	276 762	–	276 762

46.4.3 Changes in Level 3 instruments

Summary of changes in group Level 3 instruments

Rm	Financial assets under multi-manager assets	Financial assets of cell insurance facilities	Total
Financial assets			
Opening balance at 1 April 2016	**1 593**	**–**	**1 593**
Total gains and losses recognised in profit or loss	**303**	**–**	**303**
Transfer from loans and receivables	**338**	**–**	**336**
Purchases	**770**	**–**	**770**
Sales	**(233)**	**–**	**(233)**
Closing balance at 31 March 2017	**2 771**	**–**	**2 771**
Opening balance at 1 April 2015	1 516	176	1 692
Total gains and losses recognised in profit or loss	152	–	152
Transfer from loans and receivables	(16)	–	(16)
Purchases	28	–	28
Sales	(87)	(176)	(263)
Closing balance at 31 March 2016	1 593	–	1 593
Financial liabilities			
Opening balance at 1 April 2016	**–**	**–**	**–**
Disposals	**–**	**–**	**–**
Closing balance at 31 March 2017	**–**	**–**	**–**
Opening balance at 1 April 2015	–	176	176
Disposals	–	(176)	(176)
Closing balance at 31 March 2016	–	–	–

The financial assets and liabilities of multi-manager investment contracts are linked and all movements in these assets will be met with a converse movement in the liabilities associated. Similarly the cell-owner insurance assets and liabilities are also linked.

47. Operational, legal and capital risk

47.1 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 risk management framework, systems of internal controls, internal audit and compliance functions, and other measures such as backup procedures, contingency planning and insurance.

47.2 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 the relevant note to these financial statements.

47.3 Capital

The group's objectives when managing capital are:

- to comply with capital requirements required for insurers as determined by legislation; and
- to safeguard the group's ability to continue as a going concern so that it can provide returns for its shareholders and benefits for other stakeholders.

Regulated insurance and investment subsidiary companies
The capital adequacy requirement (CAR) is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of severely adverse future experience. The calculation is as required by the Long-term Insurance Act, 1998, in South Africa and calculated in terms of the guidance notes issued by the Actuarial Society of South Africa (ASSA). The CAR is determined with reference to the guidance issued by ASSA but is subject to a minimum of R10 million or 13 weeks' operating expenses in terms of directive 140.A.i(LT) of the Financial Services Board or 0.3% of gross policyholder liabilities. The subsidiary companies are required to hold sufficient equity and reserves to meet its CAR and can only distribute accumulated profits in excess of CAR.

For AF Investments all liabilities are directly related to asset values and no mortality or similar risks are assumed. The only risk to be considered is operational risk. The CAR held at reporting date was R554 million (2016: R544 million), representing an excess of assets over liabilities of 1.7 times (2016: 1.6 times).

The CAR held by Alexander Forbes Life at reporting date was R229 million (2016: R218 million), representing an excess of assets over liabilities of 1.67 times (2016: 1.67 times).

For statutory purposes, the share capital of cell-captive insurance subsidiary companies consists of ordinary shares and A and L shares.

The cell-captive insurance subsidiary companies submit quarterly and annual returns to the South African Financial Services Board in terms of the Short-term Insurance Act, 53 of 1998 of South Africa (the Act). The companies are required at all times to maintain a statutory surplus asset ratio as defined in the Act. The returns submitted to the Regulator showed that the companies have met the minimum capital requirements throughout the year.

All short-term insurance companies in South Africa are required in terms of the provisions of the Act to maintain a contingency reserve for adverse claims developments. This reserve is calculated at a minimum of 10% of net written premium as defined in the legislation. This reserve is maintained by the applicable subsidiary companies in the group and no distribution can be made from these reserves without the prior approval of the Registrar of Short-term Insurance. Details on the value of this reserve held within the group at year-end are shown in the applicable note to these financial statements.

The implementation by the Financial Services Board of consolidated supervision, although postponed from the original implementation date, is expected to become effective mid-2018. The current capital structure of the group has been significantly restructured to ensure that it best meets the long-term regulatory and operational requirements of the group.

General operations
When maintaining capital, the group's objectives are to maintain a sufficient level of capital without compromising the ability to operate effectively. This is achieved by using available cash balances to fund working capital requirements and returning capital to shareholders and lenders as and when excess cash is generated. When required, the group makes use of intergroup loans from its direct or indirect holding company as a source of funds.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

48. Consolidated and unconsolidated entities

48.1 Consolidated entities

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

				Economic interest	
	Entity	Nature of business	Year-end date	2017 %	2016 %
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
	Alexander Forbes Financial Services Holdings Limited	Holding company in the United Kingdom	31 March	**–**	100
2.	**Holding companies within the Alexander Forbes Limited Group**				
	Alexander Forbes Limited	Holding company	31 March	**90**	100
	Alexander Forbes Emerging Markets Investments Proprietary Limited	Holding company for African operations	31 March	**100**	100
3.	**Operational companies within the Alexander Forbes Limited Group**				
	Alexander Forbes Administration Services Proprietary Limited	Administration functions and risk-related services	31 March	**100**	100
	Alexander Forbes Direct Proprietary Limited	Direct marketing	31 March	**100**	100
	Alexander Forbes Financial Planning Consultants Proprietary Limited	Financial planning	31 March	**100**	100
	Alexander Forbes Financial Services Holdings Proprietary Limited	Provision of financial services	31 March	**100**	100
	Alexander Forbes Group & Technology Services Proprietary Limited*	Technology services	31 March	**100**	100
	Alexander Forbes Group Services Proprietary Limited	Administration and support services	31 March	**100**	100
	Alexander Forbes Health Proprietary Limited	Healthcare, wellness and related consulting, broking and actuarial services	31 March	**100**	100
	Alexander Forbes Individual Client Administration Services Proprietary Limited	Financial services administration	31 March	**100**	100
	Alexander Forbes Insurance Company Limited	Short-term personal lines insurer	31 March	**100**	100
	Alexander Forbes Life Limited	Long-term insurer	31 March	**100**	100
	Alexander Forbes Retail Client Administration Services Proprietary Limited	General trading and investment	31 March	**100**	100
	Alexander Forbes Retail Holdings Proprietary Limited	Holding company for retail business	31 March	**100**	100
	Caveo Fund Solutions Proprietary Limited	Hedge fund management company	31 March	**100**	50.01
	Faranani Risks Solutions Proprietary Limited	Insurance broking and related services	31 March	**100**	100
	Investment Solutions Holdings Limited	Multi-manager investment	31 March	**100**	100
	Investment Solutions Administrative Services Proprietary Limited	Investment administrative services provider	31 March	**100**	100
	Investment Solutions Unit Trust Limited	Unit trust management	31 March	**100**	100
	Seniors Finance Proprietary Limited	Equity housing finance	31 March	**86.7**	86.7
	Superflex Limited	Multi-manager investment	31 March	**–**	100
	Alexander Forbes Compensation Technologies Proprietary Limited	Facilitation of injury on duty and road accident claims	31 March	**–**	100

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

48. Consolidated and unconsolidated entities (continued)

48.1 Consolidated entities (continued)

Entity	Nature of business	Year-end date	Economic interest 2017 %	2016 %
Emerging markets				
Alexander Forbes Financial Services (Botswana) Proprietary Limited	Financial services (Botswana)	31 March	**67**	67
Alexander Forbes Asset Consultants Proprietary Limited	Financial services (Botswana)	31 March	**74**	74
Alexander Forbes Financial Services (U) Limited	Financial services (Uganda)	31 December	**51**	51
Alexander Forbes Financial Services (East Africa) Limited**	Financial services (Kenya)	31 March	**40**	40
Alexander Forbes Insurance Company Namibia Proprietary Limited	Financial services and risk services (Namibia)	31 March	**75**	75
Investment Solutions (Namibia) Limited	Multi-manager investment (Namibia)	31 March	**75**	75
Alexander Forbes Consulting Actuaries Nigeria Limited	Financial services (Nigeria)	31 March	**100**	78
Alexander Forbes Zimbabwe Holdings Proprietary Limited	Risk services (Zimbabwe)	31 March	**–**	60
United Kingdom/Europe				
Alexander Forbes Channel Islands Limited	Financial services	31 March	**100**	100
Alexander Forbes Group Jersey Limited	Holding company in Jersey	31 March	**100**	100
Investment Solutions (Jersey) Limited	Multi-manager investment	31 March	**100**	100
Lane Clark & Peacock LLP	Financial services	31 March	**–**	60
Lane Clark & Peacock Netherlands BV	Financial services	31 March	**–**	42
Lane Clark & Peacock Ireland Holdings Limited	Financial services	31 March	**–**	30
Lane Clark & Peacock Ireland Limited	Financial services	31 March	**–**	30
Associates				
Alexander Forbes Risk and Insurance Brokers Limited*	Risk services (Kenya)	31 December	**40**	40
Alexander Forbes Financial Services Zambia	Financial services (Zambia)	31 December	**49**	49

* Dormant.
** Entity held for sale.

48.2 Unconsolidated structured entities

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

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

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

Alexander Forbes Staff Share Trust (the staff share trust)

The Staff Share Trust was formed to provide a vehicle for employee investment in the ordinary shares of AFGH. While the trust is not consolidated, the group had historically invested in preference shares of R34 million issued by the trust, which were redeemed in the prior financial year. The group provides no financial assistance to the trust nor are there any contractual obligations to provide assistance to the trust. The trust is finalising settlements to beneficiaries and will be deregistered on completion of this exercise.

Unconsolidated collective investment schemes

The group manages six collective investment schemes as fund manager which are not consolidated. It also invests certain policyholder assets with these trusts. The value of these investments at 31 March 2017 is R162 million (2016: R92 million) (1.75% of the total assets in the schemes (2016: 1.37%)), included in financial assets of multi-manager investment contracts on the statement of financial position. The group provides no financial assistance to the schemes nor is there any contractual obligation to provide assistance to the scheme.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

49. Subsidiaries with material non-controlling interest

The group consolidates certain entities with material subsidiaries. The summarised financial information of these entities is disclosed below.

The information represents 100% of the entity's results and has not been adjusted for the non-controlling interest share. Intercompany transactions and balances have not been eliminated.

	Alexander Forbes Insurance Company Namibia Limited		Alexander Forbes Financial Services Botswana		Alexander Forbes Financial Services (East Africa)*		Alexander Forbes Limited	
Rm	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Balance sheet information								
Total assets	**699**	563	**20**	37	**67**	60	**7 187**	8 112
Total liabilities	**(672)**	(539)	**(8)**	(8)	**(11)**	(17)	**(1 411)**	(1 694)
Total net assets	**27**	24	**12**	29	**56**	43	**5 776**	6 418
Summarised income statement								
Revenue	**54**	51	**76**	108	**84**	76	**495**	2 921
Profit before tax	**17**	19	**15**	46	**(63)**	18	**307**	2 956
Tax expense	**(5)**	(6)	**(4)**	(10)	**20**	(7)	**(8)**	(12)
Profit after tax	**12**	13	**11**	36	**(43)**	11	**299**	2 944
Other comprehensive income	**–**	–	**–**	–	**–**	–	**(1)**	(11)
Total comprehensive income	**12**	13	**11**	36	**(43)**	11	**298**	2 933
Dividends paid to non-controlling interest	**10**	–	**30**	11	**–**	5	**75**	–
Summarised cash flows								
Cash from operating activities	**28**	12	**14**	43	**15**	10	**(943)**	218
Cash from investing activities	**(2)**	(1)	**–**	–	**(1)**	(2)	**(1)**	(120)
Cash from financing activities	**–**	–	**(27)**	(37)	**(3)**	(12)	**940**	(303)
Net increase/(decrease) in cash and cash equivalents	**26**	11	**(13)**	6	**11**	(4)	**(4)**	(205)
Cash and cash equivalents at the beginning of the year	**172**	161	**26**	20	**4**	8	**135**	340
Exchange gains on cash and cash equivalents	**–**	–	**–**	–	**(4)**	–	**–**	–
Cash and cash equivalents at year-end	**198**	172	**13**	26	**11**	4	**131**	135

* Alexander Forbes Financial Services (East Africa) is included in discontinued operations in the current year.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

50. Events after reporting period

Capital commitment

On 7 April 2017 the group announced a significant contractual agreement relating to system and process development. The financial commitment relating to this contract amounts to $51 million over the next four financial years, of which $11 million will be paid within 12 months, and the costs of development will be capitalised and depreciated over the expected useful life of the system. The group has entered into a foreign currency hedge contract in order to reduce the currency risk associated with this contract. The hedge is designed to cover 75% of the commitment at an effective exchange rate of R13.88 to the US dollar.

Sovereign downgrade

In April 2017 Standard & Poor's (S&P) and Fitch downgraded South Africa's foreign currency rating to sub-investment grade, commonly referred to as 'junk status'. Moody's, however, retained its foreign currency rating at a lower medium grade, but lowered its outlook from negative to negative watch. The local currency rating has not yet been downgraded by Moody's. The group has considered the impact of the downgrade with specific reference to the valuations of its financial and non-financial assets and liabilities. Whilst the economic impact on future earnings cannot yet be determined, there is no reported revaluation required on the reported assets and liabilities subsequent to this announcement.

In addition to a review of the financial and non-financial assets, the group considered its capital requirement and established that the downgrade increased the group's solvency capital requirement by R60 million. The group reported a surplus in regulatory capital of R2.3 billion at 31 March 2017.

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

51. Restatement of comparatives

During the year under review management enhanced its process with regard to the accounting provision for tax payable by AF Investments on behalf of policyholders. This enhancement highlighted an error in the calculation of the income tax provision recorded in the 2016 financial year. The policyholder taxes were overstated in our financial accounts by R127 million. As the principal payer of this tax liability, policyholder taxes are included in tax expense on the income statement of AF Investments. The right to recover the taxes from the policyholder is recorded as a financial asset and deducted from the policyholder assets. The policyholder liabilities are then reduced to match the policyholder assets, resulting in a gain recorded under investment income.

It is important to note that there is no impact on operating profit, profit after tax, total assets, total liabilities and accumulated profits in equity. In addition, there is no impact on previously disclosed earnings per share figures and return on assets or equity figures. The financial impact of this restatement is shown below.

Rm	Restated 2016	Adjustment	As reported 2016
Assets			
Financial assets held under multi-manager investment contracts	**276 385**	127	276 258
Financial assets of insurance and cell-captive facilities	**253**	–	253
Other assets	**12 126**	–	12 126
Financial assets	**362**	(127)	489
Assets of disposal groups classified as held for sale	**131**	–	131
Total assets	**289 257**	–	289 257
Equity and liabilities			
Total equity	**6 156**	–	6 156
Financial liabilities held under multi-manager investment contracts	**276 509**	127	276 382
Liabilities of insurance and cell-captive facilities	**253**	–	253
Other liabilities	**5 999**	–	5 999
Deferred tax liabilities	**262**	(60)	322
Tax liabilities	**35**	(67)	102
Liabilities of disposal group classified as held for sale	**43**	–	43
Total liabilities	**283 101**	–	283 101
Total equity and liabilities	**289 257**	–	289 257

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

51. Restatement of comparatives (continued)

Rm	**Restated 2016**	Adjustment	Discontinued operations	As reported 2016
Continuing operations				
Operating profit	**765**	–	(308)	1 073
Investment income	**163**	(127)	(4)	294
Finance costs	**(69)**	–	2	(71)
Reported profit arising from accounting for policyholder investments in treasury shares	**59**	–	–	59
Share of net profit of associates (net of income tax)	**4**	–	–	4
Profit before tax	**922**	(127)	(310)	1 359
Income tax expense relating to corporate profits	**(231)**	–	40	(271)
Income tax expense related to policyholder investment returns	**(70)**	127	–	(197)
Profit for the year from continuing operations	**621**	–	(270)	891
Discontinued operations				
Profit/(loss) on discontinued operations (net of income tax)	**253**	–	270	(17)
Profit for the year	**874**	–	–	874
Profit attributable to:				
Equity holders	**729**	–	–	729
Non-controlling interest	**145**	–	–	145
	874	–	–	874
Earnings per share (cents)				
Basic earnings per share	**56.9**	–	–	56.9
Headline earnings per share	**58.1**	–	–	58.1
Diluted earnings per share	**56.4**	–	–	56.4
Weighted average number of shares	**1 282**	–	–	1 282

COMPANY INCOME STATEMENT

for the year ended 31 March 2017

Rm	Notes	2017	2016
Revenue*	1	**531**	533
Operating expenses		**(16)**	(11)
Operating profit		**515**	522
Non-trading and capital items	2	**–**	(3)
Profit before taxation		**515**	519
Income tax expense		**–**	–
Profit for the year		**515**	519

* Previously presented as investment income.

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2017

Rm	2017	2016
Profit for the year	**515**	519
Other comprehensive profit for the year (net of income tax)	**–**	–
Total comprehensive profit for the year (net of income tax)	**515**	519

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2017

Rm	Share capital	Non-distributable reserves	Accumulated profit	Total equity
At 1 April 2015	6 192	(161)	(165)	5 866
Issue of shares*	–	–	–	–
Dividends paid	–	–	(355)	(355)
Share-based payment	–	18	–	18
Profit for the year	–	–	519	519
At 31 March 2016	**6 192**	**(143)**	**(1)**	**6 048**
Dividends paid	**–**	**–**	**(512)**	**(512)**
Share-based payment	**–**	**12**	**–**	**12**
Profit for the year	**–**	**–**	**515**	**515**
At 31 March 2017	**6 192**	**(131)**	**2**	**6 063**

* During the prior year the company issued 39 million shares to the Employee Share Option Plan for 1 cent per share.

COMPANY STATEMENT OF FINANCIAL POSITION

at 31 March 2017

Rm	Notes	2017	2016
Assets			
Investment in subsidiary	3	**5 748**	5 748
Receivables from group companies		**316**	302
Cash and cash equivalents		**7**	4
Total assets		**6 071**	6 054
Equity and liabilities			
Share capital	4	**6 192**	6 192
Non-distributable reserves		**(131)**	(143)
Accumulated profit/(loss)		**2**	(1)
Total equity		**6 063**	6 048
Other payables		**8**	6
Total liabilities		**8**	6
Total equity and liabilities		**6 071**	6 054

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

Rm	Notes	2017	2016
Cash flows from operating activities			
Cash utilised in operations	5	**(14)**	(5)
Interest received		**1**	1
Dividend received	1	**530**	362
Dividends paid		**(512)**	(355)
Net cash inflow from operating activities		**5**	3
Cash flows from investing activities			
Cash outflows to group companies		**(2)**	–
Increase in cash and cash equivalents		**3**	3
Cash and cash equivalents at the beginning of the year		**4**	1
Cash and cash equivalents at the end of the year		**7**	4

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2017

Rm	2017	2016
1. Revenue		
Interest income	**1**	1
Dividends received from subsidiary	**530**	532
	531	533
2. Non-trading and capital items		
Corporate transaction	**–**	(3)
	–	(3)
3. Investment in subsidiary		
Opening carrying value	**5 748**	5 748
Carrying value	**5 748**	5 748

The investment in subsidiary is carried at cost.

Details of the group's financial interests in its subsidiaries are set out in note 48 to the group financial statements attached hereto.

Rm	2017	2016
4. Share capital		
Share capital at no par value	**6 192**	6 192

	2017 Number of shares '000	2017 Share capital at no par value Rm	2016 Number of shares '000	2016 Share capital at no par value Rm
4.1 Share capital				
Authorised				
Ordinary shares no par value	**2 500 000**	**–**	2 500 000	–
Non-convertible redeemable B preference shares	**45 000**	**–**	45 000	–
Issued				
Ordinary shares no par value	**1 341 427**	**6 192**	1 341 427	6 192
	1 341 427	**6 192**	1 341 427	6 192
4.2 Movement in share capital				
Opening balance	**1 341 427**	**6 192**	1 302 356	6 192
Shares issued to the Employee Share Option Plan*	**–**	**–**	39 071	–
Closing balance	**1 341 427**	**6 192**	1 341 427	6 192

* Refer to note 23.3.1 of the group financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

Rm	2017	2016
5. Cash utilised in operations		
Profit before taxation	**515**	519
Items disclosed separately:		
Investment income	**(531)**	(363)
Movement in working capital balances		
Other receivables	**–**	(160)
Payables	**2**	(1)
	(14)	(5)

6. Related party disclosure

List of related party relationships
Major shareholders
The equity holders of the company are detailed in Annexure A.

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

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 48 to the group financial statements attached hereto.

Key management personnel
Details of key management personnel are included in the group financial statements.

6.1 Summary of related party transactions

Transactions between related parties comprise non-interest-bearing loans.

6.2 Transactions with subsidiaries

Rm	2017	2016
Loan balances classified as intercompany loans		
Opening balance	**302**	124
Cash transferred (to)/from group companies	**2**	(374)
Dividend received	**–**	362
Dividend in specie	**–**	170
Charges to subsidiaries	**–**	2
Share-based payments	**12**	18
Closing balance	**316**	302

ANNEXURE A – SHAREHOLDING INFORMATION

Below is an analysis of the shareholding at 31 March 2017:

	2017	
	Analysis of shareholders	Number of shares as a % of total
Beneficial shareholders holding 5% or more of the company's listed ordinary share capital		
Mercer Africa Limited	442 801 129	33.0
Liberty Life Association of Africa Limited	105 131 776	7.8
Government Employees Pension Fund	83 130 604	6.2
	631 063 509	47.0
Investment management interests above 3% of the company's listed ordinary share capital		
Stanlib Asset Management Limited	150 934 006	11.3
Allan Gray Proprietary Limited	112 131 557	8.4
Public Investment Corporation Limited	74 562 928	5.6
GIC Private Limited	68 665 238	5.1
Abax Investments Proprietary Limited	67 969 131	5.1
	474 262 860	35.5

Shareholding spread at 31 March 2017

Size of holding	Number of shareholders	% of total	Number of shares	% of total
1 – 1 000	1 471	46.7	408 088	0.0
1 001 – 10 000	889	28.2	3 183 291	0.2
10 001 – 100 000	399	12.7	14 628 211	1.1
100 001 – 1 000 000	282	8.9	97 461 940	7.3
1 000 001 +	110	3.5	1 225 745 433	91.4
	3 151	100	1 341 426 963	100

Shareholder type at 31 March 2017

	Shareholders and percentage of issued share capital		
	Number of shareholders	Number of shares	% of total
Public	3 142	853 639 025	63.6
Non-public	9	487 787 938	36.4
Mercer Africa Limited	1	442 801 129	33.0
Alexander Forbes Isilulu Trust	1	39 070 700	2.9
Alexander Forbes FSP Trust	1	3 352 723	0.3
Executive directors and officers	6	2 563 386	0.2
Total	3 151	1 341 426 963	100

ANNEXURE A – SHAREHOLDING INFORMATION (CONTINUED)

Below is an analysis of the shareholding at 31 March 2016:

	2016 Analysis of shareholders	2016 Number of shares as a % of total
Beneficial shareholders holding 5% or more of the company's listed ordinary share capital		
Mercer Africa Limited	442 801 129	33.0
Government Employees Pension Fund (PLC)	114 456 908	8.5
Liberty Life Association of Africa Limited	82 320 426	6.1
	639 578 463	47.6
Investment management interests above 3% of the company's listed ordinary share capital		
Stanlib Asset Management Limited	114 093 483	8.5
Allan Gray Proprietary Limited	107 588 399	8.0
Public Investment Corporation Limited	100 618 328	7.5
Abax Investments Proprietary Limited	70 346 360	5.2
Neuberger Berman, LLC	57 736 793	4.3
GIC Private Limited	55 085 081	4.1
Kagiso Asset Management Proprietary Limited	40 465 359	3.0
	545 933 803	40.6

Shareholding spread at 31 March 2015

Size of holding	Number of shareholders	% of total	Number of shares	% of total
1 – 1 000	1 381	39.6	446 654	0.0
1 001 – 10 000	1 147	32.9	4 470 727	0.3
10 001 – 100 000	548	15.8	18 324 140	1.4
100 001 – 1 000 000	297	8.5	95 573 546	7.1
1 000 001 +	111	3.2	1 222 611 896	91.2
	3 484	100.0	1 341 426 963	100.0

Shareholder type at 31 March 2015

	Shareholders and percentage of issued share capital: Number of shareholders	Number of shares	% of total
Public	3 474	844 361 720	63.0
Non-public	10	497 065 243	37.0
Mercer Africa Limited	1	442 801 129	33.0
Own holding	1	152 734	0.0
Executive directors and officers	5	7 389 565	0.5
Trustees of employee share trusts	3	46 721 815	3.5
Total	3 484	1 341 426 963	100.0

ANNEXURE B – AUDIT COMMITTEE REPORT

Audit committee report

The audit committee is pleased to present its report for the financial year ended 31 March 2017. The audit committee is an independent statutory committee appointed by the shareholders. In compliance with the King III Report and section 61 of the Companies Act of South Africa the shareholders of the company appointed independent directors as its audit committee in the previous financial year. The board of directors delegates duties to the audit committee. This report includes those duties and responsibilities.

Terms of reference

The audit committee has adopted formal terms of reference, which are reviewed and updated as necessary on an annual basis (or more frequently if required) by both the audit committee and the board. The committee has conducted its affairs in accordance with its terms of reference and has discharged its responsibilities contained therein. A copy of the audit committee's current terms of reference is available on the company's website at www.alexanderforbes.co.za.

Composition and function

The audit committee comprises three independent members. In accordance with King III the audit committee members are appointed annually by the shareholders. The chairman of the board, certain non-executive board members, the group chief executive, the group chief financial officer, the group chief risk officer, the group IT executive, external auditors, internal auditors and other assurance providers attend meetings by invitation. The audit committee undergoes an annual self-assessment.

Roles and responsibilities

The audit committee is satisfied that it complied with its legal, regulatory and other responsibilities during the financial year ended 31 March 2017. The audit committee's primary objective is to assist the board with its responsibilities for the management of risk, safeguarding of assets, and oversight over financial control and reporting internal controls, shareholder reporting and corporate governance, particularly relating to legislative and regulatory compliance. The audit committee's roles and responsibilities include statutory and regulatory duties as per the Companies Act of South Africa and according to King III on Governance for South Africa 2009. In addition, the board has assigned certain other duties to the audit committee, embodied in its terms of reference. The board reviews these duties and terms of reference every year.

Meetings attended

During the year, four meetings were held, attendance at which was as follows:

	Meeting dates			
Committee member	Jun 2016	Aug 2016	Nov 2016	Mar 2017
D Konar (chairman)	√	√	√	√
M Collier	√	√	√	√
RM Kgosana	√	√	√	√

√ Indicates in attendance.

The integrated annual report

The audit committee is responsible for overseeing the group's integrated annual report and the reporting process. The sixth integrated annual report has been reviewed by the audit committee. It focuses not only on the group's financial performance, but also on its economic, social and environmental performance. It also sets out how the business has engaged with stakeholders, addressed its material issues and governed its business.

Financial statements and accounting practices

The audit committee has reviewed the audited consolidated and separate annual financial statements of the group for the year ended 31 March 2017, particularly to ensure that disclosure was adequate and that fair presentation had been achieved. The committee recommended the approval of the consolidated and separate annual financial statement to the board of directors. The committee believes that they present a balanced view of the group's performance for the period under review and that they comply with International Financial Reporting Standards.

External auditor appointment and independence

The audit committee has satisfied itself that the external auditor is independent of the group, as set out in section 94(8) of the Companies Act of South Africa, which includes consideration of previous appointments of the auditor, the extent of other work the auditor has undertaken for the group and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its independence. The committee ensured that the appointment of the auditor complied with the Companies Act of South Africa and any other legislation relating to the appointment of auditors. The committee, in consultation with management, agreed to the engagement letter, terms, audit plan as well as scope of work performed and budgeted audit fees for the 2016/17 year. A formal procedure has been adopted to govern the process whereby the external auditor may be considered for performing non-audit services.

The committee has nominated, for election at the annual general meeting PricewaterhouseCoopers Inc. as the external audit firm and Mr RP Hariparsad as the designated auditor responsible for performing the functions of auditor for the 2017/18 year.

The audit committee has satisfied itself that the audit firm and designated auditor are accredited as such on the JSE list of auditors and their advisers.

ANNEXURE B – AUDIT COMMITTEE REPORT (CONTINUED)

Internal controls

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

Whistle-blowing

During the year the audit committee reviewed the whistle-blowing programme and reports resulting from the programme. We have ensured that, where appropriate, management made independent investigations and took appropriate follow-up action. The audit committee receives reports of any complaints, whether from within or outside the group, relating to the accounting practices and internal audit of the group, the content or auditing of the group's financial statements, the internal financial controls of the group and related matters.

Combined assurance

The audit committee is satisfied that the group has optimised the assurance coverage obtained from management, internal and external assurance providers in accordance with an appropriate combined assurance model.

Going concern

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

Governance of risk

The audit committee fulfils a dual function, being both an audit committee and a risk committee. Internal audit performs a full assessment of the risk management in a function and framework on an ongoing basis.

Internal audit

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

The internal audit function reports to the relevant divisional audit committees with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the group's operations. The head of group internal audit is responsible for regularly reporting the findings of the internal audit work against the agreed internal audit plan to the audit committee. The head of group internal audit has direct access to the group audit committee, primarily through its chairman. During the year the committee met with the external auditors and with the head of group internal audit without management being present.

Evaluation of the expertise and experience of the acting group chief financial officer (GCFO) and the finance function

The audit committee has satisfied itself that the acting GCFO has appropriate expertise and experience to execute his designated functions. The audit committee has considered and has satisfied itself of the appropriateness of the expertise, experience and adequacy of resources of the finance function.

D Konar

Dr D Konar
Chairman of the audit committee

Sandton
9 June 2017

ADMINISTRATION

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