

Alexander Forbes Group Holdings Limited

(Incorporated in the Republic of South Africa)

Registration Number: 2006/025226/06

JSE Share Code: AFH and ISIN: ZAE000191516

(Alexander Forbes or the Company or the Group)



TRADING STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

Alexander Forbes is in the process of finalising its half year financial results for the six months ended 30 September 2020 (the Period) which will be released on the Stock Exchange News Service and on the Company's website at www.alexanderforbes.co.za on or about 3 December 2020.

Profit from continuing operations before non-trading and capital items is expected to be between R371 million and R391 million, 3% to 8% lower than the R403 million reported for the six months ended 30 September 2019 (the Prior Period). Basic earnings from continuing operations also benefited due to an improved result from our professional indemnity insurance cell and decreased interest costs due to the result of the repayment of the revolving credit facility in the prior year.

The basic earnings per share and headline earnings per share for total operations are expected to decrease from the results published in the Prior Period. While the basic earnings per share and headline earnings per share for continuing operations are expected to increase from the results published in the Prior Period. The expected movements are disclosed in the table below:

For the period ended	As reported	Expected	Estimated range change*
	September 2019 (cents)	September 2020 (cents)	
Total operations			
Headline earnings per share	24.5	15.7 to 13.2	-36% to – 46%
Basic earnings per share	24.2	15.2 to 12.6	-37% to -48%
Continuing operations			
Headline earnings per share	17.8	17.8 to 19.8	0% to 11%
Basic earnings per share	17.5	17.5 to 18.9	0% to 8%

* Percentages calculated based on rounded figures

The underlying business performance of continuing operations has been impacted by volatile markets and depressed macroeconomic environment. Profit from continuing operations before non-trading and capital items declined due to a marginal decline in operating income and the ongoing effect of the stranded costs from the sale of the short-term insurance business in the prior year. However the continued focus on expense management, excluding the impact of stranded costs, contributed positively to earnings for the Period.

The financial performance of our discontinued operations has been impacted by:

1. The reduced contribution of profit from discontinued operations resulting from the sale of the short-term insurance business in the prior year. The profit after tax of the short-term insurance business for the six months ended 30 September 2019 was R87 million.
2. The enhanced transfer value (ETV) liability matter which has been disclosed in prior years in respect of a legacy United Kingdom domiciled subsidiary that was sold in 2012 inclusive of certain warrantees. The liability arises due to certain thematic errors in advice that have been raised by the Financial Conduct Authority (the UK regulator) against the industry as a whole. The potential liability for cases that were

advised by Alexander Forbes in the UK at the time is calculated using certain assumptions based on a sample of the total number of cases that may require redress.

During the Period, the process for investigating and establishing the thematic error and causal link for each case has progressed significantly and the assumptions used to calculate the estimated liability modified according to the additional information available. Resulting from the experience in the number of cases of redress and the quantum of each claim, the provision for the outstanding liability as at 30 September 2020 has increased significantly. The estimated liability, based on current assumptions, amounts to R917 million (31 March 2020: R273 million). As communicated over the past few years, the Group is adequately insured for the claims through error and omissions insurance cover. To date, the settlement amounts have been paid from the self-insured provision within the Group's cell-captive insurance facility and, during the Period for the first time, settlements have been made from the primary layer of insurance within our insurance policy programme. The error and omissions insurance programme includes seven insurance layers which in total provide cover for R1.9 billion.

Management has obtained confirmation from the insurance underwriters for our second, third and fourth excess insurance layers, covering R809 million of the liability, confirming that the event is covered in terms of the policy. It is therefore considered effectively certain that an inflow of economic benefits will arise from these insurance layers of the insurance programme and the reimbursement insurance asset and related income are recognised.

However, the insurance underwriter of the first excess layer has failed to confirm cover and has, to date, chosen to oppose the accepted and generally recognised insurance market position regarding the aggregation of claims under this policy. The first excess layer covers R108 million in the overall programme. Management has obtained a senior counsel legal opinion on the matter and is confident that the position taken by the first excess layer underwriter is incorrect and will be instituting legal action.

As a result of the above uncertainty, Alexander Forbes is unable, at present, to recognise the related insurance asset pertaining to the first excess layer. Accordingly, there is an impact to the Group's income statement in the amount of R78 million in the Period resulting from this mismatch (R30 million was recognised in the prior year). The recovery of the insurance from the first excess layer, in future years, will result in the recovery being recorded as income at the time.

We continue to focus on the execution of initiatives that will deliver our strategic objectives, improving our service levels for our clients, contributing to better member outcomes as well as internal efficiencies, laying the foundation for future growth. The adverse macroeconomic impact of Covid-19 including the expected unemployment and lower growth in equity markets will, however, impede the timeline to achieve our growth and cost targets. Whilst our clients are experiencing the benefits of our client-centric and advice-led consulting approach, the top-line benefits will take longer to fully materialise.

This trading statement is issued in accordance with paragraph 3.4(b) of the JSE Limited Listings Requirements. The financial information on which it is based has not been reviewed and reported on by the Company's external auditors.

Carina Wessels

Executive: Governance, Legal and Compliance (Company Secretary)

17 November 2020

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Sponsor

RAND MERCHANT BANK (A division of FirstRand Bank Limited)