

Additional disclosure in relation to Remuneration Policy

In response to a number of queries received from shareholders in anticipation of their voting at the Company's Annual General Meeting to be held on 6 September 2018, additional information on the Company's remuneration policy, specifically improvements made in respect of the current financial year ending 31 March 2019, as well as the new Executive Long-Term Incentive Plan (Ambition 2022 Executive LTIP) approved in June 2018 are being disclosed.

1. Introduction

Alexander Forbes commenced a detailed review of its remuneration practices in 2017, which was completed in 2018. In reviewing the remuneration practices, key considerations included alignment of the reward philosophy with the group strategy to ensure the remuneration policies and practices support and enable the achievement of Ambition 2022; recommendations in the King IV Report on Corporate Governance for South Africa 2016 and alignment with best practice.

The remuneration philosophy aligns closely with the Company's employee value proposition. It seeks to complement and support the delivery of financial and non-financial key objectives which underpin the Ambition 2022 strategy. Furthermore, the philosophy aims to align the remuneration of executives and senior managers with the creation of shareholder value.

The strategic aim of the remuneration policy is to enable the business to:

- attract, motivate and retain talented high-performing people;
- encourage performance to drive the achievement of both short-term results and long-term sustainability; and
- promote a culture that supports enterprise and innovation with appropriate short-term and long-term performance related rewards that are fair and achievable.

The Company is committed to the concept of total reward, which recognises that reward is multi-faceted and does not only have direct financial components. The remuneration mix comprises both fixed and variable components:

- Total guaranteed package - Fixed
- Short-term incentive plan - Variable
- Long-term incentive plan - Variable

2. Total Guaranteed Pay (TGP)

The Company positions itself to ensure competitive total reward within the parameters of affordability. The remuneration philosophy targets to remunerate employees at the 50th percentile of the market from a guaranteed pay perspective. The TGP includes base pay and contributions to retirement funding; medical aid, risk cover/insured benefits, and travel allowance (only if the employee qualifies in terms of income tax legislation).

In determining the appropriate market against which to benchmark, *inter alia*, similar industries, jurisdictions and company complexities are taken into consideration. The Company's relative market position strives to ensure that it attracts and retains the core competencies required for organisational strategy achievement.

3. Short-Term Incentive Plan (STIP)

The short-term incentive plan forms a fundamental part of our total reward philosophy and aims to reward for both organisational and individual performance. One of the features of the revised remuneration policy includes a transition towards a total reward approach and pay-for-performance model.

The core features for the revised STIP include:

- The bonus pool is determined in line with the Company's full year financial performance.
- The value of an award is dependent on the overall Company performance, as well as the Group scorecard, relevant business segment objectives, as well as individual performance and contribution. For executives and senior management, greater weighting is placed on overall company performance.
- To qualify for the STIP, a minimum threshold of Company performance against the scorecard must be achieved.
- Scorecards are reviewed annually, influenced by specific requirements to achieve annual targets in support of the overall longer-term strategy. The weighting in respect of financial and non-financial measurements is typically 80:20.
 - FY19 Group scorecard factors include:
 - 80% Financial: net revenue, operating leverage, normalised headline earnings per share, cost to income ratio and technology modernisation delivery.
 - 20% Non-financial: customer net promoter score, employment equity, broad-based black economic empowerment and employee engagement survey results.
- For senior management: 50% of the bonus is paid in cash, with the remaining 50% deferred and allocated in the form of retention shares with a staggered vesting (with 50% vesting 6 months after award date and the remaining 50% vesting 12 months after award date).

4.1 Long-Term Incentive Plan (LTIP)

The long-term incentive plan is designed to align performance with achieving the Company's long-term objectives; act as a retention mechanism; and drive a culture of continuous and sustained growth and improvement. To align shareholders' and executives' interests, the vesting of shares is subject to achieving performance conditions measured over a period appropriate to the strategic objectives of the Company.

Employee share ownership includes the conditional share plan (CSP), forfeitable share plan (FSP) and the employee share ownership plan (ESOP). The ESOP exists for the benefit of all permanent employees in Africa who do not participate in the LTIP and there is a significant weighting to qualifying South African black female employees, who enjoy 70% of the beneficial interest.

The Company has implemented changes to its remuneration policy relating to long-term incentives over the last two years, but with more substantial changes made in relation to the FY19 allocations. These changes aim to ensure that long-term incentives align the interests of eligible employees with those of shareholders and also link reward to performance over the medium- to long-term. The table below highlights the high-level changes to the LTIP.

High level LTIP changes

	FY 2017 and prior years	Current year (FY 2018)	Future years (from FY 2019)
Instruments used	CSP (80% and FSP (20%)	CSP (60%) and FSP (40%)	CSP (60%) and FSP (40%) (eligible employees other than Group Executive Committee) Ambition 2022 Executive LTIP**
Performance conditions	HEPS*	HEPS* (CSP) and retention (FSP)	HEPS* (CSP) and retention (FSP) HEPS*, NPS, ACI, BEE (Ambition 2022 Executive LTIP)**
Vesting period	3 years	3 years	3 years (CSP and FSP) 4 years (Ambition 2022 Executive LTIP)**
Other conditions	-	-	Malus, claw-back (CSP, FSP and Ambition 2022 Executive LTIP) Minimum shareholding requirement (Ambition 2022 Executive LTIP)**

* *Headline earnings per share is measured on a normalised basis*

** *Discussed in detail under item 4.2 below*

4.2 Long-Term Incentive Plan (LTIP): Ambition 2022 Executive LTIP

Following the announcement of our turnaround strategy, Ambition 2022, work commenced to develop and design a revised executive long-term incentive plan to ensure alignment of performance against the Company's objectives and shareholder expectations, which was approved in June 2018.

The Ambition 2022 Executive LTIP is specifically designed to:

- Encourage and reward exceptional performance;
- Attract and retain executives with the requisite skills and drive to execute the Group's strategy;
- Strongly align the interests of the group executive remuneration with that of shareholders;
- Encourage personal shareholding in the Company by these executives; and
- Encourage a medium-term focus of five years and beyond.

The Ambition 2022 Executive LTIP focuses on members of the Group Executive Committee of the Company. The first Ambition 2022 Executive LTIP was awarded in July 2018 and two further annual awards will be made in 2019 and 2020 respectively.

Conditions for vesting

Three conditions must be met for the performance conditional shares to vest:

1. Continued employment until the vesting date.
2. Achievement of stretched performance conditions (significantly more aggressive than those applicable in respect of other long-term incentives). The following performance conditions apply and will be measured over a four-year performance period:

Condition	Weighting
Headline earnings per share (HEPS)	80%
Customer net promoter score (NPS)	6.7%
African, Coloured and Indian (ACI) representation in talent pipeline	6.7%
Broad-based black economic empowerment (Scorecard level)	6.6%

3. An additional requirement for the awards to vest to a specific participant, is that they must meet the minimum shareholding requirement as follows:

	MSR expressed as a % of CTC to be achieved by 31 March 2022	MSR expressed as a % of CTC to be achieved by 31 March 2023	MSR expressed as a % of CTC to be achieved by 31 March 2024
Group Chief Executive	150%	200%	250%
Other group executives	100%	125%	150%

In addition, the Remuneration Committee decided to further align the Company's incentive remuneration and the interests of executives with that of shareholders by amending the Alexander Forbes long-term incentive share plan (forfeitable and restricted share scheme 2015: the Plan) rules to provide for the recovery of vested shares (gross of any tax), or for the Executive to pay to the Company an amount equivalent to all or part of the proceeds of sale at the time of disposal of all or some of the Plan shares acquired pursuant to the vesting of the award (gross of any tax). This is also referred to as clawback and further details are contained in the Annual General Meeting notice (ordinary resolution number 6). Once approved by shareholders, the clawback rules also apply to CSP and FSP allocations to all other eligible employees.

Basis of Awards and Award Levels

A total of 8.9 million ordinary shares or 0.7 per cent of the Company's issued share capital at 31 March 2018 will be allocated towards each allocation of the Ambition 2022 Executive LTIP award, or 26.7 million ordinary shares in total for the three anticipated awards. The standard award percentages are tabled below.

Level	Face value as percentage of Cost to Company (CTC)
Group Chief Executive	250%
Other Participants	125%

The maximum number of shares which may be allocated to a single participant in respect of awards, both vested and unvested may not exceed 13 000 000 shares which equated to approximately 1% of the Company's issued share capital when the Ambition 2022 Executive LTIP was approved.

Performance Period

Each Ambition 2022 Executive LTIP award performance condition is measured over a four-year performance period. The following performance periods will therefore apply:

- 2018 award: 1 April 2018 to 31 March 2022
- 2019 award: 1 April 2019 to 31 March 2023
- 2020 award: 1 April 2020 to 31 March 2024

Settlement of Shares

The Company intends to settle the Ambition 2022 Executive LTIP by way of an on-market purchase of shares and the current limits as provided for in the plan rules will apply, resulting in no dilution to shareholders.

The above disclosures will be incorporated in future integrated annual reports. The Remuneration Committee looks forward to further engagement with stakeholders and refinement of the disclosure relating to remuneration during the FY19 financial year.

20 August 2018
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ABOUT ALEXANDER FORBES

Alexander Forbes is a diversified financial services group headquartered in South Africa providing a broad range of retirements, health, investments, insurance and wealth management solutions to both corporate clients and individuals through an integrated platform. Alexander Forbes is listed on the Johannesburg Stock Exchange ("JSE"), and its primary clients span both the private and public sector market segments, including employers, retirement, health, investment and other special purpose funds on the institutional side, and individual members and beneficiaries of these funds, as well as the wider individual market, on the retail side. Alexander Forbes' principal geographic focus is in South Africa, where it has been operating since 1935, sub-Saharan Africa, the UK and other select emerging market jurisdictions.