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)

Extract of the unaudited interim results and cash dividend declaration for the six months ended 30 September 2020

Financial highlights

		Unaudited six months ended 30 September		
In millions of South African rands (Rm)	2020/2019 % change	2020	2019	2018
Continuing operations				
Operating income [A]	(3)	**1 542**	1 588	1 571
Profit from operations (before non-trading and capital items)	(5)	**382**	403	391
Cost-to-income ratio [B] (percentage)	60 bps	**75.2**	74.6	75.1
Profit for the period	-	**251**	250	53
Cash generated from operations	(31)	**335**	489	485
Basic earnings per share (cents)	5	**18.4**	17.5	2.8
Headline earnings per share (cents)	6	**18.8**	17.8	13.4
Closing AuA and AuM (in billions of rands)	3	**353**	344	371
Discontinued operations				
Operating income [A]	(83)	**66**	380	337
Profit from operations (before non-trading and capital items)	(88)	**17**	142	92
Total group				
Basic earnings / (loss) per share (cents)	(42)	**14.1**	24.2	(3.5)
Headline earnings per share (cents)	(41)	**14.5**	24.5	17.3
Normalised headline earnings per share (cents)	(49)	**13.9**	27.2	19.0
Interim dividend (cents per share)	(28)	**13.0**	18.0	18.0

A. *Operating income represents revenue net of direct expenses (throughout)*
B. *The cost-to-income ratio is calculated as the percentage of operating expenses (before non-trading and capital items), adjusted for other income, divided by operating income.*

Chief executive officer, Dawie de Villiers, commented: 'Despite the tough trading conditions that the business has faced over the past six months, the core business remains stable. Alexander Forbes proactively responded to clients' needs particularly during the Covid-19 pandemic by intensifying our engagement and ensuring that we continued to provide outstanding service and solutions, through our advice-led approach. We remain confident in our advice-led strategy and believe that continued delivery against our objectives will reflect positively in the performance of the business over the medium-term.'

Overview

- Alexander Forbes has shown its resilience and agility amidst persistently challenging trading conditions. We have responded to our clients' needs proactively, prioritised the safety and well-being of our people, continued to focus on cost containment and maintained sound capital management, while building a new business pipeline.
- The disciplined execution of our strategy and the implementation of our integrated operating model has enabled us to adapt to market dynamics, while emphasising our core principle of a client-centric advice-led market approach.
- Covid-19 presented opportunities for Alexander Forbes to mobilise swiftly and to proactively engage and advise our institutional and individual clients through this difficult time. Some of the relief afforded to clients include contribution holidays, advising individuals close to retirement on the best annuity options, facilitating a change in drawdown rates for clients in living annuities, assisting clients in taking advantage of improved annuity rates where appropriate as well as client switches to more conservative and diversified portfolios in Alexander Forbes Investments and supported by a massive increase in client engagement.
- Operating income from continuing operations at R1 542 million, down 3% year on year with performance impacted by the challenging economic environment.
- The continued focus on expense management helped contain growth in operating expenses to 2% year on year. This includes the impact of reduced recoveries of shared central overhead costs that remain with the business following the sale of the short-term insurance business (stranded costs). These costs will continue to mask our cost management efforts over the next two financial years.
  - Underlying cost growth was well managed, reporting a 1% decline when excluding the impact of stranded costs and the effect of the IFRS 16 lease adjustment.
- Profit from continuing operations (before non-trading and capital items) of R382 million, down 5% year on year due to the decline in top-line growth and the impact of stranded costs.
- Headline earnings per share from continuing operations improved 6% to 18.8 cents.
  - The decline in profit from operations was offset by a positive impact from the insurance cell-captive facility, lower interest expense and the impact of shares repurchased over the past 12 months.
- Headline earnings per share for total operations of 14.5 cents declined 41% owing to the financial performance of the discontinued operations that have been impacted by:
  - The reduced contribution of profit from discontinued operations resulting from the sale of the short-term insurance business.
  - An amount of R78 million expensed through the income statement (31 March 2020: R30 million) owing to the increased liability for enhanced transfer value (ETV) claims that could not be matched by the insurance asset due to one insurer in the insurance programme not confirming insurance cover. The anticipated recovery from the specific insurer, in future years, will be recorded as income at that time.
- Cash generated from continuing operations of R335 million is down 31% due to an increase in working capital.
- Our capital position remains strong with a regulatory surplus of R1 453 million. The 29.5% decrease from year-end is as a result of the payment of the special dividend in July 2020. The group cover ratio of 2.08 times is well above the target SCR cover ratio of 1.5 times.
- Interim dividend of 13 cents (2019: 18 cents) per share declared.
- Assets under administration and assets under management increased 3% year on year to R353 billion and 14% higher since March 2020, owing to higher market returns and an increase in new business flows during the period.

Prospects

Our strategy

Our strategic decision to focus on our core business has enabled us to assist our clients seamlessly and more effectively during the additional financial stress of the pandemic and its adverse economic impact. Throughout the period we have improved and enhanced our process management, met our client service level agreements, enhanced productivity measurement and pleasingly reported notable new business wins. We also proactively engaged regulators, directly or through industry bodies, to ensure good outcomes for our clients.

We remain confident in our strategy and will continue to execute against our objectives which should reflect positively in the performance of the business over the medium term.

A stable and resilient business

The impact of Covid-19 and the expected future consequences on the economy will impact our original growth and cost targets. Whilst our clients are experiencing the benefits of our client-centric and advice-led consulting approach, the top line will continue to be under pressure for the next 18 to 24 months.

The underlying business remains stable, our solvency is sound, our value proposition is strong, and we are a more agile and integrated company, better enabled to respond to the challenges that lie ahead. We still have work to do in transforming the business from being heavily reliant on manual processes to becoming a highly automated, digitised and standardised operating environment. We will continue our efforts around expense management across all categories and will prioritise administration efficiencies and our plan to reduce our property footprint. This will be balanced with the appropriate investment in technology and adhering to regulatory and compliance requirements.

Improvements

We will continue to create innovative solutions that solve our clients' needs and unlock the value of our scalable business model.

- Our investments, product and enablement teams will continue to simplify our offerings and enhance frameworks to align with market dynamics to service our clients based on their specific needs and requirements;
- We are implementing automated processes to drive efficient and simplified interaction with our clients;
- We will focus on improvement to our operations and administration functions;
- We are improving our member engagement through a targeted strategy, to deliver better financial outcomes for our members; and
- We will continue to embed ESG into how our portfolios are managed and focusing on improvements in monitoring and reporting.

Changing regulation

There have also been numerous regulatory announcements in terms of which we are well placed to assist clients. These include potential changes to Regulation 28 to encourage greater investment in infrastructure programmes and provident fund annuitisation from 1 March 2021. Other longer-term retirement reform efforts aimed at making retirement savings accessible in emergencies, subject to limits and at the same time ensuring minimum mandatory preservation, as well as initiatives aimed at broadening coverage of savings in South Africa, are areas where we believe we are well placed.

Opportunities

We are continuing to adapt and evolve to the new uncertain environment and will work hard to remain relevant to our clients, provide opportunities for our employees to grow and to serve our community and society in their financial well-being.

We aim to conclude the disposal of the Namibian short-term insurance business as well as the group risk business by the end of the current financial year.

Importantly, our unleveraged balance sheet and cash position ensure that Alexander Forbes is well placed to navigate the turbulent period ahead and to continue its market leading role in shaping the future. We continue to evaluate and assess selective bolt-on acquisitive growth opportunities that will strengthen our core businesses and enhance our integrated advice-led value proposition.

Interim dividend declaration

The financial position of the group remains robust and all regulated entities within the group comply with current liquidity and regulatory solvency capital requirements. An interim dividend declaration has been considered by the board, taking into account the group's current and projected regulatory position, the available cash in the group as well as the group's high cash generation ability.

The board has declared an interim gross cash dividend of 13 cents (10.4 cents net of dividend withholding tax) per ordinary share for the six months ended 30 September 2020. In determining the interim dividend for this period, the board has considered the anticipated recovery from the ETV liability matter (refer to note 8.2.1 of the condensed consolidated financial statements contained in the long form announcement) therefore maintaining the cover ratio within our policy of 1.5 times to 2.0 times.

The interim dividend has 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 1 401 541 409.

The directors have satisfied the solvency and liquidity test as required in terms of section 4(1) of the Companies Act 71 of 2008.

The salient dates for the interim dividend will be as follows:

- Last day of trade to receive a dividend: Tuesday, 5 January 2021
- Shares commence trading 'ex' dividend: Wednesday, 6 January 2021
- Record date: Friday, 8 January 2021
- Payment date: Monday, 11 January 2021

Share certificates may not be dematerialised or rematerialised between Wednesday, 6 January 2021 and Friday, 8 January 2021, both days inclusive.

For further information

This short form announcement is the responsibility of the directors of the group. Shareholders are advised that this short form announcement represents a summary of the information contained in the full long form announcement and does not contain full details.

The full long form announcement is published and is available at:
https://senspdf.jse.co.za/documents/2020/JSE/ISSE/AFH/AFHDec2020.pdf

The full announcement is also available on the Alexander Forbes website:
https://www.alexanderforbes.co.za/investorrelations/financial-results/interim-results

Electronic copies of the full announcement may be requested by emailing: InvestorRelations@aforbes.com

Any investment decisions by investors and/or shareholders should be based on a consideration of the full announcement as a whole and investors and/or shareholders are encouraged to review the full announcement, which is available as set out above. Any reference to future financial performance included in this announcement has not been separately audited, reviewed or reported on by the group's auditors.

On behalf of the board of directors

M Ramplin
Non-executive chair

DJ de Villiers
Chief executive officer

3 December 2020
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