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Alexander Forbes Group Holdings Limited  
Results for the year ended 31 March 2018  
**Additional information**



# KEY PERFORMANCE INDICATORS

For the year ended 31 March

## Institutional

		2015	2016	2017	2018	CAGR %
Operating income net of direct expenses*	(Rm)	1 735	1 693	1 747	<b>1 888</b>	3
<b>Corporate &amp; Employee Benefits</b>						
Number of Umbrella corporate clients		1 141	1 320	1 389	<b>1 505</b>	10
Umbrella Fund Assets under Management	(Rbn)	60.1	65.3	68.4	<b>74.3</b>	7
Number of standalone retirement funds		328	316	311	<b>241</b>	(10)
Standalone retirement funds AuA	(Rbn)	315	347	352	<b>353</b>	4
Number of active member records	('000)	1 018	1 029	986	<b>996</b>	(1)
Number of healthcare corporate clients		523	541	549	<b>555</b>	2
Group Risk GWP	(Rm)	352	373	416	<b>536</b>	15
Group Risk API	(Rm)	320	397	439	<b>590</b>	23
<b>Investments</b>						
AF Investments Assets under Administration	(Rbn)	56	54	51	<b>48</b>	3
AF Investments Assets under Management	(Rbn)	217	228	234	<b>247</b>	4
Blended net margin	(bps)	26.5	23.2	22.2	<b>23.5</b>	(4)
Number of clients		2 147	2 168	2 114	<b>2 100</b>	(1)

## Retail

		2015	2016	2017	2018	CAGR %
Operating income net of direct expenses*	(Rm)	1 168	1 256	1 313	<b>1 366</b>	5
<b>Wealth and Investments</b>						
Number of FPC clients	('000)	43	46	49	<b>51</b>	6
Assets under advice FPC – closing	(Rbn)	57	62	65	<b>67</b>	5
Assets under administration AFICA (closing and includes preservation funds)	(Rbn)	54	58	60	<b>61</b>	4
GWP long term	(Rm)	19	22	27	<b>35</b>	23
AF Investments average Assets under Management	(Rbn)	47	51	53	<b>57</b>	6
<b>Insurance – motor and household</b>						
Gross written premium	(Rm)	1 264	1 399	1 513	<b>1 575</b>	8
Active policies		76 812	79 395	79 496	<b>79 846</b>	1
Claims ratio	(%)	71	76	71	<b>68</b>	(1)
Risk retention	(%)	25	25	25	<b>25</b>	0
<b>Insurance – accident and health</b>						
Gross written premium	(Rm)	33	36	34	<b>33</b>	(1)
Claims ratio	(%)	19	16	17	<b>14</b>	(11)
Risk retention	(%)	100	100	100	<b>100</b>	0

## Emerging markets

	Operating profit net of direct expenses Rm	Profit from operations <sup>^</sup> Rm	Headcount	Ownership %
<b>2018</b>				
Namibia	<b>164</b>	<b>54</b>	<b>148</b>	<b>75</b>
Botswana	<b>75</b>	<b>14</b>	<b>97</b>	<b>67</b>
Nigeria	<b>6</b>	<b>(6)</b>	<b>10</b>	<b>100</b>
Uganda	<b>5</b>	<b>(3)</b>	<b>12</b>	<b>51</b>
<b>2017</b>				
Namibia		150	47	75
Botswana		79	15	67
Nigeria		7	(6)	100
Uganda		5	(3)	51

		2015	2016	2017	2018	CAGR %
Number of members under administration		247 637	254 899	109 575	<b>127 450</b>	(20)
Number of policies AFI Namibia		11 594	15 602	17 189	<b>18 151</b>	16
AF Investments Namibia AuM	(Rbn)	3.3	3.5	3.6	<b>3.7</b>	4

\* Restated due to change in segmental reporting.

<sup>^</sup> Profit from operations before non-trading and capital items, IFRS property lease and share scheme costs.

## EXPLANATION OF ADJUSTMENTS FOR NORMALISATION

The group's segmental results are reflected to include the normalised results which is the basis upon which management manages the group and reflects the economic substance of the group's performance. The adjustments between the IFRS summary consolidated income statement and the normalised results are as follows:

### Amortisation of intangible assets arising from business combination

Non-trading and capital items include the ongoing accounting amortisation of intangible assets amounting to R80 million for the year ended 31 March 2018 (2017: R117 million; 2016: R124 million). Additionally, the goodwill write-off amounting to R317 million has been included in non-trading and capital items. The capitalisation of intangible assets, and the related amortisation as well as the goodwill and associated write-off, resulted from the required accounting treatment at the time of the private equity acquisition of the group in 2007.

### Professional indemnity insurance cell-captive results

The profits and losses of the facility are a result of the premiums paid, claims experienced and the changes made to the provision for expected future claims. The recorded profits and losses of the cell-captive facility should trend to zero over the longer term. The annual premiums paid for this insurance is included in the operating expenses of each segment. The group is required to consolidate the financial results of the cell-captive which are recorded in the non-trading and capital items.

### 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 operating profit growth rate while the absolute value is an expense of R15 million for the year ended 31 March 2018 (2017: R26 million; 2016: R30 million).

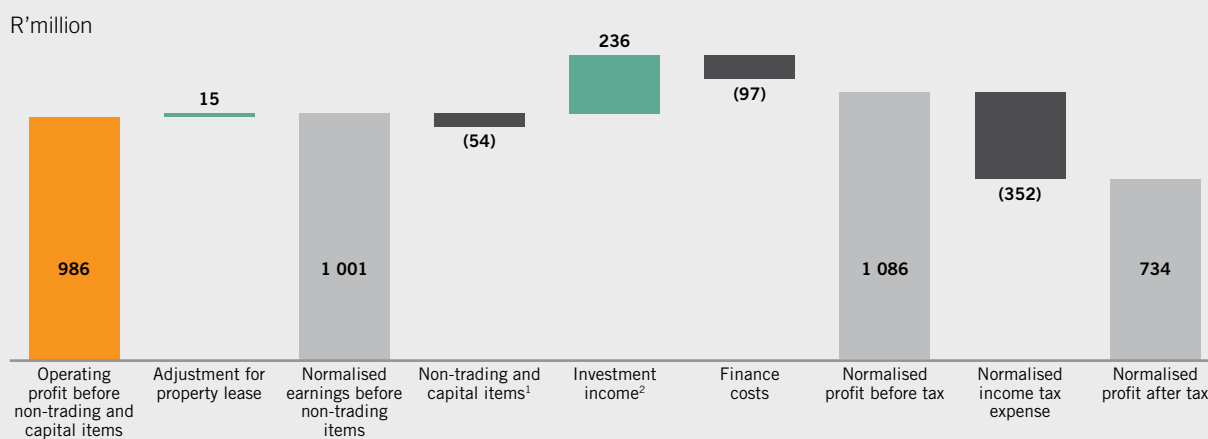
### Reported loss arising from accounting for policyholder investment in treasury shares

In terms of IFRS, as presently constituted, any Alexander Forbes shares acquired by underlying asset managers (under a discretionary mandate) and held by the group's multi-manager investment subsidiary for policyholders (the shares) are required to be accounted for in Alexander Forbes's consolidated financial statements as treasury shares. As a result any fair value gains or losses made on the shares, which are economically matched to the policyholder liabilities, are recognised in the group's income statement.

### Investment income and taxation payable on behalf of policyholders

The group's tax expense includes both deferred and income taxation payable on behalf of policyholders within the AF investments insurance licensed entity. The recognition of the recovery of this tax expense is included in the group's investment income. The normalised results exclude the policyholder tax expense and the related investment income which directly offset this tax expense.

## NORMALISED INCOME STATEMENT RECONCILIATION



<sup>1</sup> Excluding goodwill impairment and amortisation of PPA in tangible assets and cell-captive consolidation.

<sup>2</sup> Excluding policyholder investment income.

# NORMALISED INCOME STATEMENT

For the year ended 31 March

Rm	Normalised 2018	Variance %	Normalised 2017	Variance %	Normalised 2016
<b>Operating income net of direct expenses</b>	<b>3 647</b>	5	3 470	2	3 395
Operating expenses	<b>(2 646)</b>	6	(2 502)	2	(2 447)
<b>Operating profit before share scheme costs, non-trading and capital items</b>	<b>1 001</b>	3	968	2	948
Accounting for share scheme costs	–		(5)		(13)
Non-trading and capital items	<b>(54)</b>		(50)		(7)
<b>Operating profit</b>	<b>947</b>	4	913	2	928
Net investment income	<b>139</b>		67		24
Share of profits of associates	–		–		4
<b>Profit before taxation</b>	<b>1 086</b>	11	980	6	956
Income tax expense	<b>(352)</b>		(277)		(276)
<b>Profit from continuing operations</b>	<b>734</b>	4	703	3	680
Profit from discontinued operations	–		172		270
<b>Attributable profit for the period</b>	<b>734</b>	(16)	875	8	950
Attributable to non-controlling interest	<b>(77)</b>		(105)		(145)
<b>Normalised profit attributable to owners of the company</b>	<b>657</b>	(15)	770	4	805
<i>Adjusting items:</i>					
– normalised headline adjusting items	<b>15</b>		6		3
<b>Normalised headline profit attributable to owners of the company</b>	<b>672</b>	(13)	776	(4)	808
<b>Normalised number of shares</b>					
Weighted average number of shares in issue	<b>1 269</b>		1 280		1 282
Weighted average shares held by policyholders classified as treasury shares	<b>14</b>		19		17
<b>Normalised number of shares in issue</b>	<b>1 283</b>		1 299		1 299
Normalised earnings per share (cents)	<b>51.2</b>		59.3		62.0
Normalised headline earnings per share (cents)	<b>52.4</b>		59.7		62.2

# INCOME STATEMENT ITEMS

For the year ended 31 March

## Operating expenses

Rm	2018	%	2017
Employee costs	1 591	0.7	1 580
Share scheme costs	–	(100.0)	4
Premises (excluding IFRS adjustment)	260	6.1	245
IT costs	305	21.5	251
Professional fees	146	40.4	104
Insurance costs	63	(8.7)	69
Other costs	296	5.7	280
<b>Total operating expenses</b>	<b>2 661</b>	<b>5.1</b>	<b>2 533</b>

## Headline earnings

Rm	2018	%	2017
Weighted average number of shares in issue	1 269	(1)	1 280
Headline earnings per share (cents)	44.4	(17)	53.4
Basic earnings per share (cents)	18.9	(83)	114.5
Normalised earnings per share (cents)	51.2	(14)	59.3
Actual shares in issue (not weighted average)	1 341 426 963		1 341 426 963
Shares held by policyholders classified as treasury shares	(9 356 961)		(16 441 181)
Treasury shares including share buy-back	(85 417 925)		(42 423 433)
<b>Actual shares excluding treasury shares</b>	<b>1 246 652 077</b>		<b>1 282 562 349</b>

## Dividends

Cps	2018	2017
Headline earnings per share	44.4	53.4
Normalised earnings per share	51.2	59.3
Interim dividend	18	17
Final dividend	24	23
Annual dividend	42	40
Dividend cover (on normalised EPS)	1.2	1.5
Dividend yield (2018: 18c interim plus 24c final/7.20 share price); (2017: 17c interim plus 23c final/6.43 share price)	(%) 5.80	6.20

## EBITDA

Rm	Actual 2018	Normalised 2018	%	Normalised 2017
Profit before tax	614	1 086	10.8	980
Add back depreciation and amortisation	187*	107		101
Add interest cost of long-term borrowing	60	60		66
Add goodwill write-off	317	–	–	–
<b>EBITDA (including interest received on capital)</b>	<b>1 178</b>	<b>1 253</b>	<b>9.2</b>	<b>1 147</b>

\* Actual depreciation and amortisation includes the amortisation of intangible assets arising from business combination.

## BALANCE SHEET RECON AND ROE

As at 31 March

### Balance sheet reconciliation adjusting for policyholder and insurance-related balances

Rm	2018 IFRS	Adjustment- linked investment policyholders	Adjusted insurance- related balances	2018 Corporate	2017 Corporate
Assets under management	297 110	(297 110)	–	–	–
Property, equipment and computer software	574	–	–	574	365
Goodwill and intangible assets	3 428	–	–	3 428	3 817
Financial assets and associates	445	(140)	–	305	241
Deferred tax asset	175	–	–	175	148
Insurance receivables	1 339	–	(1 339)	–	–
Trade and other receivables	299	–	–	299	451
Cash and cash equivalents	5 794	–	(2 233)	3 561	4 215
Assets classified as held for sale	82	–	–	82	66
<b>Total assets</b>	<b>309 246</b>	<b>(297 250)</b>	<b>(3 572)</b>	<b>8 424</b>	<b>9 303</b>
Liabilities under management	(297 177)	297 177	–	–	–
Borrowings	(719)	–	–	(719)	(725)
Employee benefits	(162)	–	–	(162)	(160)
Deferred tax liabilities	(119)	8	–	(111)	(135)
Finance and operating lease liabilities	(248)	–	–	(248)	(257)
Provisions and deferred income	(304)	–	–	(304)	(296)
Insurance payables	(3 572)	–	3 572	–	–
Trade and other payables	(634)	161	–	(473)	(494)
Liabilities associated with assets held for sale	(14)	–	–	(14)	(11)
<b>Total liabilities</b>	<b>(302 949)</b>	<b>297 346</b>	<b>3 572</b>	<b>(2 031)</b>	<b>(2 078)</b>
<b>Total equity</b>	<b>(6 297)</b>	<b>(96)</b>	<b>–</b>	<b>(6 393)</b>	<b>(7 225)</b>

### Return on equity (ROE)

Rm	Normalised 2018	Normalised 2017
Average equity (excluding policyholder treasury shares and share buy-back)*	6 675	6 386
Average tangible net asset value (excluding intangible assets and the related deferred tax)	3 172	2 185
<b>Profit for the period from operations</b>	<b>734</b>	<b>875</b>
– Less attributable to non-controlling interest	(77)	(105)
<b>Profit from continuing operations attributable to ordinary shareholders</b>	<b>657</b>	<b>770</b>
LTM return on equity (normalised)	(%) <b>9.8</b>	12.1
Return on average capital employed (normalised)	(%) <b>14.1</b>	15.7
LTM return on tangible net asset value (normalised)	(%) <b>20.7</b>	35.2

\* The average equity is before deduction of policyholder treasury shares that are held for benefits of policyholders and other third parties who will benefit from the returns as well as shares purchased in terms of a general buy-back.

# GROUP SEGMENTAL INCOME AND PROFIT ANALYSIS

For the year ended 31 March

Rm	Institutional								
	Consulting and retirements			Group Risk			Investments		
	2018	%	2017	2018	%	2017	2018	%	2017
<b>Operating income net of direct expenses</b>	<b>1 111</b>	6	1 053	<b>65</b>	14	57	<b>712</b>	12	637
Operating expenses before accounting for property lease <sup>1</sup>	<b>(912)</b>	4	(881)	<b>(46)</b>	28	(36)	<b>(314)</b>	(5)	(329)
<b>Operating profit before share scheme costs</b>	<b>199</b>	16	172	<b>19</b>	(10)	21	<b>398</b>	29	308
Share scheme costs	-	(100)	(1)	-	-	-	-	-	-
<b>Normalised operating profit before non-trading and capital items</b>	<b>199</b>	16	171	<b>19</b>	(10)	21	<b>398</b>	29	308
Normalised non-trading and capital items	<b>(6)</b>	(77)	(26)	-	-	-	-	-	-
<b>Normalised operating profit</b>	<b>193</b>	33	145	<b>19</b>	(10)	21	<b>398</b>	29	308
Normalised net finance income	<b>(15)</b>	15	(13)	<b>8</b>	-	8	<b>51</b>	(23)	66
<b>Normalised profit before tax from continuing operations</b>	<b>178</b>	35	132	<b>27</b>	(7)	29	<b>449</b>	20	374
Taxation <sup>2</sup>	<b>(58)</b>	57	(37)	<b>(9)</b>	13	(8)	<b>(144)</b>	36	(106)
<b>Normalised profit for the year from continuing operations</b>	<b>120</b>	26	95	<b>18</b>	(14)	21	<b>305</b>	14	268
<b>Adjustments</b>				<b>(317)</b>					
Amortisation of intangible assets arising from business combination									
Goodwill write-off arising from business combination				<b>(317)</b>					
Professional indemnity insurance cell-captive results									
Accounting for property lease									
Reported loss arising from accounting for policyholder investment in treasury shares									
Tax effects on above adjustments									
<b>Profit for the year from continuing operations</b>	<b>120</b>	26	95	<b>(299)</b>	<(100)	21	<b>305</b>	14	268
Depreciation and amortisation <sup>1</sup>	<b>(22)</b>	-	(22)	<b>(4)</b>	33	(3)	<b>(23)</b>	5	(22)

<sup>1</sup> Operating expenses before accounting for property lease includes depreciation and amortisation.

<sup>2</sup> Computed using the group's normalised effective tax rate.

<sup>3</sup> The trading margin and cost to income is computed using operating expenses inclusive of share scheme costs and accounting for property lease.





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