FY2018
ANNUAL RESULTS

Twelve months to 31 March 2018

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RETIREMENTS | WEALTH | INVESTMENTS | INSURANCE

ALEXANDERFORBES

Securing your financial well-being

Presentation agenda

- FY2018 Highlights
- Business review
- Financial review
- Concluding remarks
- Q&A

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FY2018 HIGHLIGHTS

Andrew A. Darfoor

FY2018 | Tangible progress underpins dividend increase

Growth

- 5% growth in operating income[1] to R3 647m
- Strong top-line growth delivered across key growth segments aligned with strategy

Cash flow

- Sustained generation of cash from operations of R1 013m, with strong profit to cash conversion rate of 103%
- Final dividend of 24 cents per share (up 4% on prior year). R2.0bn paid to shareholders since listing in 2014
- Robust capital position with regulatory surplus at R1 211m

Profit

- 5% growth in IFRS profit from operations[2] to R986m
- Sustained delivery of trading margin and operating leverage

Expenses

- Delivery of FY2020 expense savings target, two years ahead of plan with cumulative savings of R308m achieved
- Improved cost-to-income ratio of 70.9%[3], down 140bps on prior year excluding specific investments in technology modernisation and one-off employee retention costs

Strategy execution update

- Retirements and umbrella growth starting to translate into asset flows and increase in member numbers
- New business flows[4] of R10.8bn in AF Investments, with a further R4.6bn in institutional funds pending approval
- Delivered retailisation[5] rate of 8.7% for the year – ahead of target of 6%
- Roll-out of financial well-being and outcomes-based solutions, with almost a 3-fold increase in customer interactions
- Good progress made in build out of intermediated IFA[6] distribution strategy

NOTE: Throughout this presentation prior years numbers have been restated for the effect of discontinued operations

1. *Operating income net of direct expenses throughout this presentation*
2. *Profit from operations before non-trading and capital items*
3. *Cost-to-income for FY2018 of 73% as reported*
4. *New business flows include both institutional and retail*
5. *Retailisation is defined as a the percentage of institutional clients, past and present, that have at least one retail product*
6. *Independent financial adviser*

FY2018 | Building momentum… a defining year for Alexander Forbes

April 2017

May 2017

- Acquisition of **African Actuarial Consultants** in Zimbabwe

June 2017

- Unveiling of **new "Ambition 2022" strategy**
- Re-defined **customer value proposition –** customer lifetime journey
- Announced **significant investment** in technology modernisation

July 2017

- **Rebranding** of Investment Solutions to **AF Investments**
- Launch of **Living*Investing™** outcomes-based approach

August 2017

September 2017

HY 2018 Results:

- 4.1% retailisation[1]
- Delivered cost savings ahead of FY18 target
- Profit from operations[2] up 5%
- Profit to cash conversion 103%
- Interim dividend up 6%

October 2017

- Launch of **IFA strategy** announced at Financial Advisors Symposium

November 2017

- Launch of **AF Empower** online **learning platform**

December 2017

- **Launch** of **AF Clarity™ - 1st of its kind** Managed Defined Contribution (DC) solution in Africa

January 2018

February 2018

- **Launch of AFRIS –** next generation of retirement solutions

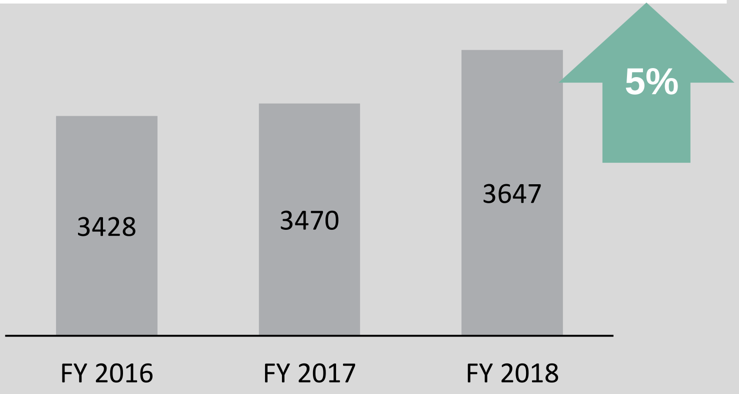
March 2018

- **BEE partnership with Evo Financial Services** to boost healthcare consulting

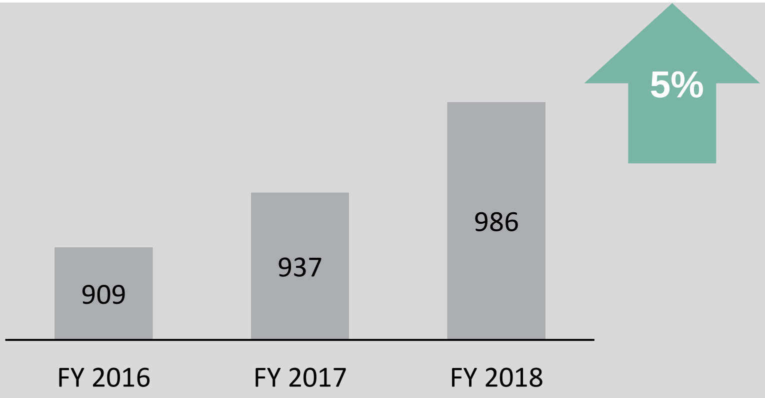
1. *Retailisation is defined as a the percentage of institutional clients that have at least one retail product*
2. *Profit from operations before non-trading and capital items*

FY2018 | 6 Key group metrics

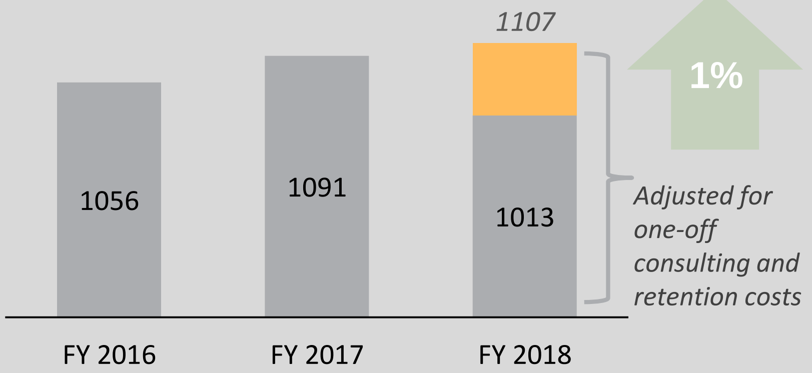
Operating income (Rm)



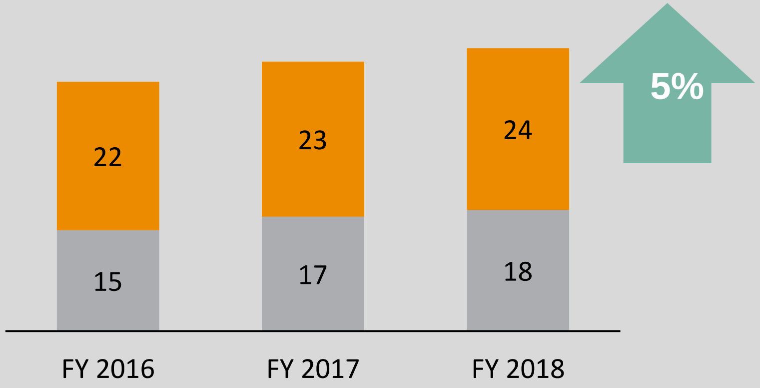
Operating profit[1] (Rm)



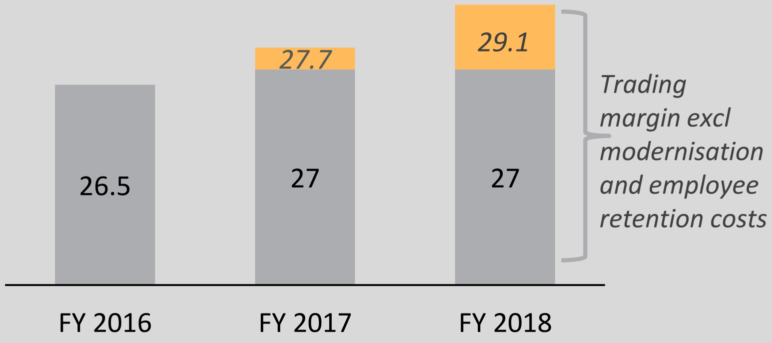
Cash flow[2,3] (Rm)



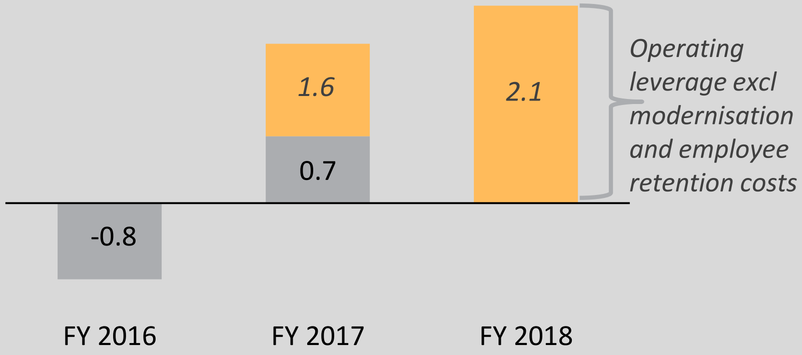
Dividends (cps)



Trading margin (%)



Operating leverage[4] (%)



1. *Operating profit before non-trading and capital items*
2. *Cash generated from operations*
3. *Adjusted for one-off consulting (R62m) and retention costs (R32m)*
4. *Operating leverage calculated as the difference between growth in operating income (net of direct expenses) and growth in operating expenses*

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FY2018 | Progress on cash flow

Cash flow

Action item identified Sept 2016	Ambition 2022 target	FY18 update
1 Lower cost-to-income[1] ratio	Below 65%	▪ 70.9%[2] (FY17: 72.3%)
2 Sustain high profit to cash conversion rate[3]	Above 90%	▪ 103% (FY17: 116%)
3 Raise balance sheet efficiency	Improve balance sheet efficiency and unlock "trapped capital"	▪ Completed balance sheet review with FY19/20 action plan

Sustained progress in delivering strong cash flow generation

1. *Excluding modernisation costs expensed to the income statement and one-off employee retention payments*
2. *Cost-to-income for FY2018 of 73% and FY2017 of 73% as reported*
3. *Cash generated from operations divided by operating profit before non-trading and capital items*

FY2018 | Progress on growth

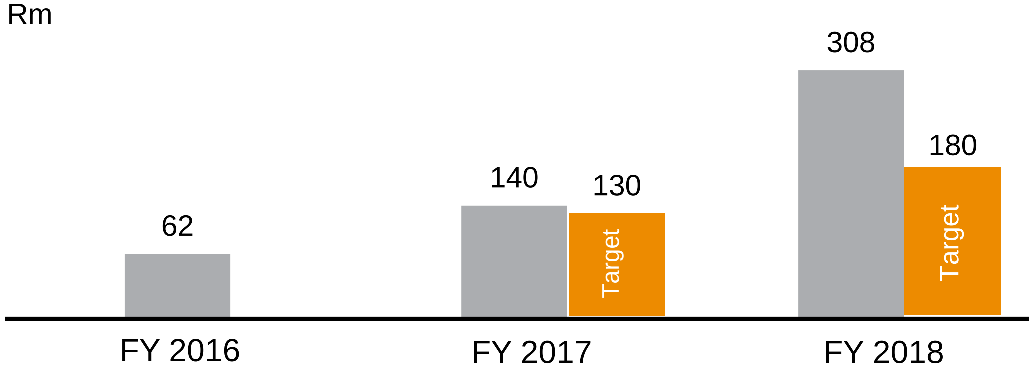
Growth	Action item identified Sept 2016	Ambition 2022 target	FY18 update
	4 Growth is necessary but not at the cost of dividends	Reallocate resources to growth segments	▪ Operating income up 5% ▪ Double-digit top-line growth from key growth businesses
	5 Boost retailisation[1] rate	> 10%	▪ 8.7% (FY18 target: 6%)
	6 Expand distribution channels	Expand IFA intermediary and digital channels	▪ Launched IFA[2] intermediary channel ▪ Investing in digital channels

Potential for improved growth through reallocation of capital and resources

1. *Retailisation is defined as a the percentage of institutional clients that have at least one retail product*
2. *Independent financial adviser*

FY2018 | Expense ratios

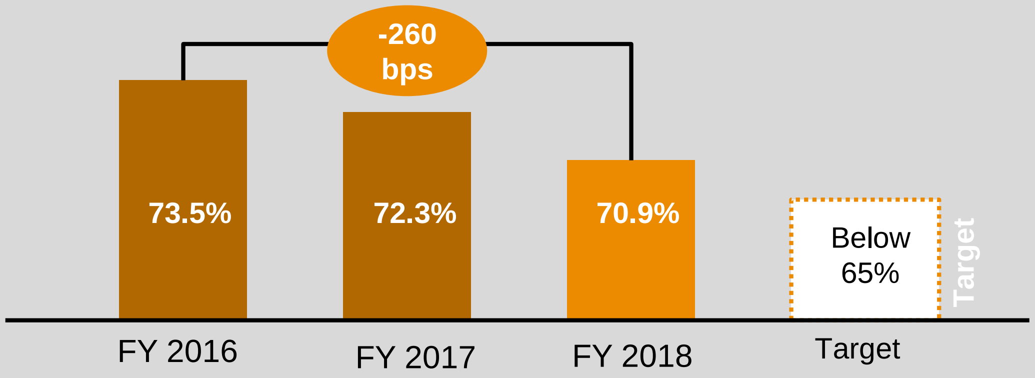
Cumulative savings target achieved - 2 years ahead of plan



Actions taken in 2018

- Addressing fixed nature of operating cost base through delayering and efficiency savings
- Creation of operational efficiency function to drive sustainable cost efficiencies
- Centralisation of group procurement spend

Cost-to-income ratio[1]



Costs (expensed, Rm)

	FY16	FY17	FY18
Cost-to-income as reported	73.5%	73.0%	73.0%
Adjust for modernisation costs	-	24	45
Adjust for employee retention	-	-	32
Cost-to-income (adjusted)	73.5%	72.3%	70.9%

Satisfactory progress towards delivery of operating expense ratio targets

1. *Excluding modernisation costs expensed to the income statement and one-off employee retention costs. (including these costs, the cost-to-income ratio for FY2018 remains stable at 73% compared to prior year)*

FY2018 BUSINESS REVIEW

Andrew A. Darfoor

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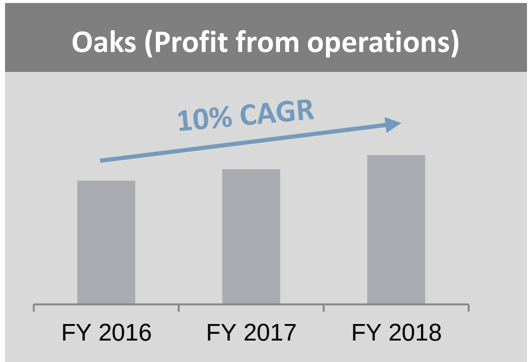
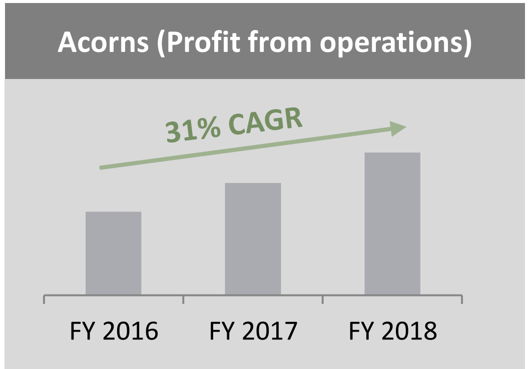
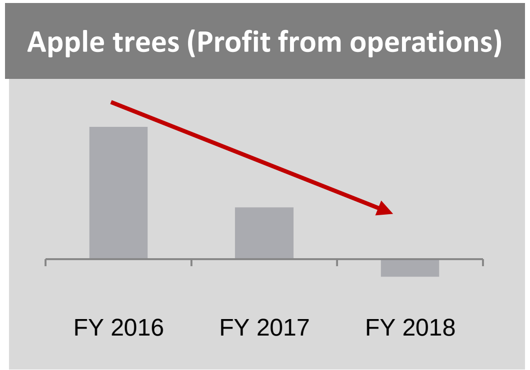
Cash flow plus growth | Financial performance of oaks, acorns and apple trees

Oaks	Acorns	Apple trees
Solid growth, sustainable cash	Future, Fast growth	Simplify, optimise, focus and improve
Strategic Thrust	**Strategic Thrust**	**Strategic Thrust**
Deepen	*Accelerate*	*Fix*
Focus	*Innovate*	*Improve*
Grow	*Invest*	*Turnaround*

Significant potential for improved growth through disciplined re-allocation of capital





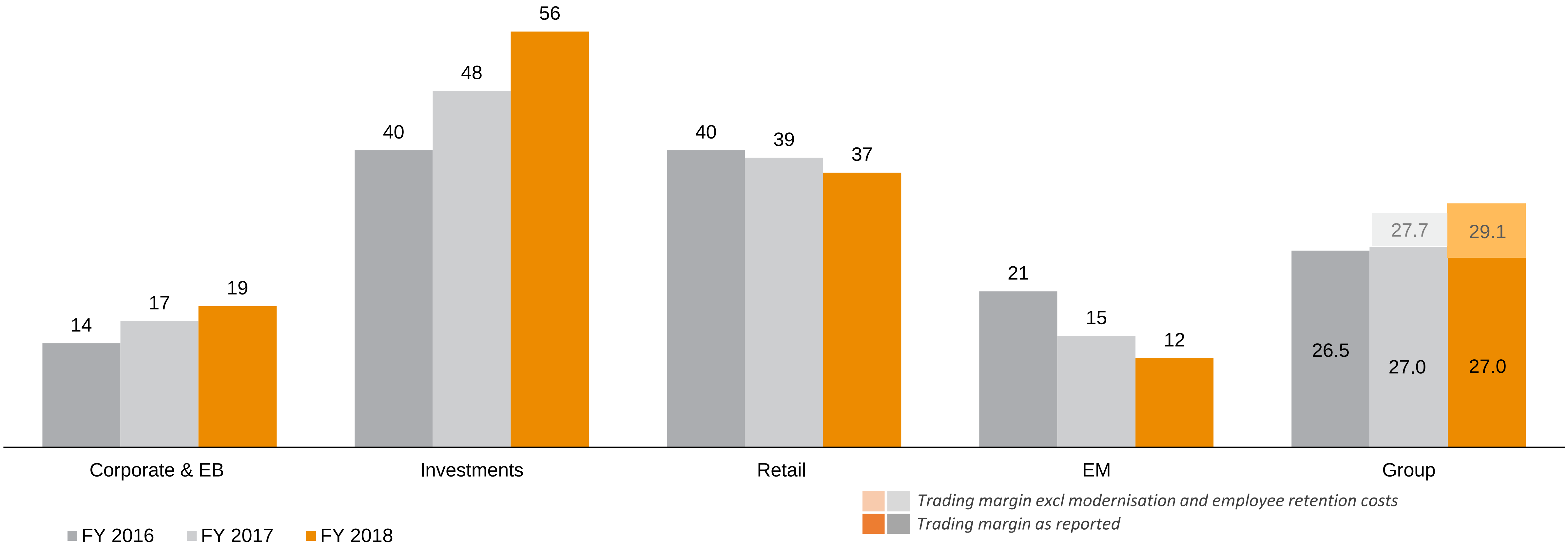


Note: Profit from operations before non-trading and capital items, corporate costs, accounting for property lease and share scheme costs

FY2018 | Margin improvement unevenly distributed across businesses

Margin improvement driven by top line growth and good cost control across Corporate & Employee Benefits and Investments, Retail margin impacted by increased investment within this segment and Emerging Markets margin impacted by high cost structure

Trading margin[1] (%)

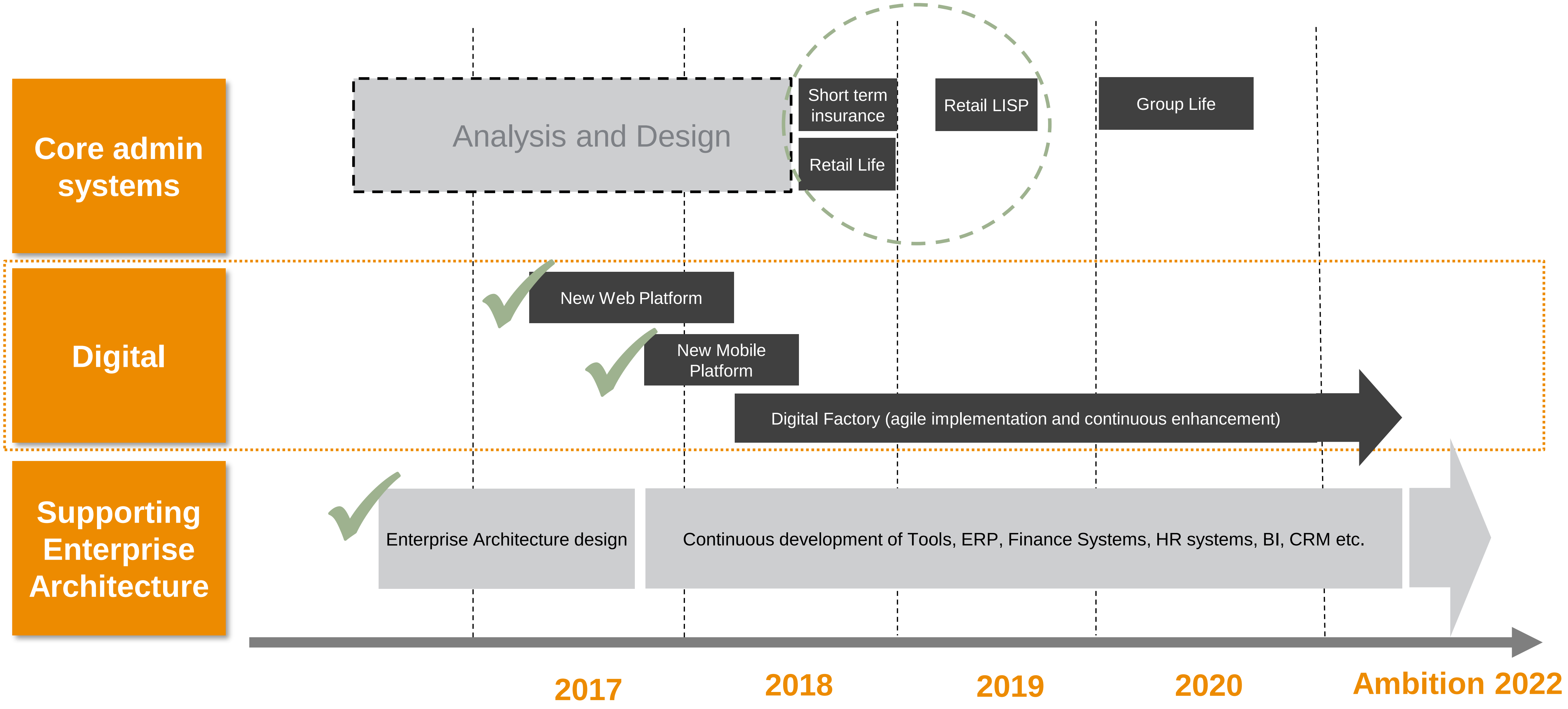


1. *Trading margin is calculated as segmental profit from operations dividend segmental operating income*

Note: Prior years restated for the effect of discontinued operations

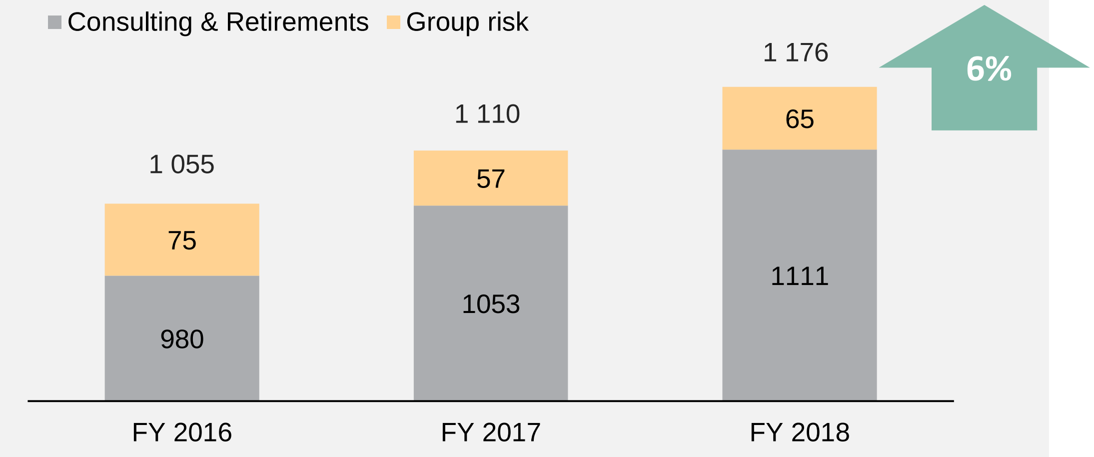
FY2018 | Continuing to invest in our technology modernisation programme

Roadmap to support Ambition 2022 – working in collaboration with our business partners

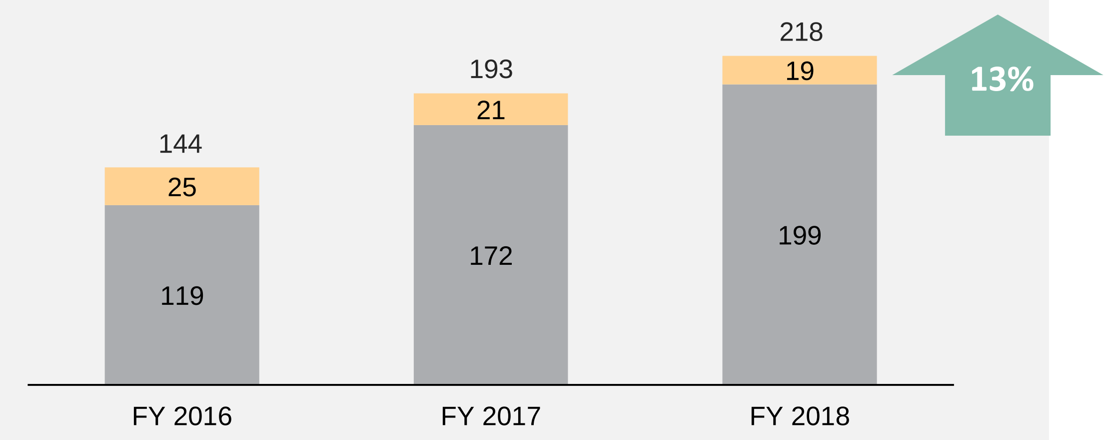


Corporate & Employee Benefits | Focused strategy delivering growth

Operating income (Rm)



Profit from operations[1] (Rm)



FY2018 Performance

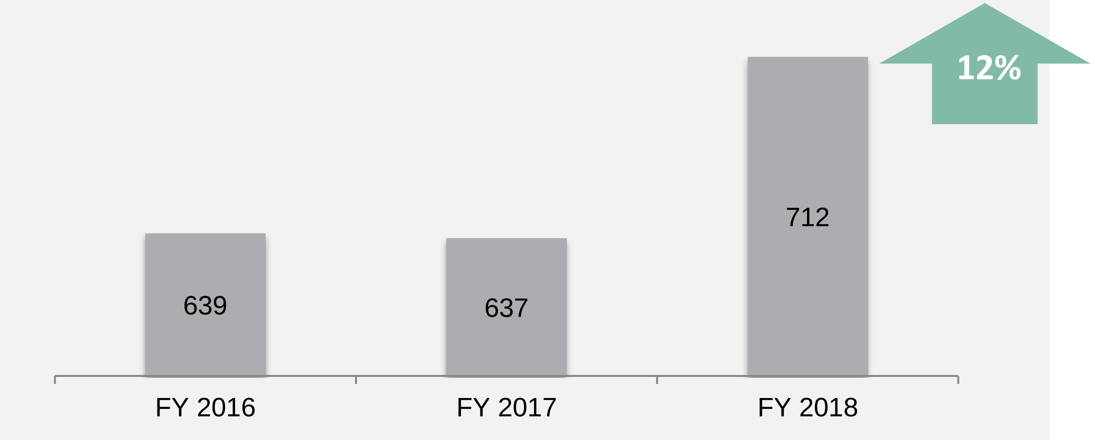
Sustaining growth momentum across key segments

- Retirements
  - 20% growth in profit from operations within umbrella funds
  - 8.6% increase in AuM[2] to R74.3bn
- Healthcare
  - Operating income up 10%
  - New partnership signed with Evo Financial Services
- Group risk
  - 34% increase in API[3] to R590m
  - 14% growth in operating income, after increased reserving requirements

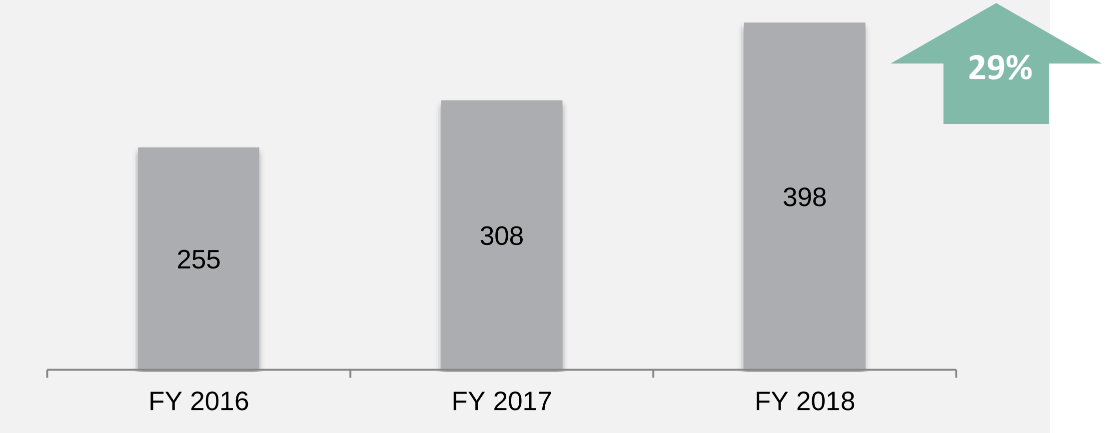
1. *Profit from operations before non-trading and capital items, IFRS property lease adjustment and share scheme costs*
2. *Assets under Management*
3. *Annualised premium income*

Investments | Transitioning to outcomes-based manager business model

Operating income (Rm)



Profit from operations[1] (Rm)



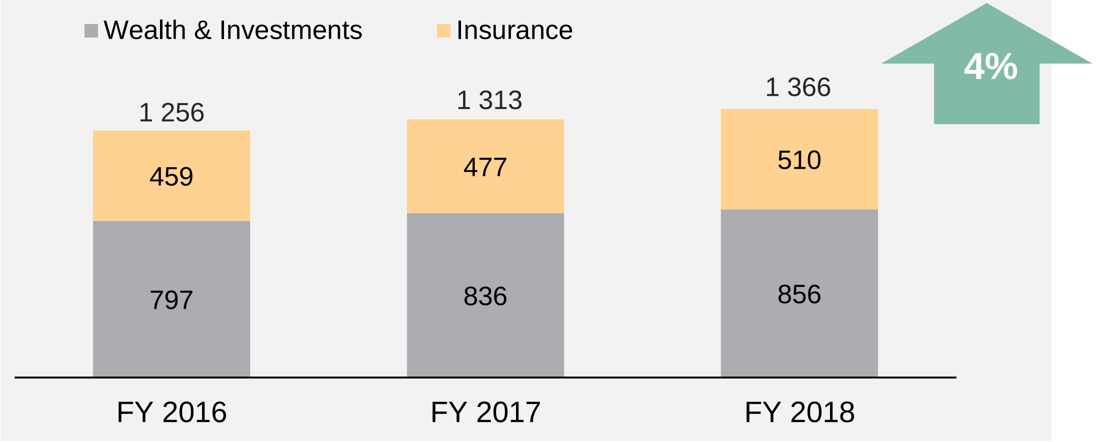
FY2018 Performance

- Repositioning of the Investments business
  - New investment philosophy: Living*Investing™
  - Flagship defined outcome retirement solution launched: Alexander Forbes Clarity™
  - Creation of internal smart-beta capability
- Profitable expansion through ongoing delivery of operating leverage
  - Operating income up 12%
  - 6% improvement in the net blended margin
- Sustained new business flows of R9.7bn with a further R4.6bn secured and awaiting transfer
- Institutional AuA[2] and AuM[3] up 3.5% to R295bn

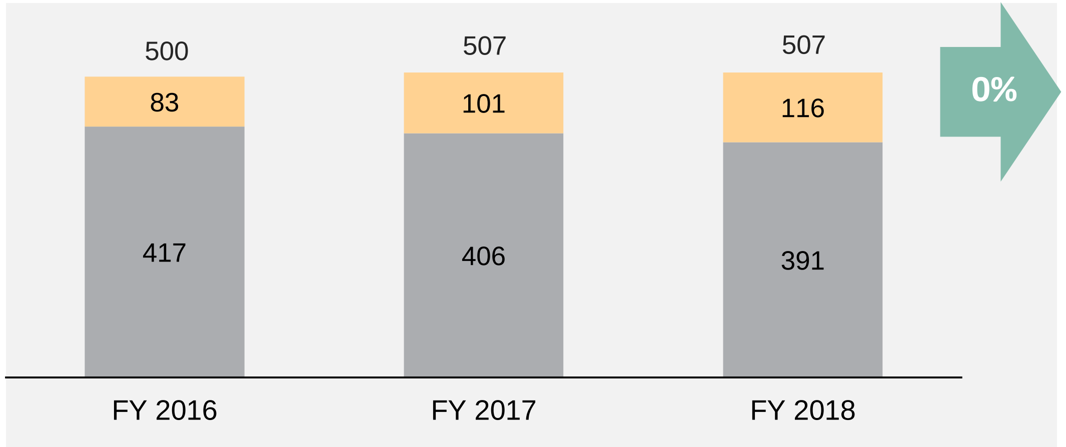
1. *Profit from operations before non-trading and capital items, IFRS property lease adjustment and share scheme costs*
2. *Assets under Administration*
3. *Assets under Management*

Retail | Retailisation moving in the right direction while investing for growth

Operating income (Rm)



Profit from operations[1] (Rm)



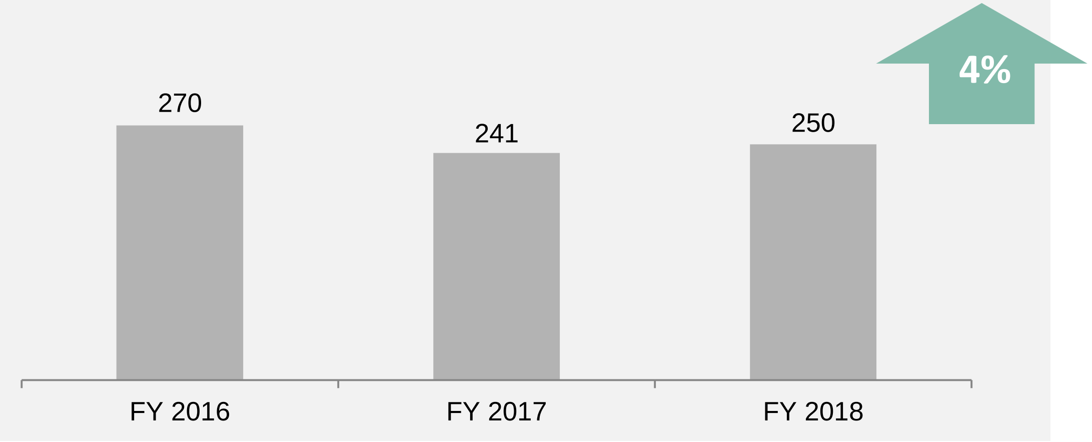
FY2018 Performance

- Stable profit from operations[1] after high level of investments
- Retailisation[2] rate at 8.7% – ahead of target of 6%
- Member interactions up almost three-fold
  - 22% improvement in the preservation rate on exit to 55%
  - 17% increase in capture rates to 41%
- 6% increase in average AuM[3] to R56.7bn
- Gross written premium (for short-term) up 4% to R1.6 billion
- Significant improvement in loss ratio to 68%, ahead of the target of 71%
- Distribution network expanded beyond the direct channels to now include financial intermediaries

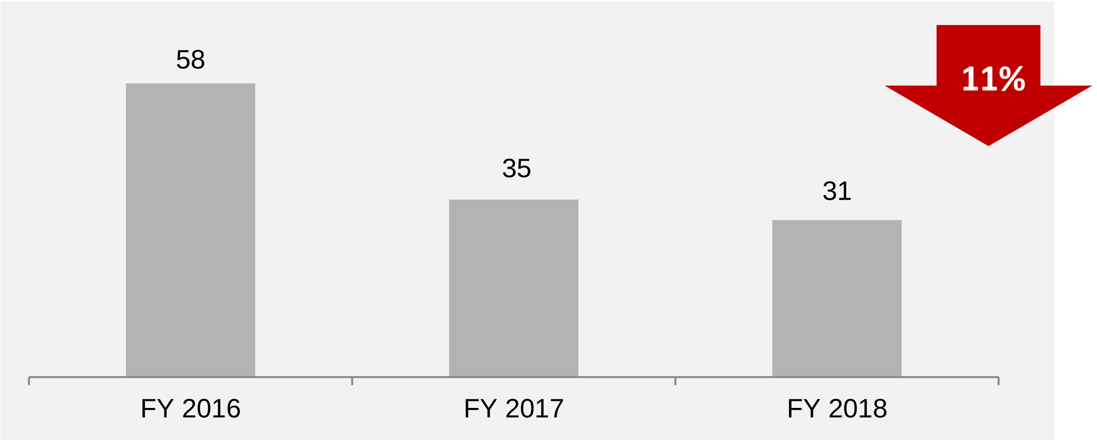
1. *Profit from operations before non-trading and capital items, IFRS property lease adjustment and share scheme costs*
2. *Retailisation is defined as a the percentage of institutional clients that have at least one retail product*
3. *Assets under management*

Emerging Markets | Addressing underperformance to achieve growth targets

Operating income (Rm)



Profit from operations[1] (Rm)



FY2018 Performance

- 4% increase in operating income driven by Namibia (+9%)
  - Delays to revenue enhancement initiatives (particularly in Botswana)
- Underperformance of Nigeria, Uganda and Zambia being addressed with structural cost and operational efficiency initiatives
- Acquisition of African Actuarial Consultants in Zimbabwe to contribute from FY2019
- Strategic review of pan-African footprint and solution design necessary to achieve higher returns
- Remain committed to group's target of Emerging Markets contributing double digit to group revenue by 2022

1. *Profit from operations before non-trading and capital items, IFRS property lease adjustment and share scheme costs*

FINANCIAL REVIEW

Naidene Ford-Hoon

FY2018 | Segmental reporting aligned to business structure

Institutional

Corporate & Employee Benefits	Investments	Retail	Emerging markets	Admin only	Corporate costs
• Consulting (including Healthcare consulting) & Retirements • Group Risk		• Wealth & Investments • Insurance	• Namibia • Botswana • Zimbabwe • Uganda • Nigeria		

4 segments

FY2018 | Consistent adjustments between IFRS and normalised results

- Adjustments between the IFRS summary consolidated income statement and the normalised results:
  - Accounting for property lease
  - Professional indemnity insurance cell result
  - Capitalisation of intangible assets and the related amortisation as well as goodwill and the associated write off
  - Accounting for Alexander Forbes shares held in policyholder investment portfolios
  - Investment income and taxation payable on behalf of policyholders
- FY2016 and FY2017 have been restated for the effect of discontinued operations

FY2018 | Financial highlights

Encouraging underlying financial performance, with efforts starting to bear fruits

- Normalised profit from continuing operations up 4% to R734m
- Excluding modernisation cost (R45m) and employee retention costs (R32m):
  - Increase in operating expenses contained to 3% prior year
  - Improvement in trading margin to 29.1%
  - Lower cost-to-income ratio 70.9% vs 72.3% in prior year
- Sustained cash generation at R1 013 million, with strong profit to cash conversion ratio of 103%
- Annual dividend increased to 42 cps from 40 cps (+5%)
- Capital allocation in line with strategic priorities

Capital allocation | Focus on deploying capital effectively

Balanced capital allocation strategy to support growth and returns, alongside actions to improve balance sheet efficiency

Priorities for cash flow use

1. **Organic investment** — **R272m capitalised on modernisation projects**
2. **Dividend** — **R829m paid to shareholders in dividends**
3. **Share buy-back** — **R276 million spent on buying back shares**
4. **M&A** — **Ongoing evaluation of opportunities** (with a disciplined approach to bolt-on acquisitions)
5. **Balance Sheet Efficiency**

FY2018 | Stable trading margin

Rm	IFRS FY 2018	%	IFRS FY 2017[1]
Operating income net of direct expenses	**3 647**	5.1%	3 470
Operating expenses	**(2 661)**	5.1%	(2 533)
Profit from operations before non-trading and capital items	**986**	5.2%	937
Trading margin	**27.0%**		27.0%

- 5.1% year-on-year increase in operating income from continuing operations
  - Reflecting strong performances from investments, retirements, healthcare, group risk and retail insurance
  - Partially offset by the increase to reserves within our group risk business and weak performance from the emerging markets business
- Growth in operating expenses contained to 5.1% attributable to savings delivered by the operational and expense efficiency initiatives across the group
  - Group-wide cost optimisation initiatives resulting in operating and expense efficiencies partially offsetting increase in corporate costs
  - Operating expenses include corporate costs of R153m, a substantial increase reflecting our turnaround strategy initiatives

1 *Restated for the effect of discontinued operations*

FY2018 | Analysis of non-trading and capital items

Non-trading and capital items now includes impairments relating to goodwill and software development

Rm	IFRS FY 2018	%	IFRS FY 2017[1]
Profit from operations before non-trading items and capital items	**986**	5.2%	937
Professional indemnity insurance cell-captive results	**(25)**		30
Amortisation of intangible assets arising from business combination	**(80)**		(117)
Costs relating to strategic consulting engagement	**(34)**		(39)
Goodwill impairment	**(317)**		-
Impairment of software	**(17)**		(6)
Other non-trading items	**(3)**		(5)
Total non-trading and capital items	**(476)**	247%	(137)
Operating profit	**510**	(36.3%)	800

- Goodwill impairment of R317m linked to AF Life represents two-thirds of total non-trading and capital items
  - The goodwill impairment is as a result of subscale growth expected, higher reserving requirements, the increase in regulatory capital required and the increase in claims experience, all of which reduce the expected cash generation from this business
- During the year, R17m in software development costs relating to the modernisation programme was also written off

1 *Restated for the effect of discontinued operations*

FY2018 | Income statement (cont.)

Rm	IFRS FY 2018	%	IFRS FY 2017[1]
Operating profit	**510**	(36.3%)	800
Investment income	**225**	26.4%	178
Finance Costs	**(97)**	8.9%	(89)
Reported loss arising from accounting for policyholder investments as treasury shares	**(24)**		(2)
Profit before taxation from continuing operations	**614**	(30.8%)	887
Taxation – corporate	**(308)**		(289)
Profit from continuing operations	**306**	(50.6%)	620
Profit on discontinued operations	**21**		954
Profit for the year	**327**	(79.2%)	1 574

- Increase in investment income[2] (+ R47 million) mainly due to group surplus cash position from the disposal of LCP and ARC minority interest in prior year
- 9% increase in finance costs largely due to net hedging costs related to a foreign exchange contract to hedge foreign denominated cash flows relating to the IT modernisation project
- Effective tax rate at 50% excluding the policyholder tax increased, largely due to the goodwill impairment
  - Effective normalised tax rate basis at 32% (2017: 28%) due to non-deductible expenses in various group entities
- The operations in Kenya have been classified as a discontinued operation during the year ended 31 March 2017. The results of discontinued operations in FY 2017 included Alexander Forbes Compensation Technologies (AFCT) and Lane Clark & Peacock (LCP). These operations were disposed of in the same year, resulting in a profit of R796 million.

1. *Restated for the effect discontinued operations*
2. *Investment income includes policyholder investment returns which are excluded from our normalised results which may be found in the group segmental income and profit analysis*

FY2018 | ‘Capital lite’ and strong balance sheet

97% of our assets are policyholder assets linked to policyholder liabilities

Rm		Mar 2018	Mar 2017
Policyholder assets (including insurance receivables and policyholder financial assets)	97%	**300 822**	284 912
Intangible assets (largely arising from PE transaction)	>1%	**3 428**	3 817
Corporate assets (excluding cash and cash equivalents)	<1%	**1 435**	1 491
Corporate cash and cash equivalents	>1%	**3 561**	4 215
Total assets		**309 246**	294 435

Decrease in corporate assets due to ordinary and special dividend paid of R829m and impairment of goodwill of R317m

Rm	Mar 2018	%	Mar 2017
Intangible assets (largely arising from PE transaction)	**3 428**	-10.2%	3 817
Corporate assets (excluding cash and cash equivalents)	**1 435**	12.9%	1 271
Corporate cash and cash equivalents	**3 561**	-15.5%	4 215
Total assets	**8 424**	-9.4%	9 303

FY2018 | Analysis of cash balances

Rm	**Mar 2018**	Mar 2017
Cash and cash equivalents – per IFRS balance sheet	**5 794**	6 263
Cash held on behalf of policyholders	**(2 233)**	(2 048)
Cash and cash equivalents - per summarised balance sheet excluding policyholders	**3 561**	4 215
Cash held for regulatory capital, liquidity and solvency requirements	**(1 557)**	(1 109)
Cash held in cell-captive insurance facilities	**(373)**	(408)
Cash held in restricted entities	**(95)**	(183)
Available cash	**1 536**	2 515
Net current liabilities	**(379)**	(251)
Available cash resources	**1 157**	2 264

- Change in cash resources primarily reflecting payment of dividends (R829m) and the share buy-back programme (R276m)
- Capital injection of R350m into AF Life leading to an increase in cash held for regulatory requirements

FY2018 | Strong regulatory surplus

Rm	SAM Standard Formulae (Mar-18)			SAM Standard Formulae (Mar-17)			
	Own Funds	Solvency Capital Requirement (SCR)	**Regulatory Surplus**	Own Funds	Solvency Capital Requirement (SCR)	**Regulatory Surplus**	**% Change in Regulatory Surplus**
Group Corporate (incl. revolving credit)	683	183	**500**	1 532	87	**1 445**	**(65%)**
Shared Services	180	79	**101**	(56)	0	**(56)**	**-**
Institutional	1 419	1 080	**339**	1 352	750	**602**	**(44%)**
Retail	452	250	**202**	450	187	**263**	**(23%)**
Emerging Markets	120	51	**69**	136	37	**99**	**(30%)**
Total Group (net of dividend paid)	**2 854**	**1 643**	**1 211**	**3 414**	**1 061**	**2 353**	**(49%)**

- Regulatory surplus of R1.2 billion as at end March 2018 includes the effect of dividends paid of R829 million during the year impacting group corporate own funds
- Institutional SCR increased due to concentration risk in AF Life following the inclusion of an asset exempt from capital under interim measures

CONCLUDING REMARKS

Andrew A. Darfoor

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FY2018 | Performance against Ambition 2022

	Ambition 2022 Target	FY2017 RESULTS	FY2018 RESULTS
Operating income growth	8 – 10%	1%	**5%**
Contain cost[1] growth	7 – 9%	1%	**3%**
Cost-to-income[1] ratio	< 65%	72.3%	**70.9%**
Operating profit growth	10 – 12%	3%	**5%**
RoE[2] (normalised earnings on IFRS equity)	From 12% to > 14%	12.1%	**9.8%**
Dividend cover[3] ratio	1.5 times	1.5 times	**1.2 times**

1. *Excluding modernisation costs expenses to income statement and one-off employee retention costs*
2. *Annualised Return on average Equity (normalised)*
3. *Dividend cover is calculated as normalised earnings per share divided total annual dividend declared*

Looking ahead | Continued confidence in long-term potential of the group

Growth

Improving top-line growth momentum through key growth business segments

Aiming higher

Cash flow

>R4bn in cash generated from operations since listing in 2014

Remit more cash

Dividend

Pay-out ratio target 67% (2018)

1.5 times cover

FY2019 Focus

- **Sustain 'Cash flow plus growth' investment thesis**
- **Maintain focus on cost and operational efficiency**
- **Improve balance sheet efficiency**

Q&A

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