Pre close shareholder engagement

31 March 2016

AGENDA

1. Economic environment
2. Strategic update
3. Cost model and operational leverage
4. Capital, cash and dividend
5. Regulatory changes
6. LTIP
7. Appointment of new Group Executive – status update
8. BEE transaction
9. Outlook

Operating environment

Impact on Alexander Forbes

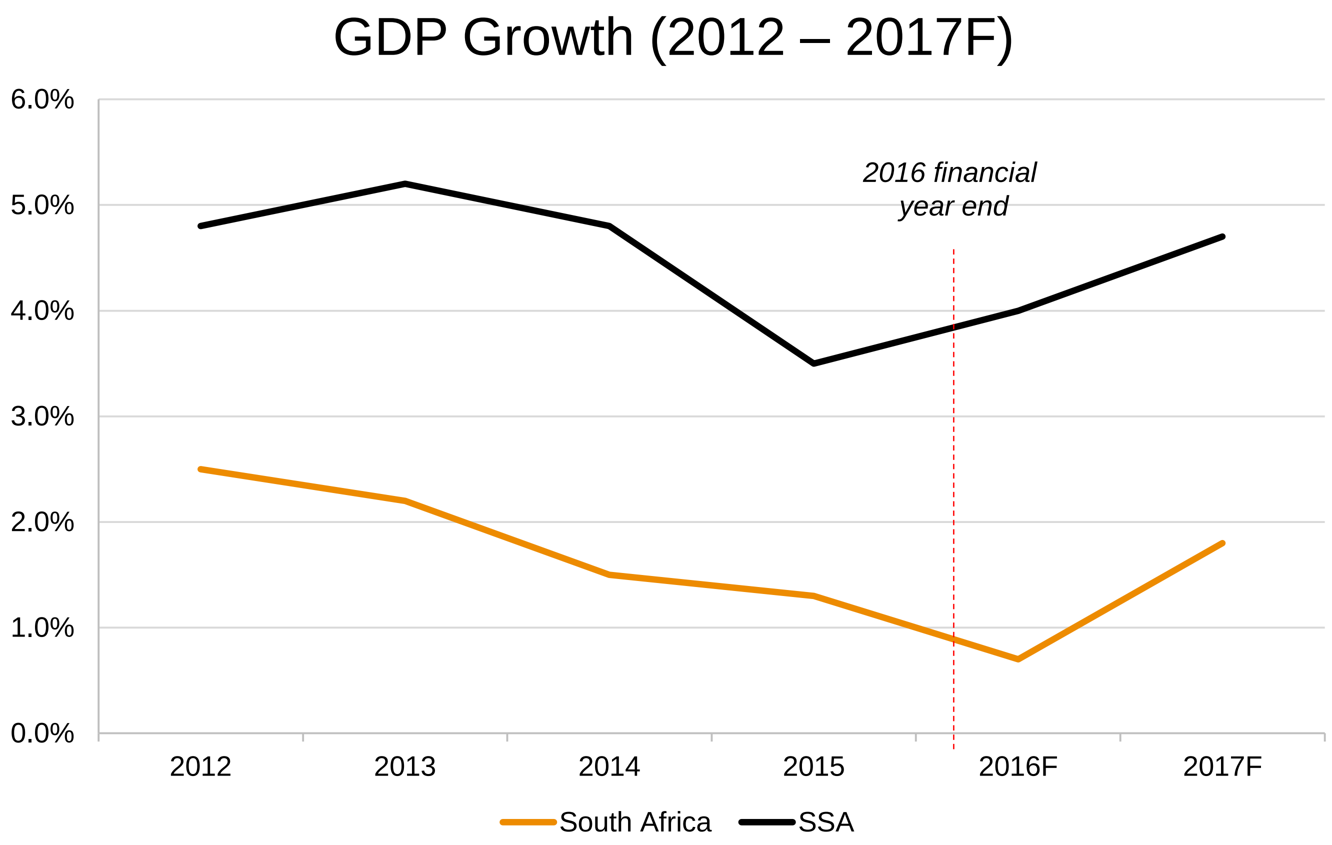
OPERATING ENVIRONMENT | Macro economic drivers & Market performance

- The group is highly dependent on the macro economic drivers, particularly in the institutional core of the group

MEASURE		STATISTIC	
SA Inflation	CPI %	**+ 6.2%**	January 2016
SA Economic expansion	GDP %	**+ 0.6%**	December 2015
SA Wage inflation	Gross earnings	**+ 6.6%**	(464 668 million Sept '14 , 495 450 million Sept '15)
SA Labour market	Formal employment	**+ 0.0%**	(8,947 million Sept '14, 8,951 million Sept '15)
SA Equity Markets	ALSI	**- 4.37%**	12 months to February 2016
	SWIX	**- 5.04%**	12 months to February 2016
SA Bonds	ALBI	**- 3.67%**	12 months to February 2016
SA Cash	STEFI	**+ 6.55%**	12 months to February 2016
Global Equity	MSCI AC world	**+ 19.45%**	12 months to February 2016
Exchange rate	GBP / ZAR	**- 20.19%**	17.86 Feb 2015 to 22.38 Feb 2016
UK Inflation	CPI% change y/y	**0.2%**	December 2015
UK Economic expansion	GDP% y/y	**2.2%**	December 2015

OPERATING ENVIRONMENT | GDP Growth

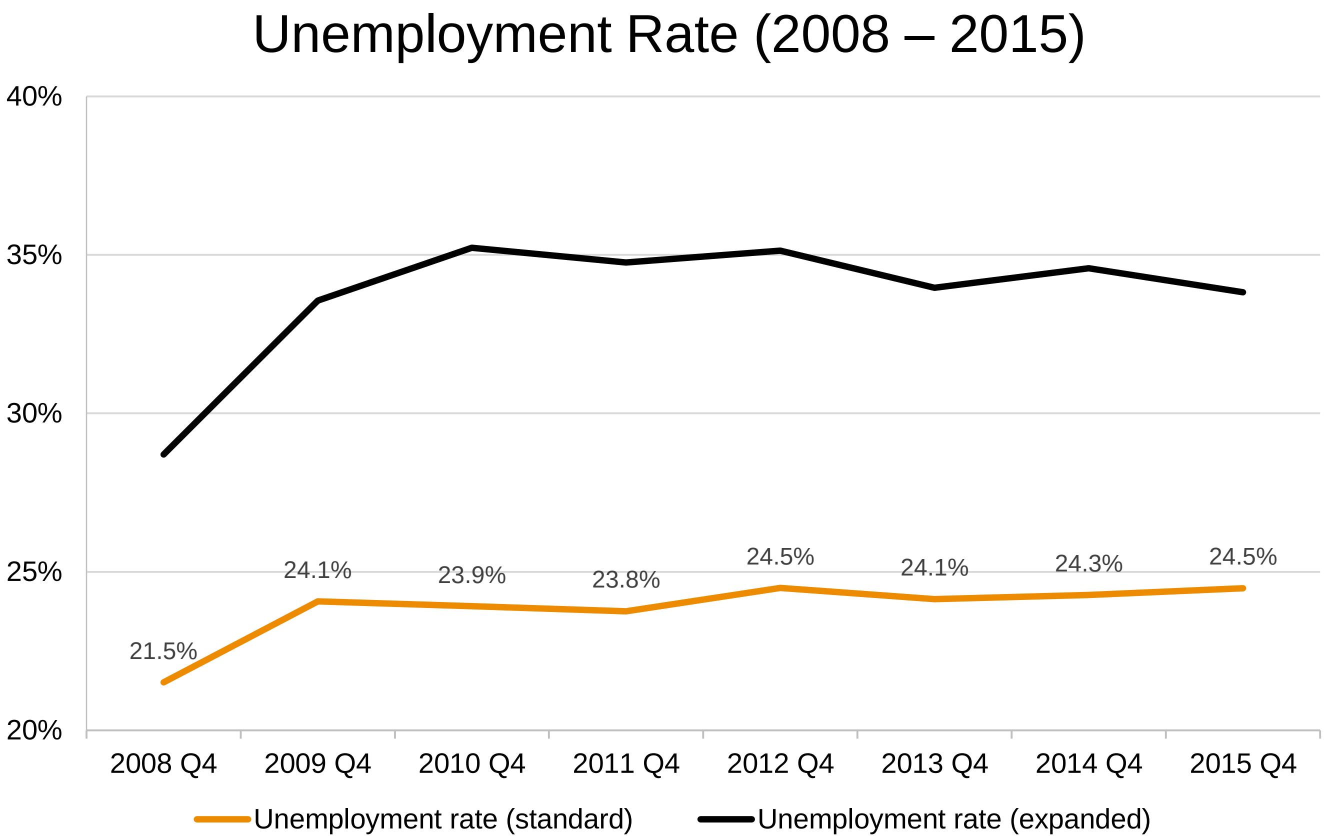
- South African GDP growth is muted and is expected to remain this way for at least the next year, following which there may be a recovery…



GDP growth is only expected to **recover in 2017**

OPERATING ENVIRONMENT | Employment growth

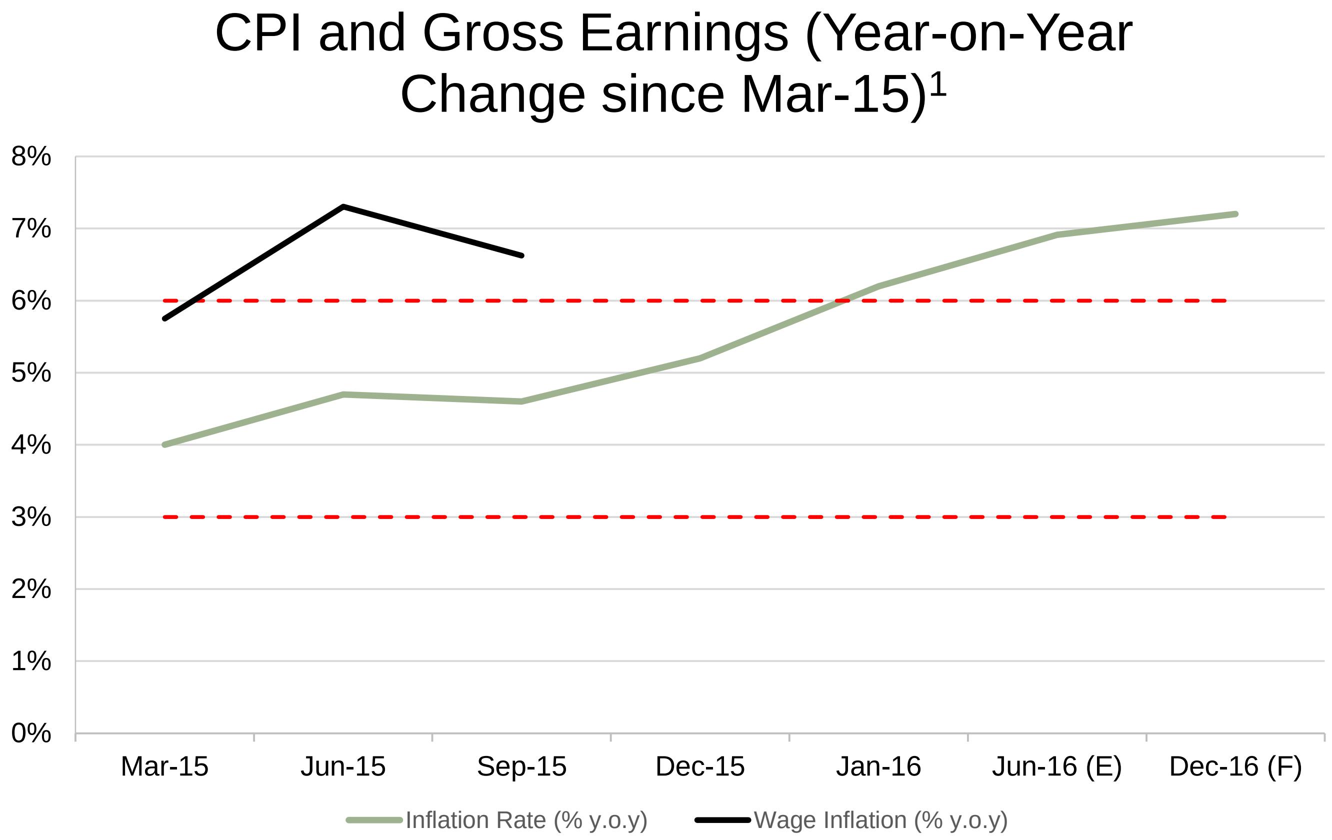
- A key indicator for our success – the unemployment rate – has been worsening since 2008. Recessionary economic conditions suggest that this will continue to deteriorate…



In the last 3 years the standard unemployment rate has **increased steadily by 0.2% per year**.

OPERATING ENVIRONMENT | CPI and Gross Earnings

- The inflation rate has been rising since the beginning of the year, triggering multiple interest rate hikes (with an expectation of more to come). Our customers are under pressure, which is likely to continue for the foreseeable future…



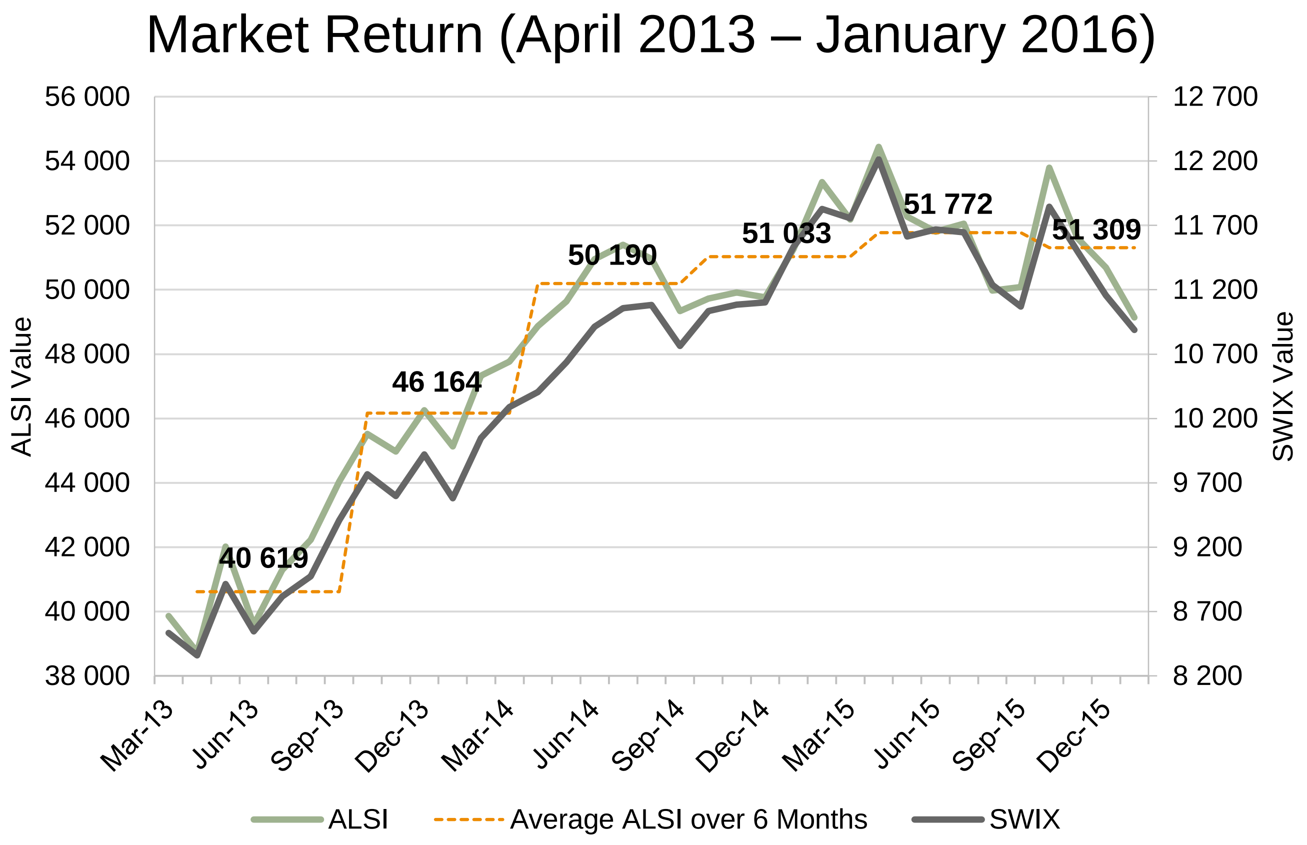
The inflation rate breached the SARBs upper target of 6% in January 2016 and is **expected to increase** as the effect of the drought and currency depreciation are felt.

Wage inflation increases are typically positive for our business but only if margin with CPI does not continue to narrow

ALEXANDERFORBES
Securing your financial well-being

OPERATING ENVIRONMENT | Equity markets

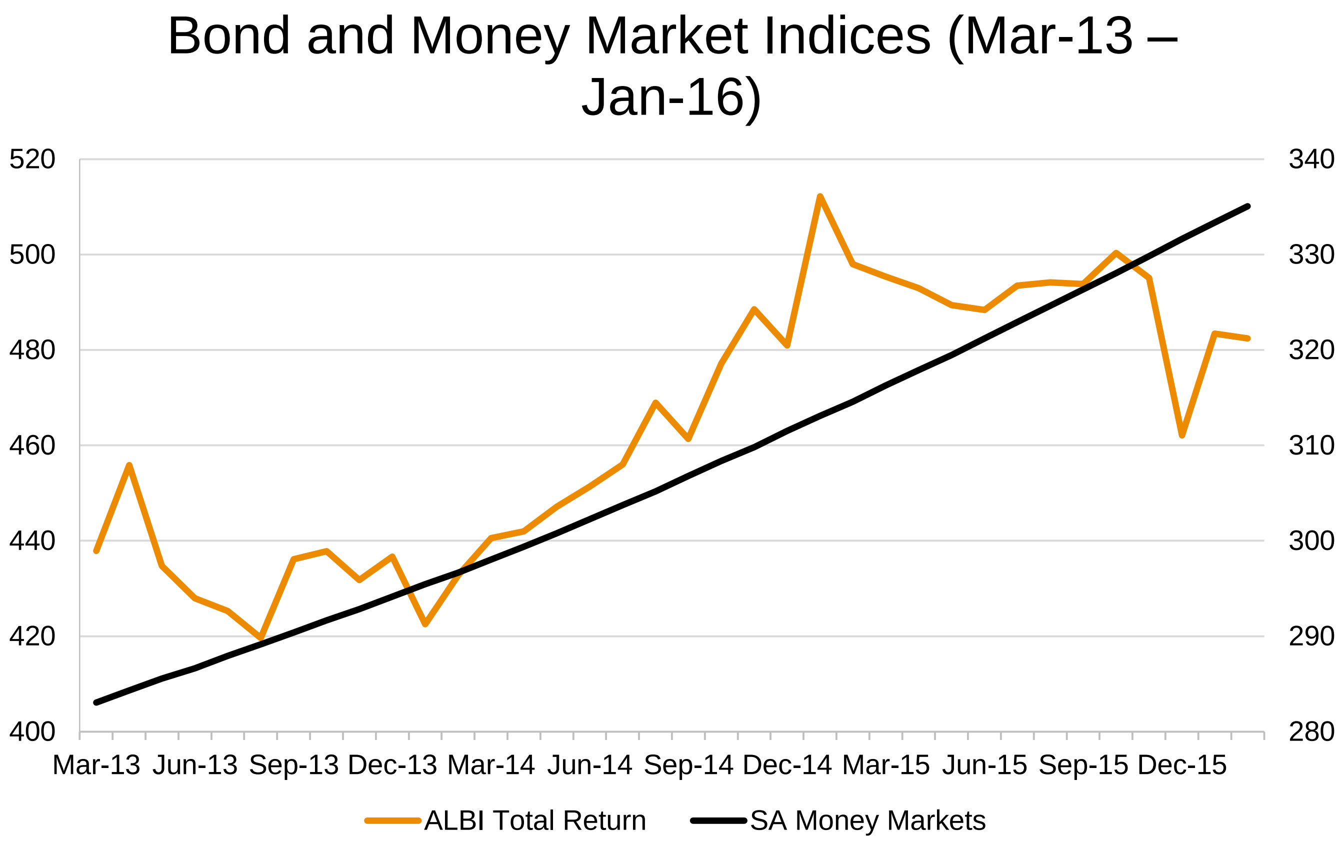
- The equity markets have been extremely volatile over the year and the return on the JSE All Share Index (total return incl. dividends) has been **-4.37%** (12 months to February 2016).



The volatility in the equity market has **fuelled the switch to lower margin products.**

OPERATING ENVIRONMENT | Bond and Cash

- Bond returns (as measured by the ALBI total return incl. dividends) have fallen sharply over the past 6 months. Cash returns appear to be increasing consistently.

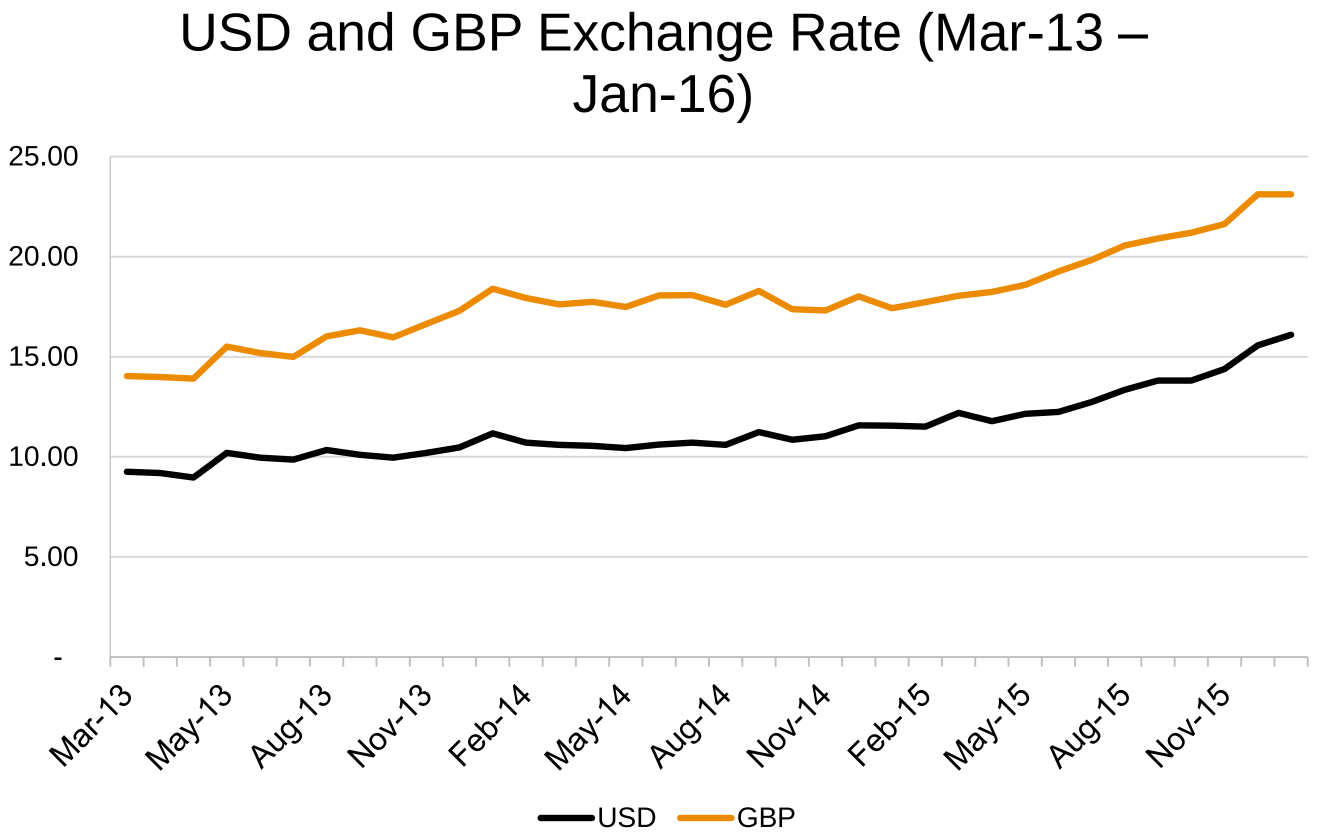


Bond returns have fallen sharply on the fears of a rating downgrade for SA Inc.

Money market returns for February 2016 are **6.51% y.o.y which exceeds inflation**.

OPERATING ENVIRONMENT | Exchange rate

- The Rand has depreciated significantly against the USD and GBP, with the majority of this depreciation occurring following the Minister of Finance appointment in December 2015



The depreciation of the Rand against the GBP provides **a beneficial translation gain** on the International division financial results (LCP).

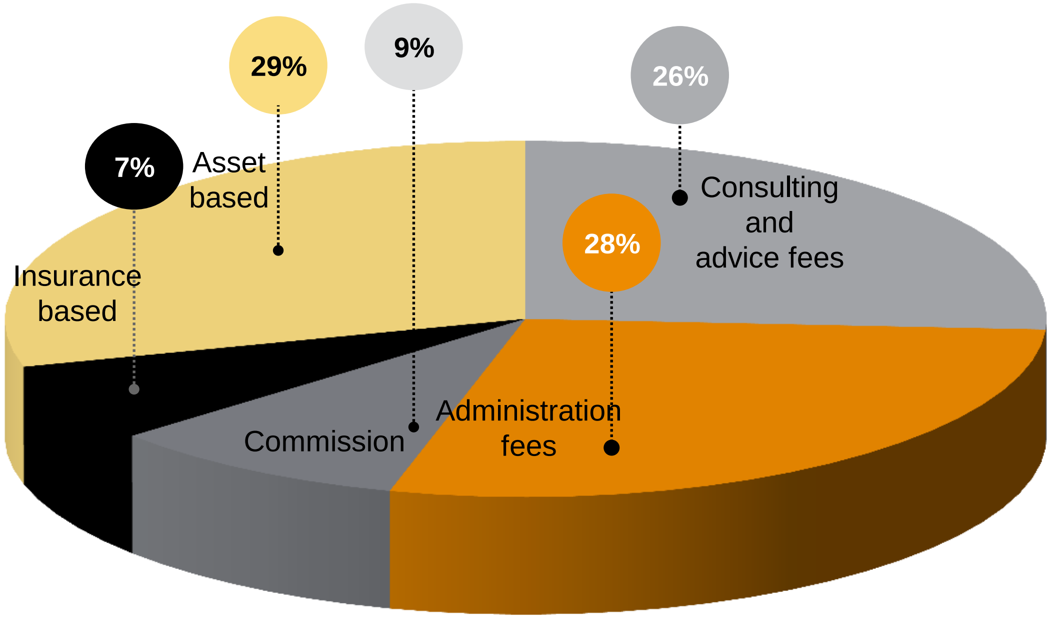
But **increases the cost base of the African entities** particularly for the IT costs of licensing fees and vehicle repair costs for AF Insurance.

ALEXANDERFORBES
Securing your financial well-being

INCOME ANALYSIS | By type in Africa at half year end

- A large proportion of group revenue is either directly asset based or referenced to assets under management or administration and in these areas subdued equity markets and bond markets have a significant impact on apparent margin.
- Operating income by type as at 30 September 2015 (Retail and Institutional Africa only):

Operating income by type (Africa only)



29% of our revenue is asset based and exposed to market dynamics.

This component of revenue fluctuates not only with markets but trends related to asset classes, product mix shifts and default choices.

ALEXANDER FORBES STRATEGIC INTENT 2016–2020

- Our strategic intent remains unchanged but we are refining the tactical execution underlying each of these and the prioritization and pace of execution.

OUR STRATEGIC INTENT

1. **Grow our core with fanatical discipline**
   Employee benefits | Investment
2. **Leverage the core to grow**
   Retail | Public Sector | Africa beyond SA
3. **Develop our complementary business**
   Motor & Household Insurance | Life
4. **Strive for excellence**
   Service & operational excellence and technology enablement
5. **Innovate**
   Create internal capacity to disrupt ourselves through innovation

OUR APPROACH

- Retain and build on what we have
- Be more ambitious
- Work differently
- Continue to attract GREAT people
- Be distinctive among our peers
- Be responsive to the needs and aspirations of our clients

STRATEGIC INTENT | Operating structure to support strategic focus

INSTITUTIONAL CLUSTER
- Investment Solutions
- AF Financial Services
- AF Insurance

RETAIL CLUSTER
- Investment Solutions
- AF Financial Services
- AF Insurance

AFRINET
- Namibia
- Botswana
- West Africa
- East Africa

INTERNATIONAL
- LCP
- Channel Islands

OPERATIONAL CLUSTER
Now resourced and operational. Benefits in capex prioritization and co-ordination.

SHARED SERVICES CLUSTER
Now resourced and operational. Benefits already visible

INSTITUTIONAL | Macro drivers & impact on AF

INSTITUTIONAL CLUSTER	MACRO DRIVERS OF GROWTH	IMPACT ON GROUP
Investment Solutions	Equity market: SWIX Bond market: ALBI Cash: STeFI Global equity markets: AC World Market volatility Labour market - employment Competitive landscape	Assets under Management & Administration Portfolio performance Net margin – business mix (move from active to passive, specialized to balanced portfolios and asset class reallocation) Asset flows – client wins / losses, benefit payments vs contributions
AF Financial Services	Economic expansion: GDP Inflation: CPI Labour market: wage inflation & employment Regulatory changes Competitive landscape	Members under Administration and consulted to in AF Health Assets under Administration (Umbrella and standalone funds) Low cost/low advice and in-fund preservation and annuity strategy

RETAIL | Macro drivers & impact on AF

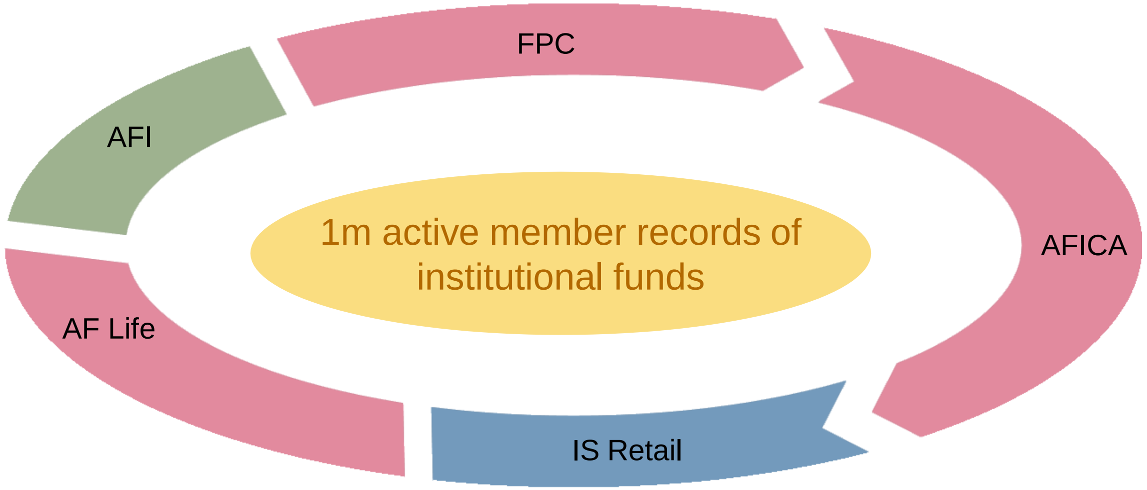
RETAIL CLUSTER	MACRO DRIVERS OF GROWTH	IMPACT ON GROUP
Investment Solutions	Equity market: SWIX Bond market: ALBI Cash: STeFI Global equity markets: AC World Competitive landscape	Assets under Management Portfolio performance Net margin New business In-fund preservation
AF Financial Services	Economic expansion: GDP Inflation: CPI Labour market: employment & affordability Markets Competitive landscape	Number of clients and policyholders Retail Assets under Advice, Administration and Management Preservation rates
AF Insurance	Economic expansion: GDP Inflation: CPI Exchange rate: USD/ZAR Competitive landscape	Gross written premium Underwriting results Churn rates Cost of claims

Update on strategy

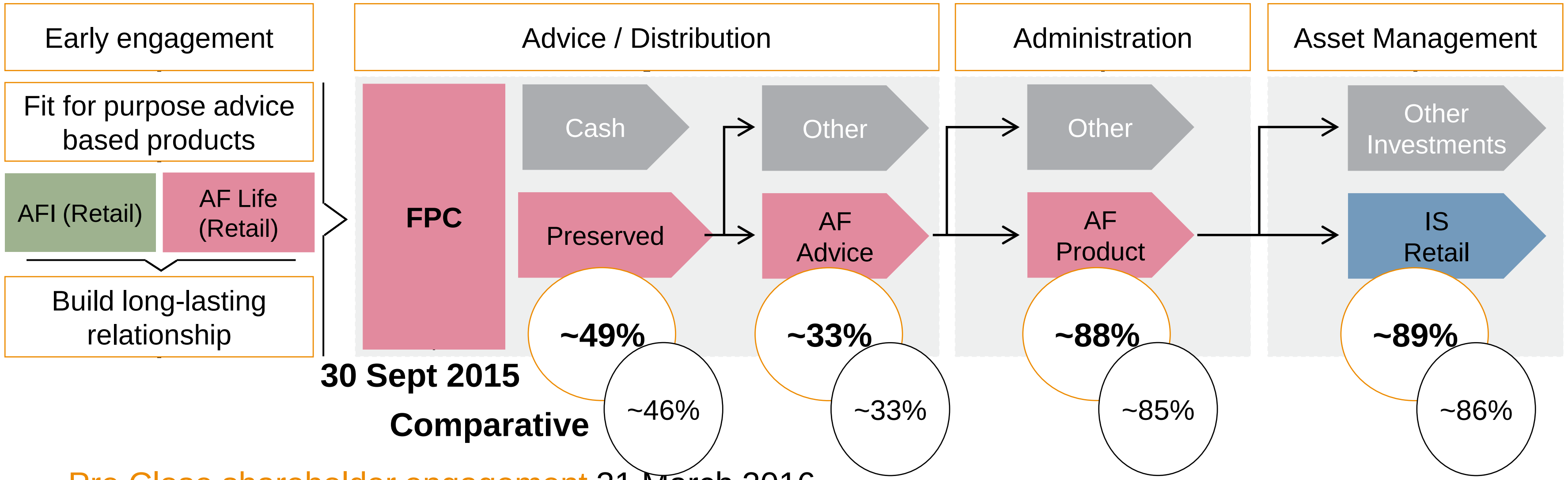
Retail strategy

ALEXANDERFORBES
Securing your financial well-being

RETAIL STRATEGY | Update



• Trusted advisor status with employers – work site education
• Focused on early engagement • Product hooks driving preservation and improved capture rates



- Regulatory changes significantly accelerates the drive towards in-fund preservation. This is positive for our institutional business in the long term but will impact on a large component of our retail business.
- Tested the financial wellbeing concept at employers. Good levels of participation from the members. Key learns from the days resulted in some adjustments to the program to enhance customer experience.
- Employed 20 financial well-being consultants who are responsible for the delivery of the financial wellbeing program.
- The Financial Planning Consultants are now selling more Life policies, with an increasing number of policies sold going to AF Life (but off very low base).
- Several IT modernization projects delivered and in progress to support the retail growth strategy.

Cost model and operational leverage

COST MODEL | Operational leverage

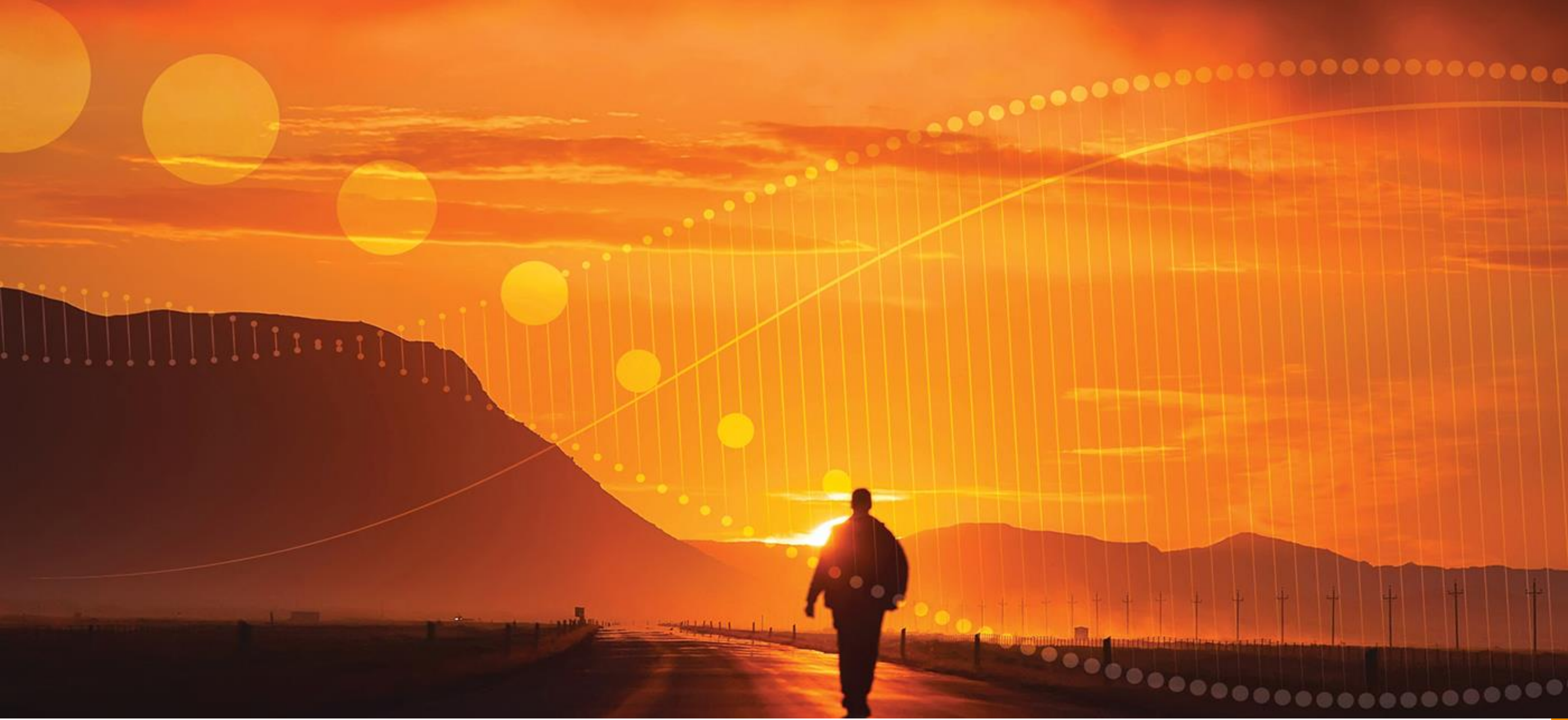
- A large proportion of group revenue is either directly asset based or referenced to assets under management or administration and in these areas subdued equity markets and bond markets have a significant impact on apparent margin.

Operating entity	Cost model	Operational leverage
Investment Solutions	Manager cost variable with AuM Opex largely fixed Stepped up investment to meet SAM requirements	No major system investment required Benefits of scale Operational leverage geared to market performance Lower margin products shifts continues to impact overall margin (platform, passive, balanced and asset class)
AFFS: retail	FPC consultants on a commission structure – geared to wealth clients Support staff and systems fixed cost	Lower end advisors (Associate Consultants) Multi accredited advisors Robo advice Cluster noow resourced and operational
AFFS: ops & administration	People and IT systems	Strategic modernisation of high impact processes with end to end digitisation, key operational ratios targeted and tracked
AFFS: consulting – C&A, Health, Insurance Consulting	People	Strong focus on cost to serve, billing practices and consultant / team profitability
AFI	Commission payable to new business consultants Support staff and systems fixed cost	Growth vs. claims ratio and churn

Cash, capital and dividend

CASH, CAPITAL AND DIVIDEND

- The group remains highly cash generative
- Cash generated largely available for dividend but subject to:
  - Capex – system maintenance and modernization
  - Consider acquisitions in rest of Africa outside South Africa (we will follow reform)
  - Consider acquisitions in South Africa in line with our strategy to further strengthen the core and leverage the core (retail)
- Regulatory capital
  - Largely through the transition to SAM
  - Uncertainty remains with regards to margin above the Solvency Capital Requirement at a Group level but seems to be less than originally expected.
  - Investment Solutions:
    - In December 2015 the FSB published a explanatory note that impacted the SAM standard formula for Investment Solutions
    - The overall impact of the Financial Soundness Standards that will be applied is positive for the Investment Solutions
    - However, within this calculation two new elements were introduced Mass Lapse Risk and Expense Risk while the calculation for Spread & Counterparty Default Risk reduced.
    - This illustrates the fact that the final outcome of SAM still is a moving target but we are comfortable that this can be managed over the next year.
    - We are also still progressing with the development of an Internal Model which may release capital, the timing and quantum of the release is uncertain but unlikely to be within 12 months of official implementation of SAM (2017).
  - General clean up of multiple statutory entities and licenses to optimize capital requirements continues.
- Dividend policy of 1.5x to 2x cover on normalised earnings remains



Regulatory environment

Impact on AF

REGULATORY CHANGES | High level summary

Expected Change	Update
Retirement reform – tax changes	• A higher proportion of compulsory saving in respect of provident funds upon retirement could lead to an increase in flows to AF • AF has been actively communicating impending changes to manage member expectations – AF has not experienced mass withdrawals as reported in press • Discretionary retail opportunity where high earning individuals do cap contributions, although we expect most will contribute to funds
Retirement reform – pre retirement • Default investment strategies • Default strategies (promote preservation and portability when members change jobs)	• Planned launch of revamped default ranges in 2016, with further evolution • May see increased AUM and/or longer membership periods in institutional area, pressure for retail preservation vehicles • AF focus on financial capability and well-being of members targeted at keeping members invested.
Retirement reform – post retirement • Default annuity strategy	• Expect some in-fund solutions to create volume through retention; retail arrangements to innovate to remain relevant • Retirement benefits counsellor services
• Retail Distribution Review	• It is aligned to our Retail strategy where we are focusing on growing the number of retail clients by providing appropriate solutions

ALEXANDERFORBES
Securing your financial well-being

RETIREMENT REFORM | Tax changes

Expected Change	Impact on AF
Tax changes results in a consolidation of products by: Alignment of tax incentives: Pension, Provident and RA's are the current retirement saving products in the market. This will change to a "retirement fund". All member contributions will be tax deductible at 27.5% of higher of <u>remuneration or taxable salary</u> (capped at R350 000 p.a.). This means better tax deductibility (with the exception of high income earners) and the consumer can save more for retirement. This change went live 1 March 2016. Harmonised annuitisation regime: It was signed into law that on retirement 1/3 cash and 2/3 must go towards an annuity product. This was due in March 2015, and the postponed to March 2016. In February 2016 National Treasury backtracked under pressure from labour and have proposed to postpone the annuitisation requirement for provident fund members to 1 March 2018, subject to consultations being finalised by 1 August 2017. The outcome may be that pension and provident funds share an annuitisation regime, or that the design changes for provident funds. This will unfold in the consultation process,.	• AF actively and directly involved in discussions with National Treasury and represented by industry body in NEDLAC • Consolidation of clients (multicarrier clients and move from standalone to umbrella funds) – this may be slower than expected as pension to provident fund transfers are still taxable, at least until 2018 • Could lead to an overall increase in assets under advice, administration and management to AF: - Pension fund was capped at effective 27.5% of pensionable - Provident fund previously capped at 20% of pensionable and - RA's previously capped at 15% of non-pensionable earnings • A higher proportion of compulsory saving in respect of provident funds upon retirement could lead to an increase in flows to AF • AF has been actively communicating impending changes to manage member expectations – AF has not experienced mass withdrawals as reported in press. • Discretionary retail opportunity where high earning individuals do cap contributions, although we expect most will contribute to funds

Long Term Incentive Plan

ALEXANDERFORBES
Securing your financial well-being

LONG TERM INCENTIVE PLAN | Background

- Scheme background
  - Conditional Share Plan – a promise of shares in three years time subject to meeting certain performance criteria.
  - Put in place by outgoing Private Equity shareholders to replace the previous LTIP that was in place. The previous scheme was a shareholder investment based scheme and did not impact the income statement. Scheme was approved again by new shareholders at the first AGM. Number of constructive inputs received for consideration from shareholders and independent external advice obtained by the Remuneration Committee to evolve towards best practice.
  - Imperative for the retention of key staff (not only performance incentive) – all our competitors in the industry offer share participation to key staff and have well established share schemes for retention.
  - Performance measures currently still compound HEPS growth only; will be diversified once clarity is obtained with regards to regulatory capital
  - The rules of the LTIP allow for settlement through the issue of new shares, the use of treasury shares or the purchase of shares on the open market. The maximum number of shares permitted to be issued under the plan is 64 million shares, which equates to 4.78% of the issued share capital.
  - Performance targets: 3 year compound HEPS growth of GDP + CPI for 30% of the allocation and HEPS growth of GDP + CPI +10% for 100% for the first allocation and GDP + CPI +8% for 100% of the second allocation measured over the performance period of three years (interpolation between these points).
  - 15.5 million number of shares are allocated in the first round (July 2014) and 16.9 million shares in the second allocation (July 2015) round which represents approximately 2.41% of the issued share capital.

- Impact on value of Alexander Forbes
  - The scheme is capped at allocation of 64m shares. The maximum dilution it can therefore have on the share price over its entire life is 64m/1 341m = 4.78% over the allocation period (which could be 5-7 years). Each tranche has a vesting period of 3 years from allocation.

LONG TERM INCENTIVE PLAN | Accounting IFRS 2

- IFRS 2 charge
  - The accounting monthly expense is calculated based on the following:
    - Historic achievement of HEPS growth target from allocation to a reporting period – NOT forward looking
    - Expected staff churn
    - Share price at allocation date – NOT adjusted for any movement in subsequent periods
    - Over the vesting term of employment (usually 3 years)
  - Each year that an allocation is made the charge will step up, until the end of the 4th year when 3 allocations have been made and the total IFRS 2 expense is in the income statement for a full year.
  - The maximum expected normalised annual charge assuming no churn, 100% achievement of performance targets and at a issue price of R7.50 (this will clearly vary) over a three year retention period will be (64m shares * R7.50) / 3 = R160m If minimum performance measure for a specific tranche is not met, all previously accounted expense will reverse as allocation will be zero as all allocated shares are forfeited.
  - In the first few years, the net charge to the income statement will be volatile.

LONG TERM INCENTIVE PLAN | Accounting IFRS 2

- Calculation of IFRS 2 charge for the full year
  - Allocation 1
    - Initial shares allocated 15.5 million, current balance post forfeited shares is 14.7 million
    - GDP + CPI at 6.52% (assumed current but likely to be higher hurdle)
    - Share price at issue date was R6.70 (adjusted FV based on listing price of R7.50 to exclude dividends)
    - Expected churn 5%

Scenario	1	2	3
Assumed y/y growth to 31.3.16	10%	Flat	-10%
CAGR 24 months	12.7%	7.4%	1.9%
Allocation %	73%	36%	0%
Total charge	R68.5m	R34.2m	R0m
Charge to 31.3.2016 (20mths)	R38.1m	R19.0m	R0m
Expensed to 31.3.2015	R13.5m	R13.5m	R13.5m
2016 charge	R25.1m	R5.5m	R13.5m (credit)

ALEXANDERFORBES
Securing your financial well-being

LONG TERM INCENTIVE PLAN | Accounting IFRS 2

- Calculation of IFRS 2 charge for the full year
  - Allocation 2
    - Initial shares allocated 16.9 million, current balance post forfeited shares is 16.5 million
    - GDP + CPI at 6.5% (assumed current but likely to be higher hurdle)
    - Share price at issue date was R8.12 (adjusted FV price of R8.89 to exclude dividends)
    - Expected churn 5%

Scenario	1	2	3
Assumed y/y growth to 31.3.16	10%	Flat	-10%
CAGR 12 months	10%	0%	-10%
Allocation %	50%	0%	0%
Total charge	R60.7	R0m	R0m
2016 charge (7mths)	R12.1	R0m	R0m

ALEXANDERFORBES
Securing your financial well-being

Appointment of new CEO

Status update

ALEXANDERFORBES
Securing your financial well-being

APPOINTMENT OF NEW CEO | Status update

- Still in the process
- All potential candidates are considered – may be an appointment within or from outside the Group.
- Timing uncertain, however given the interim succession planning and continuity at business unit level, timing is not critical.
- Executives mandated to execute on current strategy, therefore no delay in execution of current strategy.
- Strategy to remain unchanged and bias shifts to execution and continuous refinement of tactical plan.

BEE transaction

Recent announcement

ALEXANDERFORBES
Securing your financial well-being

BEE TRANSACTION

- Recent cautionary announcement:

  "Shareholders are hereby advised that Alexander Forbes has entered into negotiations with a potential black economic empowerment partner regarding an investment into the Group's African subsidiaries, the terms of which are still being agreed. Such negotiations, if successfully concluded, may have a material effect on the price of the Company's securities. Accordingly, shareholders are advised to exercise caution when dealing in the Company's securities until a further announcement is made."

- Although we continue to benefit from continuing consequences of our previous empowerment deal and also in respect of past business disposals, it is considered a business imperative in SA to address our empowerment well in advance.

OUTLOOK

Year end 31 March 2016

ALEXANDERFORBES

Securing your financial well-being

OUTLOOK | Year end 31 March 2016

Business unit	Outlook
Investment Solutions	Highly impacted by market outlook on key asset classes Maintain cost discipline to keep Opex growth under control Net flows challenging due to spike in benefit payments out of funds Implementation of working arrangement with Mercer for global solutions Excellent capture rates from retail flows and AFICA Regulatory environment remains fluid Launch of lower cost passive retail funds
AFFS	Base operations impacted by the broad economic climate and the impact on the client base – admin fees, consulting opportunities and group risk. Strong focus is on operational expenditure, commercial business principles, competitor environment and enhancing products and services to ensure value add and market relevance.
Retail	AFI continued to deliver record sales performance Capture of new business flows by the FPC team to AF products at record levels, > 85% FPC new life policies, showing good year on year increases but off low base The reorganization of the retail team to move towards customer centricity will be bedded down at the end of March 2016 Downward pressure on the retail investment margin will continue YTD loss ratios in AFI is under pressure but growth in market share continues Impact of negative market returns from equities In fund solutions will benefit institutional business but negatively impact retail

THANK YOU

VISIT OUR WEBSITE
www.alexanderforbes.co.za

Marinda Dippenaar

011 269 1435

investorrelations@aforbes.co.za

ALEXANDERFORBES
Securing your financial well-being