

# ALEXANDER FORBES GROUP HOLDINGS LIMITED

## GOVERNANCE REPORT 2019

With King IV Application Report



A person with a backpack stands on a rocky ridge, looking out over a vast, forested valley. The scene is bathed in the warm, golden light of a sunset or sunrise, with the sun low on the horizon, creating a hazy, atmospheric effect. The person is seen from the back, wearing a plaid backpack and dark clothing. The valley below is filled with dense green trees, and the distant hills are visible under the orange sky.

2 Committee reports

34 Managing risk

38 King IV application

# CONTENTS



This governance report is intended to expand on the governance-related disclosures in the 2019 integrated annual report and annual financial statements. It is structured around the principles of the King IV Report on Corporate Governance for South Africa, 2016 (King IV<sup>1</sup>). This report provides supplementary information, including board committee reports, risk reporting, King IV application as well as the group's remuneration policy and its implementation. The governance report must be read in conjunction with the 2019 integrated annual report and annual financial statements (both available on the company's website at [www.alexanderforbes.co.za](http://www.alexanderforbes.co.za)).

<sup>1</sup> The group recognises and respects the Institute of Directors in Southern Africa NPC's copyright and trademarks in relation to King IV and reference to and usage of the King IV acronym and/or references to the King IV report, its principles, practices and any other aspects are intended as permitted use in accordance with the Copyright Act 98 of 1978, as amended, for the purpose of review and reporting on Alexander Forbes' events during the reporting period.

# COMMITTEE REPORTS



Nigel Payne (Chair)

## Audit and risk committee report

The committee is pleased to present its report for the financial year ended 31 March 2019. In 2018 we included an abbreviated version in the integrated report. This year we have combined both the statutory requirements and material aspects in relation to the committee for the reporting period, as included in the annual financial statements.

### Purpose and structure

The group audit and risk committee is an independent statutory committee in terms of section 94(2) of the Companies Act 71 of 2008, as amended (Companies Act).

Its primary responsibility is as audit and risk committee for Alexander Forbes Group Holdings Limited (AFGH), but it also fulfils the role of a group committee, as permitted by section 94(2)(a) of the Companies Act, for all South African subsidiaries, as well as the offshore and emerging markets subsidiaries and controlled trusts (where bespoke committees have not been established).

To support the group committee, some subsidiary companies have also established audit committees and the South African structure is reflected below.



### Terms of reference

The committee has adopted formal terms of reference, which are reviewed and updated as necessary on an annual basis (or more frequently if required) by both the committee and the board. The committee is satisfied that it complied with its legal, regulatory and other responsibilities during the financial year ended 31 March 2019.

The committee's primary objective is to assist the board with its responsibilities for the management of risk, safeguarding of assets, and oversight over financial control and reporting internal controls, shareholder reporting and corporate governance, particularly relating to legislative and regulatory compliance. The committee's roles and responsibilities include statutory and regulatory duties as per the Companies Act 71 of 2008, King IV, the Insurance Act 18 of 2017, JSE Limited Listings Requirements (JSE Listings Requirements) and Prudential Standards.

### Composition and attendance

Nigel Payne (Chair)	4/4
Mark Collier	4/4
Bob Head	4/4
Marilyn Ramplin	4/4

The committee comprises four independent members (independence in accordance with the holistic King IV definition and not merely that of the Companies Act) and are elected by shareholders annually. The board chair is not a member of the committee.

The board chair and all non-committee member directors, chief executive officer, chief financial officer, compliance and risk heads, executive: governance, legal and compliance, chief

technology officer, external auditor and head of group internal audit are standing invitees.

The committee, however, debates matters without the permanent invitees present, as and when so required. The committee meets at least four times a year. Two meetings (aligned with the approvals of the interim and annual financial results) are held with both the independent external auditor and head of group internal audit, respectively, where management is not present.

#### **Financial statements and accounting practices**

The committee reviewed the audited consolidated and separate annual financial statements of the company and group for the year ended 31 March 2019, particularly to ensure that disclosure was adequate and that fair presentation had been achieved. The committee recommended the approval of the consolidated and separate annual financial statement to the board of directors. The committee believes that they present a balanced view of the group's performance for the period under review and that they comply with International Financial Reporting Standards.

#### **Investigation, subsequent actions and reportable irregularity**

The AFGH board initiated an investigation into allegations against the former chief executive officer. This resulted in the termination of the services of the former chief executive officer and actions to remedy all the issues identified during the investigation.

PricewaterhouseCoopers Incorporated (PwC) reported these matters as a reportable irregularity (including reporting as such to the Prudential Authority in accordance with section 252(1)(b) of the Financial Sector Regulation Act 9 of 2017) and concluded that they have been dealt with and are no longer continuing. PwC has expressed an unmodified opinion on the financial statements which are available for inspection at the company's registered office. The resultant legal processes between the former chief executive officer and the company remain ongoing.

#### **Evaluation of the appropriateness of the expertise and experience of the chief financial officer and financial reporting procedures**

Following the resignation of Ms N Ford-Hoon as chief financial officer with effect from 14 December 2018, Mr BP Bydowell returned to the company to support and stabilise the team during Ms Ford-Hoon's notice period. He remained in this role up to his appointment as chief financial officer on 1 April 2019. The board as a whole (including the audit committee members) deliberated on Mr Bydowell's expertise and experience on considering his suitability for appointment as chief financial officer and found it, and his leadership style, especially suitable for the company's current requirements. Mr Bydowell has appointed Ms R Nkgodi as deputy chief financial officer and

will be focusing on ensuring the necessary internal depth and succession planning.

In relation to the reporting irregularity discussed above, the committee considered whether any reporting irregularities existed and confirm that none have been identified, however acknowledge that certain internal controls were required to be strengthened, on which immediate action was taken and progress already made.

#### **Key items of focus**

Some of the key items receiving the committee's focus during the reporting period:

- The circumstances surrounding the chief executive officer's termination received material attention, especially ensuring that no material financial reporting irregularities existed and that appropriate remedial actions were taken to immediately address identified deficiencies. This included a detailed review of some weaknesses in internal controls, largely caused by high staff turnover and a dependency on manual processing.
- A material amount of time was spent on critically evaluating the modernisation software impairment testing, which ultimately led to an impairment of R287 million and an additional R50 million in one-off operating expense as at the interim reporting period. In this regard the committee closely collaborated with the information technology governance committee, with the common members between both committees ensuring holistic review and debate. Both committees and the board recognise that this impairment resulted in a material destruction of value, but remain comfortable that the termination of the modernisation programme with the primary implementation partner was the correct strategic decision and further continuation would have led to a greater destruction of value.
- Following the extent of regulatory changes and also impacted by capacity constraints, compliance and risk maturity required attention and resulted in the establishment of the regulatory compliance project, to focus on and expedite compliance interventions. The committee will continue to receive detailed quarterly updates on the regulatory compliance progress, including the resolution of overall compliance capacity risk. Risk governance maturity and supporting policies and processes, aligned with the Prudential Standards, will continue to receive focus in the ensuing financial year.

#### **External audit**

The group's independent external auditor is PwC. Fees paid to the auditor is disclosed in note 3 to the group annual financial statements for the year ended 31 March 2019. During the year under review fees paid to PwC amounted to R28 million (2018: R26 million), which included R24 million

## COMMITTEE REPORTS [CONTINUED]

(2018: R24 million) for statutory audit and related activities as well as R4 million (2018: R2 million) for preapproved non-audit services. The committee is satisfied with the level and extent of non-audit services rendered during the year by PwC and that such did not impact on their independence.

The committee annually assesses the independence of PwC and again completed such assessment at its meeting on 13 June 2019. PwC was required to confirm that:

- they are not precluded from reappointment due to any impediment in section 90(b) of the Companies Act;
- in compliance with section 91(5) of the Companies Act, by comparison with the membership of the firm at the time of its reappointment in 2018, more than one-half of the members remain in 2019; and
- they remain independent, as required by section 94(7)(a) of the Companies Act of South Africa and the JSE Listings Requirements.

At this meeting, the committee also specifically considered the information presented by PwC as required in terms of paragraph 22.15(h) of the JSE Listings Requirements, in relation to registration, inspections, firm internal control and investigations in respect of PwC as a firm and the designated auditor, Ms A du Preez.

Based on these assessments and the information considered, the committee again nominated PwC as independent external auditor for the 2019/2020 financial year. Shareholders will therefore be requested to re-elect PwC as independent external auditor, with Ms A du Preez as designated auditor, for the 2019/2020 financial year at the AGM on 5 September 2019.

### Key audit matters relevant to the consolidated financial statements

The key audit matters are those items of most significance as determined by PwC during the audit of the financial statements. The key audit matters consist of:

- goodwill impairment assessment;
- provision for errors and omissions claims including the Enhanced Transfer Value (ETV) and related reimbursement asset; and
- capitalisation and write-off assessment of developed computer software intangible assets.

For further details, refer to the independent auditor's report on pages 7 to 13 in the full annual financial statements 2019.

### Internal audit

The committee is responsible for ensuring that the group's internal audit function is independent and has the necessary resources, standing and authority within the group to enable it

to perform its duties. Furthermore, the committee oversees co-operation between the internal and external auditors, and serves as a link between the board of directors and these functions. Internal audit continued to operate under the charter approved in the previous financial year. Following resource constraints, a reprioritisation of the annual audit plan was approved by the committee. The resource requirements have been receiving committee attention since September 2018 to ensure their appropriateness and adequate statutory and risk coverage.

The internal audit function reports to the relevant subsidiary audit committees with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the group's operations. The head of group internal audit is responsible for regularly reporting the findings of the internal audit work against the agreed internal audit plan to the audit committees.

### Internal controls

Based on the review of the design, implementation and effectiveness of the group's system of internal financial controls conducted by the internal audit function during the year under review, and reports made by the independent external auditor on the results of their audit and management reports, the committee is satisfied that the company's system of internal financial controls, other than the specific items highlighted as part of the reportable irregularity and elsewhere in this report, is effective and forms a basis for the preparation of reliable financial statements.

### Going concern

The committee, with support and input from the capital oversight committee and concurrence from PwC, has reviewed a documented assessment, including key assumptions prepared by management, of the going concern status of the company and consolidated group and have made a recommendation to the board in accordance therewith. The board's statement on the going concern status of the group, as supported by the committee, appears in the directors' responsibility for financial reporting section of the integrated annual report.

### Key items of future focus

The following areas, in addition to continuing items from the year under review, will be:

- In achieving the strategic objective of an integrated company, the committee will support the board by evaluating how governance systems and processes can be simplified and integrated, while still ensuring appropriate coverage of and oversight over all areas.
- Both the committee and capital oversight committee will be debating the capital structure and capital efficiency towards the capital-light strategic objective.

## Capital oversight committee report

The committee is pleased to present its report for the financial year ended 31 March 2019.

### Purpose and role of the committee

The committee was established as a subcommittee of the board to assist the board by providing independent and objective oversight over economic and regulatory capital management and liquidity for the group. It ensures adequate and appropriate discharge of fiduciary duty to clients, investors, creditors and the regulator.

The committee works closely with the audit and risk committee in relation to matters of capital allocation, solvency and liquidity specifically, and fifty per cent of the audit and risk committee members are also capital oversight committee members. Following the strategic decision to implement a capital-light model and post the disposal of the company's short-term insurance, group risk and life businesses, expected to complete before the financial year ending 31 March 2020, it is anticipated that this committee will be terminated at a suitable point in the future, with all remaining capital and solvency decisions being made by the audit and risk committee.

### Composition and attendance

Bob Head (Chair)	4/4
David Anderson	4/4
Thabo Dloti (appointed 1 August 2018)	3/3
Bridget Radebe	4/4
Marilyn Ramplin	4/4
Nigel Payne	4/4

<b>Previous</b>	
Naidene Ford-Hoon (resigned 31 December 2018)	3/3

The chief executive officer, executive: governance, legal and compliance, divisional finance officers, head of group capital, head of actuarial control, compliance and risk resources and external audit representatives are standing invitees.

Bob Head (Chair)



### Terms of reference

The committee has adopted formal terms of reference, which are reviewed and updated as necessary on an annual basis (or more frequently if required) by both the committee and the board. The committee is satisfied that it complied with its regulatory and other responsibilities during the financial year ended 31 March 2019.

### Some of the key issues that received attention during the year

- Reviewing the solvency and liquidity assessments, group and subsidiary consolidated dashboards and monitoring the impact thereof on the credit rating.
- Overseeing capital adequacy and the management of insurance entities, the group's capital structure and balance sheet management.
- Considering, in collaboration with the audit and risk committee, the dividend recommendations and capital allocation in terms of solvency and financial soundness.
- Dedicating a considerable amount of time to the change in capital requirements and mitigation of the impact on the group's solvency position, including extensive stress and scenario testing, and reviewing concentration risk and requisite remedial actions.
- Approving or recommending to the board for approval the own risk and solvency assessment (ORSA), capital management framework and policy and the group reinsurance and risk mitigation policies.

### In addition to continuous focus areas of 2019, some of the key focus areas for 2020 are:

- In collaboration with the audit and risk committee, making recommendations to the board on the optimal application of current cash reserves.
- Although it was an objective for the year under review, insufficient progress was made to transition towards a proactive embedded ORSA process which runs parallel and aligned to the group's strategic planning and budgeting process. Entrenching the ORSA as a strategic enabler and not merely as a compliance focused process will receive further focus. To this end the May 2019 board governance session included the first of a number of planned in-depth board discussions on the ORSA and risk appetites specifically.
- Considering and approving bespoke capital efficiency and optimisation projects aimed at delivering on the strategic capital-light model objective, inter alia, through solving for the umbrella fund concentration risk specifically.

# COMMITTEE REPORTS



Bob Head (Chair)

## Information technology governance committee report

The Committee is pleased to present its report for the financial year ended 31 March 2019.

### Purpose and role of the committee

The technology modernisation committee was established as a subcommittee of the board to monitor and oversee the modernisation programme strategy, scope and execution, with a key focus on assessing the stage-gate project approval governance process.

Following a thorough strategic review and the termination of the contract with the primary implementation partner (as discussed below), the committee's mandate and purpose was redefined and expanded to holistic oversight over and governance of technology, including the information technology (IT) strategy. The committee was therefore renamed the information technology governance committee.

After operating under this mandate for a number of months, and as part of the governance simplification process, it was decided in June 2019 that this committee would be absorbed into the audit and risk committee with effect from July 2019.

### Composition and attendance

Bob Head (Chair)	6/6
Simon O'Regan	4/6
Nigel Payne (appointed 1 May 2018)	5/6
Dawie de Villiers (appointed 1 November 2018)	3/3

<b>Previous</b>	
Andrew Darfoor (terminated 25 September 2018)	3/3

The chief technology officer is a standing invitee and other professional advisers and members of staff are invited as required.

### Terms of reference

The committee has adopted formal terms of reference, which are reviewed and updated as necessary on an annual basis (or more frequently if required) by both the committee and the board. The committee is satisfied that it complied with its responsibilities (initially limited to modernisation only and later expanded to IT governance holistically, as discussed above) during the financial year ended 31 March 2019.

### Some of the key issues that received attention during the year

- The focus for the year was initially a tremendous effort on ensuring that the modernisation programme aligned with the company strategy at the time and that robust business cases for each of the underlying projects existed. These were not apparent at the outset when this committee was established and resulted in frequent committee meetings and in-depth analysis of each project. Following this effort and based on the information presented by management at the time, the committee saw some improvement, notwithstanding material delays, compared to original timelines and revised scope, as refinement and contract renegotiation occurred.
- The independent advisers remained concerned about numerous aspects of the project despite the assurance provided by management at the time that critical areas were receiving attention and would be addressed once final business cases for each underlying project would be presented. Areas of concern were the project governance, lack of definitive renegotiated agreements based on the amended project scope and the true belief by business that the planned projects would meet the company's most strategic modernisation needs.
- By mid-2018 the committee and board became increasingly concerned, especially with the regular misalignment between management and independent assurance provider status reporting. These concerns led to monthly committee meetings between August and November 2018 and initially also combined board committee and modernisation management committee meetings in an attempt to receive detailed operational information directly from source. Despite these remedial steps, the extent of concerns and the emerging loss of confidence in this project, the largest of its nature in the company's history, continued to increase. Following this action, the second part of the year's focus commenced by critically assessing whether to terminate the project in totality. The committee and board acknowledge the material write-off of the capitalised software development assets of R287 million and the R50 million one-off termination cost, as a result of the ultimate decision to terminate the relationship with the primary implementation partner.

- Despite this negative impact on all stakeholders, for shareholders in particular, the committee and board are confident that this was the correct strategic decision. A robust post-decision review was completed to ensure learnings are documented, understood and entrenched in decision-making to avoid any future recurrences. One of the key learnings has resulted in a different approach to technology updates and upgrades through smaller, more regular and more manageable interventions, rather than large-scale changes and updates, and implementing an agile methodology.
- Following the above decisions, the second part of the year concentrated on ensuring the leadership team was focused on stabilising the information technology core. The committee established and entrenched key governance principles, inter alia:
  - approving the IT strategy focused on achieving a stable IT platform for future growth, as well as enabling flexibility and ability to adapt to change;
  - approving a number of IT governance enabling frameworks and to ensure alignment with COBIT 5 and the King IV principles; and
  - following the decision to implement smaller, more manageable modernisation initiatives directed at enabling revised key strategic objectives, overseeing the critical technology and system updates and changes.

**In addition to continuous focus areas of 2019, some of the key focus areas for 2020, which will from July 2019 be overseen by the audit and risk committee, are:**

- Ensuring appropriate oversight over the wider strategic IT governance matters.
- Ensuring closer alignment between the revised group strategy and the IT strategy so that technology better supports the company's new priorities holistically. The decision to dispose of the company's long-term and short-term insurance businesses has enabled greater focus on the remaining business lines, which also requires less capital and less intervention to align systems with market best practice. Ensuring the IT team is appropriately resourced to enable and deliver on the IT strategy.
- Increased focus on and understanding of cybersecurity risks and the company's level of readiness and ability to respond to cyberthreats, including appropriate oversight over business continuity management and testing.

## COMMITTEE REPORTS [CONTINUED]

## Mergers and acquisitions committee report

The committee is pleased to present its report for the financial year ended 31 March 2019.

**Purpose and role of the committee**

The committee was established as a subcommittee of the board to review acquisitions, mergers, disposals and joint ventures and only meets when required.

Following a review of the South African businesses to ensure the appropriate strategy and management structure, the company took the decision to dispose of the long-term and short-term insurance businesses and to seek to acquire a similarly focused employee benefits business. Consequently, the committee met during the year on a more frequent basis and at regular intervals.

**Composition and attendance**

Mark Collier (Chair)	10/10
Bruce Bydawell (appointed 1 April 2019)	0/0
Dawie de Villiers (appointed 1 November 2018)	4/4
Simon O'Regan	7/10
Nigel Payne (appointed 6 September 2018)	5/5
Bob Head (appointed 1 December 2018)	2/2

<b>Previous</b>	
Andrew Darfoor (terminated 25 September 2018)	5/5
Naidene Ford-Hoon (resigned 31 December 2018)	6/6
Nonkululeko Nyembezi (resigned 1 December 2018)	7/8

The group head: strategy and operations is a standing invitee and ad hoc invitees include professional advisers and members of staff whose input may be required. The board chair was initially a member of the committee, but became a standing invitee, as in all other committee instances, with effect from 1 December 2018.

Mark Collier (Chair)

**Terms of reference**

The committee has adopted formal terms of reference, which are reviewed and updated as necessary on an annual basis (or more frequently if required) by both the committee and the board. The committee is satisfied that it complied with its responsibilities during the financial year ended 31 March 2019.

**Some of the key issues that received attention during the year**

- The process for and ongoing oversight over the disposal of the long-term and short-term insurance businesses, in the most efficient and value-accretive manner, received significant focus during the year.
- Consideration of potential employee benefits targets for acquisition also occupied material focus.
- Following a critical analysis of the African Actuarial Consultants (Private) Limited acquisition in Zimbabwe, a transaction that had not closed at the time of the analysis, the committee decided not to proceed with the acquisition. The committee also determined that any acquisition, despite its low value should be approved by the committee and has since determined that all mergers and acquisitions, regardless of value, must have committee oversight and approval.

**In addition to continuous focus areas of 2019, some of the key focus areas for 2020 are:**

- Effective and efficient disposal of the long-term and short-term insurance businesses as quickly and responsibly as reasonably possible within the context of regulatory approvals.
- Continuing to evaluate potential employee benefits targets that will enable and align with our overall strategic intent.
- Oversight over the exit from sub-optimal non-South African markets in line with the strategic review carried out by the board during the year.

## Nominations committee report

The committee is pleased to present its report for the financial year ended 31 March 2019.

### Purpose and role of the committee

The committee was established as a subcommittee of the board to assist the board by providing independent oversight over the process for nominating, electing and appointing members to the board, its committees and the executive committee, classification of directors, board and committee induction and ongoing development processes and interventions, succession planning and board performance evaluation processes.

### Composition and attendance

Nonkululeko Nyembezi (Chair)	4/4
Mark Collier	4/4
Totsie Memela-Khambula	4/4
Simon O'Regan	4/4

The chief executive officer and chief financial officer are standing invitees and ad hoc invitees include professional advisers and members of staff whose input may be required.

### Terms of reference

The committee has adopted formal terms of reference, which are reviewed and updated as necessary on an annual basis (or more frequently if required) by both the committee and the board. The committee is satisfied that it complied with its responsibilities during the financial year ended 31 March 2019.

### Some of the key issues that received attention during the year

- As reported in the integrated report, the board as a whole, but the committee especially, spent a considerable amount of time on the circumstances surrounding the termination of the previous chief executive officer's services and finding a suitable replacement. The committee and board are very pleased with the efficient and timely appointment of Mr DJ de Villiers and the material positive impact he has made in a short period of time.
- With the nomination of Mr T Dloti to the board, the committee finalised its short-term board succession plans and optimised committee coverage through some committee changes during the remainder of the year.
- As also reported in the integrated report, the committee determined that it was not an opportune time to conduct a detailed board evaluation process and focused the attention on the combined insurance board. Due to the high number of shared directors between the combined insurance and holding company boards, the results reflected a holistic view of areas requiring attention and hence remedial actions proposed were of universal application.

Nonkululeko Nyembezi (Chair)



Some of the deficiencies highlighted were:

- Leadership issues having dominated the board agenda in 2019, resulted in less focus on long-term strategic matters. This was largely addressed through the leadership changes and the approval of the revised strategy in March 2019, thereby re-establishing the future focus in order to achieve long-term sustainability.
- Lack of strategic alignment between the board and previous leadership, as well as a highly ineffective partnership between the parties, led to a lack of trust and transparency. This was also largely addressed through the above-mentioned interventions, although specific interventions will be planned to ensure and entrench alignment once the new executive team has been formalised.
- Specific areas the board acknowledged for improvement were its oversight over annual capital and operating budgets and its understanding of the evolving needs of customers and how this should impact strategic priorities. These items will continue to receive attention during 2020.
- Although the board induction processes had been well established, ongoing professional development had been neglected. This has been addressed through the sharing of more frequent and broad-based information with the board, as well as governance sessions intended to inform the board on governance, regulatory and other strategic and industry matters of relevance. As reported in the integrated report, a first full-day session was held in May 2019, but to enable in-person participation by our international directors, shorter sessions will in future form part of every standard board cycle.

### In addition to continuous focus areas of 2019, some of the key focus areas for 2020 are:

- Executive appointments and succession featured in the first part of 2020 and culminated in the appointment of some members of the new executive committee, as communicated during the 2019 results presentations.
- In pursuit of the stated objective to simplify governance and operate as an integrated business, the composition of subsidiary boards and optimal committee composition have received focus and, inter alia, led to the decision to collapse the information technology governance committee into the audit and risk committee. In the remainder of 2020 focus will be directed towards finalising the subsidiary rationalisation process, aligned with the disposal of a number of legal entities as part of the insurance business transactions.
- Ensuring implementation of all planned remedial actions to address the deficiencies identified as part of the combined insurance board evaluation and assessing the approach and timing for an internally or externally facilitated evaluation in respect of 2020.
- Continual focus on board succession.

## COMMITTEE REPORTS [CONTINUED]

## Social, ethics and transformation committee report

The committee is pleased to present its report for the financial year ended 31 March 2019.

**Purpose and role of the committee**

This committee is constituted as a statutory committee of the company for those statutory duties assigned to it in terms of section 72(4) of the Companies Act (read in conjunction with regulation 43 of the Companies Regulations, 2011) and as a committee of the board for all other duties assigned by the board. The committee does not assume the functions of management, which remain the responsibility of the executive directors, prescribed officers and other members of senior management, nor does it assume accountability for functions performed by other committees of the board.

The role and objective of this committee is to oversee and monitor the group's activities in relation to social and economic development, good corporate citizenship, corporate social responsibility, ethical behaviour, environmental impact, consumer relations, fair labour practices and transformation.

**Composition and attendance**

Totsie Memela-Khambula (Chair)	3/3
David Anderson	2/3
Bridget Radebe	3/3
Dawie de Villiers (appointed 1 November 2018)	2/2
Thabo Dloti	2/3

<b>Previous</b>	
Andrew Darfoor (terminated on 25 September 2018)	1/1
Nonkululeko Nyembezi (resigned 28 November 2018)	1/1

The board chair was initially a member of the committee, but became a standing invitee, as in all other committee instances, with effect from 1 December 2018.

Professional advisers and members of staff, whose input may be required from time to time, are standing invitees to the committee.

Totsie Memela-Khambula (Chair)

**Terms of reference**

The committee has adopted formal terms of reference, which are reviewed and updated as necessary on an annual basis (or more frequently if required) by both the committee and the board. The committee is satisfied that it complied with its responsibilities during the financial year ended 31 March 2019.

**Some of the key issues that received attention during the year (in addition to those discussed as material issues in the integrated report)**

- Skills development, specifically enabling unemployed learners, through internships. The internship programme that commenced in February 2018 led to 50% of African intern learners being permanently employed by the company.
- Sexual harassment awareness in the workplace through communication campaigns.
- A considerable amount of time was spent on understanding the low levels of staff engagement and morale and ensuring the committee understood the root causes.
- Corporate social responsibility through the Alexander Forbes Community Trust. A total amount of R5.5 million was donated to the Trust and allocated towards bursaries, projects and volunteerism. The Community Trust currently oversees seven programmes across four provinces in the country. One project had to be terminated due to the mismanagement of funds by the project recipient following issues identified during an internal review.
- The process and outcome of the annual broad-based black economic empowerment (B-BBEE) rating assessment. The committee is exceptionally pleased with the resultant level 2 certificate, (2018: level 3).
- Keen oversight over matters reported through the ethics hotline, its effectiveness and the process and outcomes of associated investigations. There were 20 whistle-blower reports for the financial year that covered a variety of ethical and related aspects.

**In addition to continuous focus areas of 2019, some of the key focus areas for 2020 are:**

- An increased emphasis and focus on transformation in executive and senior management positions, especially within Alexander Forbes Investments Limited, which will in future be required to have its own scorecard in accordance with the Amended Financial Sector Code.
- Enhancing anti-money laundering, anti-theft, bribery and corruption programmes at all levels.
- Establishing a management ethics committee, as a subcommittee of this committee, to ensure broader involvement in and oversight over the ethics reporting hotline and associated investigations and disciplinary steps taken.
- Obtaining a better understanding of the root causes of disciplinary cases and actions to ensure that individual instances of unacceptable behaviour are addressed and that the committee understands any underlying systemic issues.
- Skills development in middle and junior management through leadership development programmes and accredited training. There will also be a focus on supporting individuals with disabilities through increased representation in the group and access to training opportunities.
- Exploring potential partnerships with local universities to provide employment opportunities for graduates.
- Improving customer service delivery and enhancing customer satisfaction by improving the complaints process.
- Supporting the board in rebuilding the culture that had made the company great in the past, as well as purposefully rebuilding the trust between executive management, senior management and the board following the termination of the previous chief executive officer's services and the resignations of the majority of the previous executive team.



## Remuneration committee report

The remuneration committee (Remco or the committee) is pleased to present the remuneration policy and implementation report as part of the committee's report for the year ended 31 March 2019.

The committee has been established as a subcommittee of the board to assist the board by providing independent and objective oversight over key remuneration matters for the group including, but not limited to, remuneration strategies, philosophies and their implementation. The committee also approves the remuneration for specific key positions, like the executive committee members and heads of control functions.

This report has been structured to detail the company's remuneration policy and its implementation in respect of the reporting period. The company's remuneration policy underwent a material review during this reporting period and disclosure is therefore extensive. In future years static information will be clearly indicated and only policy changes during the period specifically highlighted.

### Composition and attendance

Mark Collier (Chair)	7/9
Nonkululeko Nyembezi	9/9
Totsie Memela-Khambula	8/9
Simon O'Regan	9/9

The Remco meets at least four times per year, however in 2019 met on nine occasions – with special meetings held to discuss and address the changes to the remuneration policy.

At these meetings the chief executive officer and other members of the executive attend meetings by invitation, but do not vote and are not present when their remuneration is determined. The Remco has access to independent remuneration consultants for advice on best practice, trends and regulatory changes, in order for such to be considered in reviewing and formulating the remuneration policy.

### Terms of reference

The committee has adopted formal terms of reference, which are reviewed and updated as necessary on an annual basis (or more frequently if required) by both the committee and the board. The committee is satisfied that it complied with its responsibilities during the financial year ended 31 March 2019.

Mark Collier (Chair)



### Background statement

Alexander Forbes has developed an integrated approach to performance management and remuneration to give effect to the company's 'pay for performance' remuneration philosophy. The company is committed to the concept of total reward, which recognises that reward is multifaceted and does not only have direct financial components. Consequently, our employee value proposition includes offering competitive market remuneration and rewards that contribute towards the financial well-being of our employees now and into the future. In this way the company aims to attract and fully engage the right employees, retain key and core skills, promote internal equity and fairness, and reward and encourage behaviour consistent with the company's values and to align the interests of all stakeholders.

The Remco ensures that directors, senior management, and employees are remunerated fairly and responsibly. They also ensure that the remuneration policies are aligned with the company's overall reward philosophy, long-term business objectives and risk appetite.

In determining the remuneration policy, the Remco has embraced the King IV principles and remuneration best practices generally.

**2018 annual general  
meeting voting  
outcomes and our  
response**  
— see overleaf

## REMUNERATION COMMITTEE REPORT [CONTINUED]

### 2018 annual general meeting voting outcomes and our response

In the lead-up to the 2018 annual general meeting (AGM), a number of shareholders expressed concern with elements of the company's remuneration policy, as well as with the company's level of disclosure. In response to these initial concerns, both the board chair and Remco chair extensively engaged with some of our key shareholders – including Allan Gray, Stanlib and Kagiso Asset Management. In response to some of the questions, the company published a further voluntary announcement on the Stock Exchange News Service (SENS) prior to the AGM in September 2018 to provide further remuneration policy disclosure and specifically undertook to materially improve the policy and implementation disclosure in FY2019. Despite the additional disclosure, shareholders indicated their discontent through a materially reduced percentage vote in favour of the remuneration policy as well as the implementation report.

Results of voting at the 2016, 2017 and 2018 annual general meeting are shown in the table below:

% vote in favour	2018	2017	2016
<b>Remuneration policy</b>	<b>59.33%</b>	87.96%	77.43%
<b>Implementation report<sup>1</sup></b>	<b>60.59%</b>	–	–

<sup>1</sup> This resolution was only introduced in 2018.

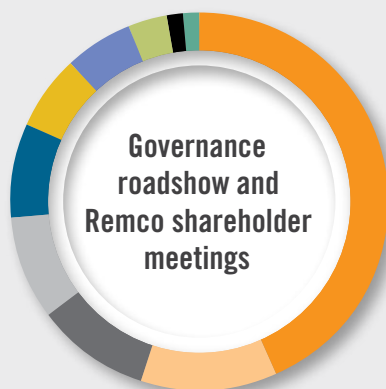
We had been planning a governance roadshow regardless, however, following the low vote in favour of the policy and report at the 2018 AGM, and in accordance with King IV guidelines, the company expanded its shareholder engagement, seeking feedback on the company's remuneration strategy and policies.

A summary of the feedback and key concerns raised during the various engagements is highlighted below:

FEEDBACK	RESPONSE/ACTION
There should be more than one performance measure for vesting of LTIP awards	<ul style="list-style-type: none"> <li>Revised LTIP performance conditions:               <ul style="list-style-type: none"> <li>70% financial with normalised RoE at 35% and normalised HEPS at 35%</li> <li>Non-financial strategic initiatives at 30%</li> </ul> </li> </ul>
Vesting period for LTIP too short and concerns with cliff vesting	<ul style="list-style-type: none"> <li>LTIP vesting period increased to four years</li> <li>Staggered vesting in years 3 and 4</li> </ul>
Group and individual performance disclosures insufficient	<ul style="list-style-type: none"> <li>Group scorecard (including weighting and targets to be disclosed retrospectively)</li> <li>Chief executive officer's KPIs and performance disclosed in FY2019 and exco members will be disclosed retrospectively from FY2020</li> </ul>
Short-term incentive bonus link to performance not disclosed	<ul style="list-style-type: none"> <li>Disclosure on STI improved to include group scorecard and STI pool calculation methodology</li> </ul>

In addition to the pre- and post-AGM engagements, the company also undertook its inaugural governance roadshow, which focused specifically on the company's remuneration policy and its amendments and other general governance matters. A series of one-on-one meetings with the following major shareholders were held to discuss the planned changes and obtain feedback prior to finalisation. The main points of discussion were the LTIP, as well as the most appropriate performance conditions and their respective weightings, and on the STI, the award criteria and the bonus pool calculation methodology. The roadshow covered strategic and institutional shareholders representing 77.1% of the issued share capital (ISC) (shown alongside).

Going forward, the committee will continue to actively engage with shareholders, evaluate and consider their feedback on the remuneration policy and its implementation. This is in line with our commitment to enhance our reporting, meet shareholder expectations where feasible, and maintaining accurate, transparent and relevant disclosure on the performance measures used to determine the award of short-term and long-term incentives.



Rank	Name	% S/O
1	Marsh McLennan & Companies	33.0
2	African Rainbow Capital	8.9
3	Visio Capital Management	7.4
4	Abax Investments	6.8
5	Public Investment Corporation	6.2
6	Allan Gray	4.8
7	GIC	4.4
8	Kagiso Asset Management	2.6
9	Sanlam Investment Management	1.1
10	Old Mutual Investment Group	0.9
	% total ISC	77.1

The Remco took on board the voting outcomes (indicated alongside) and considered the feedback received and incorporated, as appropriate, into the revised remuneration policy as well as significantly increasing disclosure detailed in this report.

In addition to specific policy changes post shareholder engagement, the following policy changes were also made during the year:

- Align policy to best practice – simpler, transparent and fair approach
- Ensure link to strategy and greater shareholder alignment – linking pay to performance and aligning executive remuneration with shareholder value creation
- Sustainability – focus on long-term sustainable performance

A summary of some of the key amendments is detailed below and extensively discussed throughout the report:

#### Summary of changes

#### Reason for change/update

##### Short-term Incentive (STI)

- All permanent employees eligible, excluding those who receive sales incentives or commissions
- Award based on weighted performance of the company and individual performance
- Company scorecard: 70% financial and 30% non-financial measures
- STI pool calculation based on a percentage of adjusted profit from operations
  - A performance-related modifier for performance above and below a hurdle rate
- A percentage of the pool may be reserved for discretionary allocations

- Shareholder concern:
  - No clear link to performance (company or individual)
- Internal review:
  - Focus on 'pay for performance' philosophy
  - Expansion of STI to all full-time employees to promote performance orientation culture and ending guaranteed 13th cheque for levels 1 – 3
  - Individual 'on-target' percentage varied across the business – limited structure and no consistency

##### Long-term Incentive Plan (LTIP)

- Eligibility for LTIP extended to all management levels
- Four-year staggered vesting: 50% in year 3 and 50% in year 4
- LTIP performance conditions revised to include:
  - Financial: Normalised HEPS (35%) and Normalised RoE (35%)
  - Non-financial: Strategic initiatives (30%)
- Minimum shareholder requirements as vesting condition for executives
- 'Malus and clawback policy'

- Shareholder concerns:
  - Vesting linked to only one performance condition
  - Weak alignment to shareholder value creation
  - Preference for longer vesting period
  - No shareholding requirements
- Internal review:
  - Simplify – one plan for all executives to ensure better alignment (with the termination of Ambition 2022 GEC LTIP)

## REMUNERATION REPORT [CONTINUED]

### REMUNERATION POLICY

#### Overview

This section details the remuneration policy.

Alexander Forbes' philosophy in relation to remuneration aims to:

- offer total remuneration that meets the remuneration principles of the company;
- align with the Alexander Forbes employee value proposition and the performance management system;
- complement and support the delivery of financial and non-financial key objectives which underpin the company's strategy; and
- align the remuneration of especially executives with the creation of long-term shareholder value;
- attract, motivate and retain talented, high-performing people;
- offer employees competitive guaranteed packages which are relevant to market benchmarks; and
- encourage performance to drive the achievement of both short-term results and long-term sustainability.

Our reward philosophy promotes a holistic 'total rewards' approach of combining remuneration with other elements of reward to attract, motivate and retain talented individuals. The principle of 'performance-based remuneration' is one of the cornerstones of reward which increases employees' earning opportunities while reducing the organisation's risk. The total rewards philosophy strives to create a reward environment conducive to performance by enabling growth and development.

#### Remuneration principles

- 1 Attract, motivate and retain**
- 2 Recognise and reward performance**
- 3 Fair and transparent**
- 4 Equitable**
- 5 Alignment with strategy**
- 6 Sound governance and best practice**

### Components of remuneration

The remuneration structure comprises three components:

- Total guaranteed pay (TGP)
- Short-term incentives (STI)
- Long-term incentive plan (LTIP)

Total remuneration consists of fixed and variable components, with emphasis on variable pay at executive and senior levels to encourage performance and alignment with shareholder value creation.

Level	Occupational level	TGP	STI	LTIP	ESOP
6	Executive/top management	✓	✓	✓	
5	Senior management	✓	✓	✓	
4	Mid-management/senior specialist	✓	✓	✓	
3	Junior management/specialist	✓	✓		✓
2	Skilled technical/analyst	✓	✓		✓
1	Administrator/clerk	✓	✓		✓

#### Make-up of targeted remuneration (percentage) by employment level



## Total guaranteed pay (TGP)

TGP is a core element of remuneration reflecting the individual's role and position and is payable for undertaking expected day-to-day responsibilities. The TGP is a fixed component that consists of: salary, benefits (medical cover, life cover, disability cover and personal accident insurance) and retirement fund contributions.

Alexander Forbes strategically positions itself to ensure competitive total reward within the parameters of affordability. This implies benchmarking against the market's 50th percentile (or median) and, through leveraging of non-guaranteed incentive pay. 'Total reward' in certain instances (consistent high performance, scarce skills, critical roles, etc.), can be benchmarked at the market's upper quartile. The company's relative market position strives to ensure that it attracts and retains the core competencies required to meet the strategic objectives of the company.

Compulsory benefits	Summary
<b>Alexander Forbes Retirement Fund</b>	Elected contribution rate also allows for additional voluntary contribution. There are three investment portfolio strategy options that individuals can choose from: (1) the default investment strategy chosen by the management committee of the sub-fund; (2) the Alexander Forbes Goals-based LifeStage Model; or (3) individuals can also select their own choice of portfolios.
<b>Life assurance cover</b>	Group life assurance is provided for employees who are members of the Alexander Forbes Retirement Fund.
<b>Permanent health insurance</b>	Disability income benefit will become payable in the event that an employee becomes disabled to such an extent that he/she is unable to perform the job or similar occupation.
<b>Dread disease cover</b>	This cover makes provision for a lump sum payment on a diagnosis of a variety of dread diseases such as cancer, chronic renal failure, heart attack, paraplegia, stroke, blindness and a number of other conditions.
<b>Spouse's cover</b>	Employees who are married participate in the spouse's cover policy that pays a lump sum death benefit in the event of the death of the spouse.
<b>Funeral benefit</b>	A funeral benefit is provided up to a maximum of R20 000 payable on the death of an employee and that of the spouse. A lower amount will be payable on the death of a child, depending on the child's age at date of death.
<b>Medical aid</b>	In line with company policy and subject to the conditions of the scheme, it is compulsory to be a member of the company's medical scheme, unless the employee is covered on their spouse's medical scheme. The scheme offers various benefit options, that individuals can change in January of each year. The company has partnered with Discovery Health and Bonitas Health, providing a variety of options to cater for different needs.

Alexander Forbes reviews individual TGP once a year, effective 1 July. This annual review includes merit adjustments. The average increase in employment cost is approved by the Remco and is a factor of the increase in cost of living, market remuneration rates, affordability and general employment market trends. Annual reviews will be informed by:

- projected inflation;
- internal equity;
- external market;
- performance; and
- affordability.

Individual employee performance ratings are the primary driving factor in the annual reward cycle review of each individual, but the following variables will also be taken into account:

- the individual's assessed long-term value to the organisation;
- employee remuneration positioning within a pay scale;
- remuneration of others in similar positions internally; and
- market alignment.

Internal and independent benchmarking is performed to ensure equity, fairness and market-related base pay.

## REMUNERATION REPORT [CONTINUED]

## Short-term incentives (STI)

The STI ('bonus') component forms a fundamental part of the total reward philosophy that drives both financial and non-financial organisational and individual performance. One of the key features of the revised remuneration policy is the 'pay-for-performance' principle. Alexander Forbes' STI relates to performance against annual company objectives consistent with the creation of long-term value for shareholders. From FY2019 all permanent, active employees were eligible for the STI (going from 220 in 2018 to 2 220 employees) except those who receive sales incentives or commissions.

Alexander Forbes' STI scheme rewards performance for meeting specific predetermined short-term organisational targets. The guiding principles are:

- a direct link between performance management and rewards;
- objectives and measures used in the incentive scheme derived from the overall annual strategic objectives. These are cascaded down to determine relevant objectives and targets at all levels;
- the weighting on the group scorecard in respect of financial and non-financial measurements is a 70:30 split; and

- the incentive programme seeks to enable participants to have a clear understanding of value-adding remuneration opportunities and what they can do in order to maximise their pay.

The qualifier for the award of STI is based on an individual achieving a minimum performance rating of 2.5 as well as achieving a threshold cumulative rating of at least 2.5 (on a 1 to 5 rating scale). This cumulative rating is determined by calculating the weighted score of the company scorecard and individual performance. For executives and senior management, greater weighting is placed on overall company performance as set out below:

Level	Company weighting	Individual weighting	FY2020 company scorecard	
<b>Level 4 – Management</b>	<b>50%</b>	<b>50%</b>	<b>Financial performance targets</b>	<b>Weighting</b>
			Net revenue	<b>35%</b>
			Cost to income ratio	<b>35%</b>
			Total	<b>70%</b>
<b>Level 5 – Senior management</b>	<b>60%</b>	<b>40%</b>	<b>Non-financial performance targets</b>	
			Customer net promoter score	<b>15%</b>
			People – employee engagement survey	<b>15%</b>
			Total	<b>30%</b>
<b>Level 6 – Top management</b>	<b>70%</b>	<b>30%</b>		
<b>Group executive</b>	<b>80%</b>	<b>20%</b>		

### STI funding methodology

A company-wide STI is determined according to a pool methodology that incorporates the following variables set by the Remco:

- a percentage of adjusted profit from operations before non-trading and capital items ('adjusted operating profit'); and
- a performance-related modifier for performance above and below a predetermined threshold (reflected by the required growth rate). The Remco reviews these thresholds annually. Thresholds are set to ensure that the STI pool reduces at a proportionally higher rate for below-target performance but increases at a higher proportional rate for above-target performance.

The mechanism for quantifying the pool is subject to annual review and refinement by the Remco and can be modified where necessary.

The STI pool size will determine the final amounts paid to eligible employees. The individual award is calculated in line with the employee level, employee performance and group performance which is then calibrated to the size of the pool.

#### ADJUSTED OPERATING PROFIT

- Profit from operations before non-trading and capital items; plus
- IFRS lease adjustment (with the intention of reflecting the cash expense for leased property);
- Excluding the STI pool expense;
- Adjusted for any quality of earnings adjustments identified through the year-end audit process;
- Adjusted for emerging markets minority interest; and
- Including reported profits from associate investments.

x (15% – 20%)

2x modifier against hurdle growth rate

STI POOL AMOUNT

#### Discretion of the committee

The committee has discretion to withdraw or change the STI scheme. In addition, the Remco holds overriding discretion on incentive payments including: zero STI awards and/or in the event of exceptional individual performance being achieved (within the context of poor company performance) ex gratia payments may be approved by the committee. The Remco may reserve a percentage of the STI pool for discretionary allocations.

## REMUNERATION REPORT [CONTINUED]

## Long-term incentive plan (LTIP)

The Alexander Forbes LTIP applies to executive and senior management, and has been extended to management. The share-based LTIPs are governed by rules as approved by shareholders. The LTIP is designed to:

- reward individual performance for the achievement of long-term Alexander Forbes objectives;
- act as a retention mechanism; and
- incentivise executives and senior management to drive growth and achieve sustainable above-market growth over the period.

The LTIP is intended to align the interests of executives and senior managers with those of shareholders and link reward to performance and value creation over the longer term. To align shareholders' and eligible employees' interests, the vesting of the LTIP awards will be conditional on achieving performance conditions measured over a period appropriate to the strategic objectives of the company and continued employment over the vesting period. Such performance measures are linked to factors enhancing shareholder value and require strong levels of overall corporate performance, measured against predetermined benchmarks.

Awarding of LTIPs is made on a sliding scale to avoid an 'all or nothing' profile and starts at a level that is appropriate in comparison with guaranteed pay. Awards with high potential value may only be linked to commensurately high levels of performance. Full awards require significant value creation.

The structure of the LTIP ensures that the senior management team is aligned with both the longer-term future success of the company and the interests of all shareholders.




Details of payment and incentive allocations relating to the historical incentive schemes may be found in the implementation report and audited annual financial statements of Alexander Forbes Group Holdings Limited which are published on the company's website.

The Remco currently makes two types of awards under the LTIP as follows:

- Forfeitable share plan awards (FSP) – Forfeitable shares are awarded subject to continued employment, with no performance conditions, other than the original individual entry performance condition in order to qualify for an allocation. These awards are aimed at retention. Four-year vesting period with staggered vesting in equal tranches in year three and year four.
- Conditional share plan (CSP) – Conditional shares are awarded subject to continued employment and satisfaction of certain performance conditions measured over a three-year and four-year performance period with staggered vesting in equal tranches in years 3 and 4 for the 2019 tranche. 30% of the award vests for threshold performance, rising on a sliding scale to 100% of the award for performance at stretch target performance.

## 2019 tranche CSP performance measures

CSP performance measures over a three-year and four-year staggered vesting period in equal tranches:

Metric and weighting	Rationale and measurement	Staggered vesting (year 3: 50% and year 4: 50%)
Normalised headline earnings per share (HEPS) 	<ul style="list-style-type: none"> <li>▪ Basis on which management manages the company and normalised results reflects the economic substance of the company's performance</li> <li>▪ Normalised HEPS growth over time should be the foundation upon which the share price should appreciate and shareholder wealth creation rests</li> <li>▪ Sustainable growth in normalised HEPS is important to achieving long-term performance and therefore this measure is based on a three-year and four-year CAGR basis to align with the vesting periods</li> </ul>	30% vests for threshold performance and 100% vests for target; where: <ul style="list-style-type: none"> <li>▪ Threshold performance = nominal GDP</li> <li>▪ Target performance <math>\geq</math> nominal GDP + 6%</li> </ul> Linear vesting applied between these points
Normalised return on equity (RoE) 	<ul style="list-style-type: none"> <li>▪ Measurement incorporates the annual delivery of results against the capital held within the business</li> <li>▪ Normalised RoE is measured over the performance period and is calculated based on the simple average of the reported return on equity over the vesting periods</li> </ul>	30% vests for threshold performance and 100% vests for target; where: <ul style="list-style-type: none"> <li>▪ Threshold performance = risk-free rate + 2%</li> <li>▪ Target performance <math>\geq</math> risk-free rate + 6%</li> </ul> Linear vesting applied between these points
Strategic initiatives 	<ul style="list-style-type: none"> <li>▪ Inclusion of strategic initiatives provides the board a further tool to drive specific objectives which contribute to long-term sustainability</li> <li>▪ The initiatives will be clearly defined and measurable, scored by the board on an annual basis</li> </ul>	The scores for all initiatives will be added at the end of the vesting period and applied to the vesting shares as a percentage of the total possible score for the entire vesting periods

LTIP award levels, expressed as a percentage of guaranteed pay, will be made based primarily on an employee's TGP, job grade, performance, retention and attraction requirements and market benchmarks.

The LTIP award for the 2018 and 2019 financial years comprise a 60:40 split, 60% CSP and 40% FSP. The reason for the 40% FSP award is as follows:

- Considering the difficult period, the current climate, the strategic 'reset', it is crucial that Alexander Forbes motivates and retains skills to ensure successful delivery of the revised strategy.
- This will be reviewed annually, however the remuneration committee will ensure alignment to best practice.

### Minimum shareholding requirements

An additional requirement for the awards to vest for members of the executive committee, is that they must meet the minimum shareholding requirement (MSR) as set out below. The company wishes to encourage members of the executive to hold shares in the company, thus reinforcing the alignment between the executive and shareholder interests. Executives must build up and hold a specified number of shares (the target minimum shareholding) over predetermined holding periods, whereafter there is an expectation that executives, subject to the MSR, will continue to maintain their shareholding in good faith while in the employment of the company or such period as determined by the Remco from time to time.

The target minimum shareholding may be satisfied by:

- the pre-tax deferral of any shares that may be due to vest under the LTIP and the holding thereof as restricted shares; and/or
- personal investment shares purchased in the company through the use of after-tax income, which are unencumbered and automatically count towards the MSR.

MSRs (% of TGP) are shown in the table below:

MSR to be met by:	March 2022	March 2023	March 2024
Chief executive officer	150%	200%	250%
Executives	100%	125%	150%

### Clawback on STI and LTIP

The Remco 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') rules to provide for the recovery of vested shares.

Under the new provisions the Remco may reduce the quantum of incentive remuneration awards or payments in whole or in part (including to nil) under the following circumstances:

- should the participant act fraudulently or dishonestly or be in material breach of obligations to the company; and/or
- should the company become aware of a material misstatement or omission in the annual financial statements.

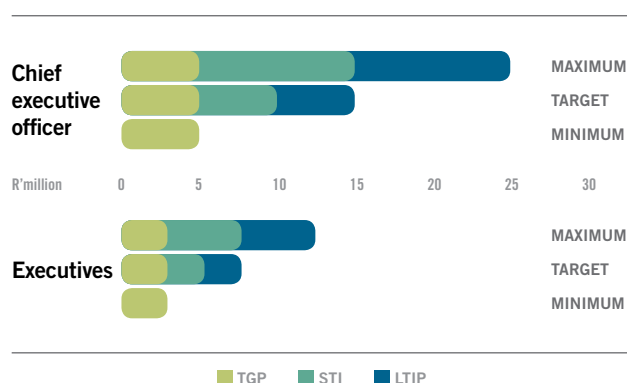
### Settlement of shares

The company generally settles the LTIP awards by way of on-market purchases, thus not having a dilutionary effect for shareholders. The rules of the plan do, however, also allow for settlement of shares through the use of treasury shares or the issue of new shares.

### Remuneration mix at minimum, target and maximum







The main difference in the remuneration structure of executives and other employees is a greater emphasis on variable performance-linked pay in senior roles. As an overarching principle, executive remuneration is structured to ensure alignment with the creation of shareholder value and the strategic objectives of the company, and to encourage outperformance of objectives.

The charts below illustrate the total potential remuneration for the executives under various performance scenarios.



## REMUNERATION REPORT [CONTINUED]

**Summary comparison – historic and current LTIP awards**

	2017 Award	2018 Award	2019 Award
Instruments used	CSP  80% FSP  20%	CSP  60% FSP  40%	CSP  60% FSP  40%
Performance conditions (CSP)	Normalised HEPS	Normalised HEPS	Normalised HEPS (35%) Normalised RoE (35%) Strategic initiatives (30%)
Performance conditions (FSP)	Employment on vesting	Employment on vesting	Employment on vesting
Vesting period	Three-year, cliff vesting	Three-year, cliff vesting	4 year vesting: staggered in equal tranches in year three and year four
Other conditions	–	–	Malus and clawback Minimum shareholding requirement (for executive committee members)

**Employee share ownership (ESOP)**

The company has an ESOP in place for the benefit of all permanent black employees who do not participate in the LTIP. There is a significant weighting to all qualifying black female employees. As a result, 70% of the beneficial interest of the ESOP trust will be held by black women, with the 30% to be distributed to all remaining permanent African staff. As at 31 March 2019 the ESOP trust held a 2.9% shareholding in the company, which is managed under the Alexander Forbes Isilulu Trust. For further detail on the ESOP refer to page 62 of the annual financial statements.

**Executive directors' service contracts**

The notice period for all executive committee members is three months. None of the executive directors or prescribed officers have special contractual obligations in employment contracts which could give rise to payments on termination of employment or office.

## Remuneration of non-executive directors (NEDs)

NED remuneration is informed by:

- the company's market capitalisation and sector;
- the level of complexity and responsibility, especially in relation to regulated companies;
- the time commitment (both for meetings and on a continuous basis);
- level of individual competence does not influence individual remuneration per se, other than certain committees that may require a different level of competence;
- residency does not influence remuneration, although travel and accommodation would be covered by the company in addition to the normal fees payable;
- the chair's fee is based on an all-inclusive fee, considering the number of applicable boards and regardless of board committee attendance (which the chair is expected to attend as far as possible as a standing invitee);
- the lead independent director (LID), does not receive a special fee as LID;
- the company utilises similar benchmarking tools for employee and NED remuneration to ensure parity and fairness. Both 'overall market' and 'financial sector' data are considered during the process, with specific focus on the latter;
- the company targets NED remuneration at the median, although certain instances may warrant the upper quartile; and
- NEDs are not eligible to receive any performance incentives or LTIPs.

## IMPLEMENTATION REPORT

The detail relating to the remuneration paid to executive directors, NEDs and prescribed officers for the financial year ended 31 March 2019 is provided in this part of the report. The Remco considers that these payments are in line with the company's remuneration policy.

### Factors that influenced remuneration

The 2019 financial year was challenging for the company and the committee, which had to balance a year of lower-than-expected company performance with the need to retain key staff and align rewards with the expectations of shareholders.

The impact of leadership change, the deterioration in employee engagement and the underlying erosion of trust, as well as the revised strategy announced in March 2019, were additional factors that the Remco considered. Specifically, the financial performance reflected in the group scorecard had a direct adverse impact on the short-term incentive (cash bonus) plan.

### Guaranteed package/base salary adjustments

On the recommendation of management and endorsed by the committee, an average increase of 4% was made as part of the annual review cycle on 1 July 2018. Executive directors and executive committee members received an increase of 0.6%, with only one of the group's executive members receiving an increase, being the previous chief executive officer (3% increase).

### Guaranteed pay increase

The annual TGP increases effective 1 July 2018 are set out in the table below. Increases are in line with inflation in South Africa (average CPI is 4.6%).

	TGP increase %
Executive committee members	0.6
Senior management	2.6
Management	4.3
Other employees	4.7

## REMUNERATION REPORT [CONTINUED]






Details of the basic salary and guaranteed packages (basic salary plus benefits) paid to each of the executive directors and prescribed officers during the 2019 financial year are set out in the table below.







### 2019 short-term incentive outcomes

#### Performance against group scorecard

Alexander Forbes as an organisation has been through numerous changes over the last year. The changes included the costly yet necessary shutdown of the IT programme, resignations of members of the previous executive, high staff turnover and a review of the strategic direction ('strategic reset') amid tough trading conditions.

The group's financial performance results that were set against targets contained in the FY2019 group scorecard relating to the short-term incentive scheme were not achieved.

 <b>Financial</b>	Operating income (Rm)	Operating leverage (%)	Normalised headline earnings per share (cps)	Cost to income (%)
	 <p>Operating income from total operations increased by 6% to R3 863 million.</p> <p>This fell short of the target approved by the Remco.</p>	 <p>Operating leverage for FY2019 was negative and fell short of the target approved by the Remco.</p>	 <p>Normalised HEPS from total operations decreased by 14% to 45 cps.</p>	 <p>Cost-to-income ratio for total operations of 76.3%.</p>
	Weighted score: 2.6	Weighted score: 0.2	Weighted score: 0.2	Weighted score: 0.1

 <b>Non-financial</b>	Technology modernisation	Customer net promoter score (NPS)	Employment equity	BEE	Employee engagement survey
	 <p>The IT programme was terminated following a board review and incurred an impairment charge of R287 million plus a R50 million termination fee on cancellation of the contract.</p> <p>Consequently, this fell short of the target approved by the Remco.</p>	 <p>The NPS score fell short of the target approved by the Remco.</p>	 <p>This met the target threshold approved by the Remco.</p>	 <p>The company obtained a level 3 rating for the 2019 financial year.</p> <p>This met the target threshold approved by the Remco.</p>	 <p>This met the target threshold approved by the Remco.</p>
	Weighted score: 0.1	Weighted score: 0.05	Weighted score: 0.15	Weighted score: 0.15	Weighted score: 0.15

Based on the financial and non-financial performance results, the overall group scorecard resulted in a rating of 1.62. The group scorecard rating is based on a 5-point scale, with a 3-point rating being on-target.

### STI and ex gratia payments

Annual STI bonus payments are typically paid in cash following finalisation of the company's audited financial results for the year in question and are not deferred.

Given the performance of the company in the current year, and the group scorecard rating being below target, the STI qualifier for payment of the allocated STI pool was not met.

The Remco decided to make an ex gratia amount available to express recognition and gratitude to certain staff members who, in a period of great change and in the face of significant adversity, showed dedication to the company and specifically went beyond the call of duty.

During the governance roadshows stakeholders recognised the retention risk faced by the company and the need to consider alternative options to mitigate this risk (without jeopardising on agreed principles over the long term). This ex gratia payment was therefore a one-off departure from policy, deemed by the Remco to be in the company's best interests.

The principles and criteria for granting of the ex gratia payment are set out below:

#### Principles

- Extended to all permanent employees who are not on a commission or variable pay structure
- Employees serving a notice period did not qualify for an ex gratia payment
- Individual performance of below 2.5 automatically disqualified individuals regardless of company performance

Ex gratia payments made to executive directors, prescribed officers and all other employees are disclosed in the table below.

#### Ex gratia payment

	Ex gratia Amount (R'000)
Executive committee members	6 680
Senior management	44 605
Management	35 300
Other employees	32 907
	119 492

### Performance scorecards – chief executive officer and chief financial officer

The chief executive officer and chief financial officer have bespoke personal performance scorecards. For the chief executive officer the objectives and key performance indicators (KPIs) for the year under review were unusually different due to the timing of his appointment amid the challenges and changes that Alexander Forbes faced.

The performance scorecard for Mr de Villiers comprised the following measures highlighted in the table below. Mr de Villiers received a final performance score of 4 (1 – 5 rating scale).

Objectives	KPIs	Weighting
Effective and expedient termination of modernisation primary implementation partner relationship	<ul style="list-style-type: none"><li>▪ Managed the termination cost</li><li>▪ Speed of execution</li></ul>	10
Material external stakeholder engagement and incorporation of legitimate interests and expectations in revised strategy development	<ul style="list-style-type: none"><li>▪ Effective engagement with key shareholders</li><li>▪ Effective engagement with regulators</li></ul>	20
Employee stabilisation and motivation	<ul style="list-style-type: none"><li>▪ Visible, felt leadership</li><li>▪ Key staff movements and appointments</li><li>▪ Remco approval of revised remuneration policy</li><li>▪ CFO appointment</li><li>▪ AF Investments leadership</li><li>▪ Improve culture</li></ul>	20
Strategic review	<ul style="list-style-type: none"><li>▪ Approval of revised strategy in March 2019</li><li>▪ M&amp;A review and progress with determined priorities</li></ul>	30
Financial results	<ul style="list-style-type: none"><li>▪ Clear, understandable, transparent disclosure of performance for 2019</li></ul>	20

Given the change in the chief financial officer during the year and the appointment of Mr Bydowell as chief financial officer was effective 1 April 2019, we have not reported on the performance scorecard for the chief financial officer. For the 2020 financial year we intend to disclose the performance against the personal scorecards for both the chief executive officer and chief financial officer, respectively.

## REMUNERATION REPORT [CONTINUED]

**Long-term incentive plan (LTIP)****LTI shares outstanding**

The total position of shares outstanding in relation to historic awards made under both the CSP and FSP is detailed in note 22 of the annual financial statements (page 62 – 64).

**Awards with a performance period ending during the 2019 financial year**

The vesting profile for the 2016 Award with a performance period ending 31 March 2019:

CSP performance conditions for the 2016 award	Achievement of performance conditions
Normalised HEPS	(10.8%)
Resultant vesting	–

**LTIP awards made during the year****2019 CSP awards**

CSP awards were granted on 1 July 2019 with staggered vesting in equal tranches in years three and four. The performance targets, weighting and performance periods are applicable to the number of shares awarded and are tested over a three-year and four-year period.

Linear vesting on a sliding scale will be applied between threshold and target performance.

Performance condition	Weighting of performance conditions (%)	Below threshold (vesting %)	Threshold (vesting %)	Target (vesting %)
Financial – normalised HEPS	35	–	10.5	35.0
Financial – normalised return on equity (RoE)	35	–	10.5	35.0
Strategic initiatives	30	–	9.0	30
<b>Total</b>	<b>100</b>	<b>–</b>	<b>30.0</b>	<b>100</b>

The following targets were set for the respective performance conditions and are considered by the committee to be appropriate in the context of the company's business strategy and the market conditions.

Financial performance conditions (70%)	Threshold (30% vesting)	Target (100% vesting)
Normalised HEPS (CAGR)	Nominal GDP	Nominal GDP + 6%
Normalised RoE	Risk-free rate <sup>1</sup> + 2%	Risk-free rate <sup>1</sup> + 6%

<sup>1</sup> Risk-free rate is the R186 SA government bond.

**Strategic initiatives (30%)**

The strategic initiatives that have been approved for the performance conditions relating to this award include the following:

1. implementing the capital-light strategic deliverable with the successful completion of the disposal of the short-term insurance business and the transition of the umbrella fund to a privately administered fund by financial year-end;
2. implementation of the target operating model with all three platforms in place and fully integrated by financial year-end; and
3. implementation of clearly defined transformation objectives aligned to the FSC and B-BBEE Act requirements with the aim to obtain a Level 1 score by FY2023.

Due to the price-sensitive nature of the targets set under the strategic initiatives, the company will report and disclose retrospectively on the performance against these objectives in its remuneration report.

**2019 FSP awards**

FSP awards were granted on 1 July 2019 with staggered vesting in equal tranches in years three and four. There are no performance conditions applicable to the number of shares awarded except for the individual remaining employed at the time of vesting.

## Single-figure remuneration for the year ended 31 March 2019 (audited)

The intention of single-figure remuneration is to disclose the remuneration earned and/or accrued by executive directors and prescribed officers based on the performance of the current year, the vesting of shares with non-financial performance conditions and including any income attributable to unvested long-term share schemes.

The composition of remuneration outcomes in 2019 for executive directors and prescribed officers is represented below.

### Executive directors and prescribed officers

R'000	Total guaranteed pay			Short-term incentives	Long-term incentives		Total
	Salary	Benefits and allowances	Retirement fund contributions	Bonus	LTIPs received	Dividends received	
DJ de Villiers <sup>1</sup>	1 850	552	198	5 080 <sup>1</sup>	9 618 <sup>1</sup>	336	17 634
BP Bydowell <sup>2</sup>	1 629	163	78	1 250	–	–	3 120
CH Wessels <sup>3</sup>	2 198	49	361	2 250 <sup>2</sup>	749	220	5 827
B Mokoena	2 472	431	429	800	544	60	4 736
L Stevens	1 945	41	319	800	576	42	3 723
<b>Total</b>	<b>10 094</b>	<b>1 236</b>	<b>1 385</b>	<b>10 180</b>	<b>11 487</b>	<b>658</b>	<b>35 040</b>

<sup>1</sup> Appointed 1 November 2018. Mr DJ de Villiers received a sign-on award comprising a R3 million bonus and 1 867 510 FSP shares amounting to R9.6 million.

<sup>2</sup> Appointed 1 April 2019. Prior to his appointment Mr BP Bydowell was employed as a consultant for a period of six months during which he acted in the capacity of chief financial officer.

<sup>3</sup> The bonus amount of R2.25 million awarded to Ms CH Wessels includes a sign-on award comprising R500 000 paid in the current year to align to awards that were given up from her previous employer.

### Executive directors' and prescribed officers' participation in share schemes

DJ de Villiers	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2019</b>									
GEC – 2018 tranche	01/11/2018	01/11/2022	–	1 951	(1 951)	–	–	–	–
CSP – 2018 tranche	02/07/2018	01/07/2022	–	1 951	–	–	1 951	–	–
FSP – 2018 tranche	01/11/2018	01/11/2021	–	1 868	–	–	1 868	9 618	9 394
<b>Total</b>			–	<b>5 770</b>	<b>(1 951)</b>	–	<b>3 819</b>	<b>9 618</b>	<b>9 394</b>

CH Wessels	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2018</b>									
CSP – 2017 tranche	23/06/2017	23/06/2020	–	165	–	–	165	–	–
FSP – 2017 tranche (a) <sup>1</sup>	23/06/2017	24/07/2020	–	240	–	(240)	–	1 511	–
FSP – 2017 tranche (b) <sup>1</sup>	23/06/2017	26/03/2019	–	286	–	–	286	1 805	2 063
FSP – 2017 tranche (c) <sup>1</sup>	23/06/2017	26/03/2020	–	78	–	–	78	492	562
FSP – 2017 tranche (d) <sup>1</sup>	23/06/2017	24/07/2020	–	41	–	–	41	260	297
<b>Total</b>			–	<b>810</b>	–	<b>(240)</b>	<b>570</b>	<b>4 068</b>	<b>2 922</b>
<b>2019</b>									
CSP – 2017 tranche	23/06/2017	23/06/2020	165	–	–	–	165	–	–
FSP – 2017 tranche (b) <sup>1</sup>	23/06/2017	26/03/2019	286	–	–	(286)	–	–	–
FSP – 2017 tranche (c) <sup>1</sup>	23/06/2017	26/03/2020	78	–	–	–	78	–	392
FSP – 2017 tranche (d) <sup>1</sup>	23/06/2017	24/07/2020	41	–	–	–	41	–	208
CSP – 2018 tranche	02/07/2018	01/07/2021	–	89	–	–	89	–	–
FSP – 2018 tranche	02/07/2018	01/07/2021	–	59	–	–	59	333	297
RSP – 2018 tranche	02/07/2018	01/01/2019, 01/07/2019	–	74	–	(37)	37	416	186
<b>Total</b>			<b>570</b>	<b>222</b>	–	<b>(323)</b>	<b>469</b>	<b>749</b>	<b>1 083</b>

<sup>1</sup> In addition to the sign-on bonus Ms CH Wessels also received FSP 2017 award allocations to align the awards that were given up from her previous employer.

## REMUNERATION REPORT [CONTINUED]

<b>B Mokoena</b>	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2018</b>									
CSP – 2015 tranche	03/09/2015	03/09/2018	233	–	–	–	233	–	–
CSP – 2016 tranche	23/07/2016	24/07/2019	250	–	–	–	250	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	–	226	–	–	226	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	–	57	–	–	57	401	407
<b>Total</b>			<b>483</b>	<b>283</b>	<b>–</b>	<b>–</b>	<b>766</b>	<b>401</b>	<b>407</b>
<b>2019</b>									
CSP – 2015 tranche	03/09/2015	03/09/2018	<b>233</b>	–	<b>(233)</b>	–	–	–	–
CSP – 2016 tranche	23/07/2016	24/07/2019	<b>250</b>	–	–	–	<b>250</b>	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	<b>226</b>	–	–	–	<b>226</b>	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	<b>57</b>	–	–	–	<b>57</b>	–	<b>285</b>
CSP – 2018 tranche	02/07/2018	01/07/2021	–	<b>71</b>	–	–	<b>71</b>	–	–
FSP – 2018 tranche	02/07/2018	01/07/2021	–	<b>47</b>	–	–	<b>47</b>	<b>266</b>	<b>238</b>
RSP – 2018 tranche	02/07/2018	01/01/2019, 01/07/2019	–	<b>49</b>	–	<b>(25)</b>	<b>24</b>	<b>278</b>	<b>119</b>
<b>Total</b>			<b>766</b>	<b>167</b>	<b>(233)</b>	<b>(25)</b>	<b>675</b>	<b>544</b>	<b>642</b>

<b>L Stevens</b>	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2018</b>									
CSP – 2015 tranche	03/09/2015	03/09/2018	157	–	–	–	157	–	–
CSP – 2016 tranche	23/07/2016	24/07/2019	160	–	–	–	160	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	–	79	–	–	79	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	–	20	–	–	20	141	143
<b>Total</b>			<b>317</b>	<b>99</b>	<b>–</b>	<b>–</b>	<b>416</b>	<b>141</b>	<b>143</b>
<b>2019</b>									
CSP – 2015 tranche	03/09/2015	03/09/2018	<b>157</b>	–	<b>(157)</b>	–	–	–	–
CSP – 2016 tranche	23/07/2016	24/07/2019	<b>160</b>	–	–	–	<b>160</b>	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	<b>79</b>	–	–	–	<b>79</b>	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	<b>20</b>	–	–	–	<b>20</b>	–	<b>100</b>
GEC – 2018 tranche	02/07/2018	01/07/2022	–	<b>511</b>	<b>(511)</b>	–	–	–	–
CSP – 2018 tranche	02/07/2018	01/07/2022	–	<b>511</b>	–	–	<b>511</b>	–	–
RSP – 2018 tranche	02/07/2018	01/01/2019, 01/07/2019	–	<b>102</b>	–	<b>(51)</b>	<b>51</b>	<b>576</b>	<b>257</b>
<b>Total</b>			<b>416</b>	<b>1 124</b>	<b>(668)</b>	<b>(51)</b>	<b>821</b>	<b>576</b>	<b>357</b>

## Payments made as a consequence of resignations

As previously communicated, there were several resignations from the previous executive committee members during the year. Certain amounts were however already contractually owed and payable within their notice periods, inter alia, deferred bonus shares vesting on 1 January 2019 and in some instances contractually agreed sign-on and other bonuses. None of them retained any rights to future LTIP awards.

The following former employees held executive positions within the group, some of whom were regarded as prescribed officers in terms of the Companies Act during the financial year. The total remuneration paid to these former executives and prescribed officers during the year is as follows:

### Former executives and prescribed officers

R'000	Total guaranteed pay			Short-term incentives	Long-term incentives		Contractual termination obligations <sup>1</sup>	Total
	Salary	Benefits and allowances	Retirement fund contributions	Bonus	LTIPs received	Dividends received		
2019								
AA Darfoo <sup>2</sup>	2 892	108	45	–	–	256	–	3 301
N Ford-Hoon <sup>2</sup>	2 333	411	249	–	–	27	–	3 020
L Greyling <sup>2</sup>	1 999	275	214	–	1 501	146	3 496	7 631
V Naicker <sup>2</sup>	1 893	423	215	–	377	49	2 013	4 970
T Powis <sup>2, 3</sup>	1 655	269	86	1 274 <sup>2</sup>	–	–	2 950	6 234
S Reddy <sup>2</sup>	2 316	248	290	–	398	83	2 383	5 718
B Schluep <sup>2</sup>	585	246	4	–	–	–	3 104	3 939
S Price <sup>2</sup>	235	171	31	–	–	–	–	437
Total <sup>4</sup>	13 908	2 151	1 134	1 274	2 276	561	13 946	35 250
2018								
AA Darfoo	5 934	231	88	2 445	1 418	36	–	10 152
N Ford-Hoon	1 848	20	194	817	788	20	–	3 687
L Greyling	2 715	47	285	1 501	535	14	–	5 097
V Naicker	2 691	52	282	754	506	13	–	4 298
T Powis	813	185	–	–	–	–	–	998
S Reddy	2 793	119	343	796	608	15	–	4 674
B Schluep	3 307	53	293	–	–	22	–	3 675
J Mather	372	5 618	–	–	–	–	–	5 990
S Price	2 777	53	358	–	565	14	–	3 767
Total <sup>4</sup>	23 250	6 378	1 843	6 313	4 420	134	–	42 338

<sup>1</sup> There were several resignations from the previous executive committee members during the year. Certain amounts were, however, already contractually owed and payable within their notice periods, inter alia, deferred bonus shares vesting on 1 January 2019 and in some instances contractually agreed sign-on and other bonuses. None of these individuals retained any rights to future LTIP awards.

<sup>2</sup> Messrs S Price and B Schluep resigned with effect from 30 April 2018 and 1 May 2018 respectively, while Mr AA Darfoor's employment was terminated on 25 September 2018. Ms N Ford-Hoon resigned with effect from 14 December 2018 while Messrs L Greyling and V Naicker resigned with effect from 1 January 2019. Both Ms S Reddy and Mr T Powis resigned with effect from 31 January 2019.

<sup>3</sup> Mr T Powis received a deferred sign-on bonus amount of R1.2 million that was paid during the year.

<sup>4</sup> The total for the year excludes transactions with Mr M Weiss (former group head of strategy and operations) who ceased to be a prescribed officer in the current year; however, he remains in the employ of the group. The total amount for Mr M Weiss for the current year is R5.9 million comprising his salary (R3.4 million), bonus (R1 million), benefits and allowances (R103 000), retirement fund contributions (R51 000), LTIPs (R1.3 million) and dividends received (R115 000). The total amount in the prior year is R3.5 million comprising his salary (R1.7 million), bonus (R627 000), benefits and allowances (R94 000), retirement fund contributions (R376 000) and LTIPs (R672 000).

## REMUNERATION REPORT [CONTINUED]

AA Darfoor	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2018</b>									
CSP – 2016 tranche	01/12/2016	24/07/2019	1 350	–	–	–	1 350	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	–	800	–	–	800	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	–	200	–	–	200	1 418	1 440
<b>Total</b>			1 350	1 000	–	–	2 350	1 418	1 440
<b>2019</b>									
CSP – 2016 tranche	01/12/2016	24/07/2019	<b>1 350</b>	–	<b>(1 350)</b>	–	–	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	<b>800</b>	–	<b>(800)</b>	–	–	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	<b>200</b>	–	<b>(200)</b>	–	–	–	–
GEC – 2018 tranche	02/07/2018	01/07/2022	–	<b>2 709</b>	<b>(2 709)</b>	–	–	–	–
RSP – 2018 tranche	02/07/2018	01/01/2019, 01/07/2019	–	<b>867</b>	<b>(867)</b>	–	–	–	–
<b>Total</b>			<b>2 350</b>	<b>3 576</b>	<b>(5 926)</b>	–	–	–	–

N Ford-Hoon	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2018</b>									
CSP – 2017 tranche	23/06/2017	24/07/2020	–	444	–	–	444	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	–	111	–	–	111	788	800
<b>Total</b>			–	555	–	–	555	788	800
<b>2019</b>									
CSP – 2017 tranche	23/06/2017	24/07/2020	<b>444</b>	–	<b>(444)</b>	–	–	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	<b>111</b>	–	<b>(111)</b>	–	–	–	–
GEC – 2018 tranche	02/07/2018	01/07/2022	–	<b>776</b>	<b>(776)</b>	–	–	–	–
RSP – 2018 tranche	02/07/2018	01/01/2019, 01/07/2019	–	<b>290</b>	<b>(290)</b>	–	–	–	–
<b>Total</b>			<b>555</b>	<b>1 066</b>	<b>(1 621)</b>	–	–	–	–

<b>L Greying</b>	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2018</b>									
CSP – 2017 tranche	23/06/2017	24/07/2020	–	302	–	–	302	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	–	76	–	–	76	535	544
<b>Total</b>			–	378	–	–	378	535	544
<b>2019</b>									
CSP – 2017 tranche	23/06/2017	24/07/2020	<b>302</b>	–	<b>(302)</b>	–	–	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	<b>76</b>	–	<b>(76)</b>	–	–	–	–
GEC – 2018 tranche	02/07/2018	01/07/2022	–	<b>665</b>	<b>(665)</b>	–	–	–	–
RSP – 2018 tranche	02/07/2018	01/01/2019, 01/07/2019	–	<b>532</b>	<b>(266)</b>	<b>(266)</b>	–	<b>1 501</b>	–
<b>Total</b>			<b>378</b>	<b>1 197</b>	<b>(1 309)</b>	<b>(266)</b>	–	<b>1 501</b>	–

<b>V Naicker</b>	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2018</b>									
CSP – 2015 tranche	03/09/2015	03/09/2018	304	–	–	–	304	–	–
CSP – 2016 tranche	23/07/2016	24/07/2019	450	–	–	–	450	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	–	286	–	–	286	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	–	71	–	–	71	506	514
<b>Total</b>			754	357	–	–	1 111	506	514
<b>2019</b>									
CSP – 2015 tranche	03/09/2015	03/09/2018	<b>304</b>	–	<b>(304)</b>	–	–	–	–
CSP – 2016 tranche	23/07/2016	24/07/2019	<b>450</b>	–	<b>(450)</b>	–	–	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	<b>286</b>	–	<b>(286)</b>	–	–	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	<b>71</b>	–	<b>(71)</b>	–	–	–	–
GEC – 2018 tranche	02/07/2018	01/07/2022	–	<b>669</b>	<b>(669)</b>	–	–	–	–
RSP – 2018 tranche	02/07/2018	01/01/2019, 01/07/2019	–	<b>134</b>	<b>(67)</b>	<b>(67)</b>	–	<b>377</b>	–
<b>Total</b>			<b>1 111</b>	<b>803</b>	<b>(1 847)</b>	<b>(67)</b>	–	<b>377</b>	–

<b>T Powis</b>	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2018</b>									
CSP – 2018 tranche	02/07/2018	01/07/2022	–	665	(665)	–	–	–	–
<b>Total</b>			–	665	(665)	–	–	–	–

## REMUNERATION REPORT [CONTINUED]

S Reddy	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2018</b>									
CSP – 2015 tranche	03/09/2015	03/09/2018	472	–	–	–	472	–	–
CSP – 2016 tranche	23/07/2016	24/07/2019	475	–	–	–	475	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	–	343	–	–	343	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	–	86	–	–	86	608	617
<b>Total</b>			<b>947</b>	<b>429</b>	<b>–</b>	<b>–</b>	<b>1 376</b>	<b>608</b>	<b>617</b>
<b>2019</b>									
CSP – 2015 tranche	03/09/2015	03/09/2018	<b>472</b>	–	<b>(472)</b>	–	–	–	–
CSP – 2016 tranche	23/07/2016	24/07/2019	<b>475</b>	–	<b>(475)</b>	–	–	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	<b>343</b>	–	<b>(343)</b>	–	–	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	<b>86</b>	–	<b>(86)</b>	–	–	–	–
GEC – 2018 tranche	02/07/2018	01/07/2022	–	<b>706</b>	<b>(706)</b>	–	–	–	–
RSP – 2018 tranche	02/07/2018	01/01/2019, 01/07/2019	–	<b>141</b>	<b>(70)</b>	<b>(71)</b>	–	<b>398</b>	–
<b>Total</b>			<b>1 376</b>	<b>847</b>	<b>(2 152)</b>	<b>(71)</b>	<b>–</b>	<b>398</b>	<b>–</b>

B Schluep	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2018</b>									
CSP – 2017 tranche	23/06/2017	24/07/2020	–	499	–	–	499	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	–	125	–	–	125	885	899
<b>Total</b>			<b>–</b>	<b>624</b>	<b>–</b>	<b>–</b>	<b>624</b>	<b>885</b>	<b>899</b>
<b>2019</b>									
CSP – 2017 tranche	23/06/2017	24/07/2020	<b>499</b>	–	<b>(499)</b>	–	–	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	<b>125</b>	–	<b>(125)</b>	–	–	–	–
<b>Total</b>			<b>624</b>	<b>–</b>	<b>(624)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

S Price	Award date	Vesting date	Opening balance ('000)	Granted during the year ('000)	Forfeited during the year ('000)	Vested during the year ('000)	Closing balance ('000)	Value of LTIP received (R'000)	Estimated closing fair value (R'000)
<b>2018</b>									
CSP – 2015 tranche	03/09/2015	03/09/2018	450	–	–	–	450	–	–
CSP – 2016 tranche	23/07/2016	24/07/2019	450	–	–	–	450	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	–	319	–	–	319	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	–	80	–	–	80	565	574
<b>Total</b>			<b>900</b>	<b>399</b>	<b>–</b>	<b>–</b>	<b>1 299</b>	<b>565</b>	<b>574</b>
<b>2019</b>									
CSP – 2015 tranche	03/09/2015	03/09/2018	<b>450</b>	–	<b>(450)</b>	–	–	–	–
CSP – 2016 tranche	23/07/2016	24/07/2019	<b>450</b>	–	<b>(450)</b>	–	–	–	–
CSP – 2017 tranche	23/06/2017	24/07/2020	<b>319</b>	–	<b>(319)</b>	–	–	–	–
FSP – 2017 tranche	23/06/2017	24/07/2020	<b>80</b>	–	<b>(80)</b>	–	–	–	–
<b>Total</b>			<b>1 299</b>	<b>–</b>	<b>(1 299)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

## Non-executive directors' fees for 2019

Fees paid to non-executive directors during the year ended 31 March 2019, on authority granted by shareholders at the annual general meeting held on 6 September 2018, are set out below.

### Non-executive directors' fees and remuneration

Non-executive directors are paid by other companies in the Alexander Forbes group and independent non-executive directors are paid fees by the company and other companies within the Alexander Forbes group.

Current independent non-executive directors (R'000)		2019	2018
N Nyembezi (Chair)		2 122	536
MD Collier		2 076	2 030
RM Head		1 111	226
T Dloti	Appointed 01/08/2018	475	–
BJ Memela-Khambula		984	914
M Ramplin		2 621	1 271
NG Payne	Appointed 01/05/2018	2 013	–
		11 402	4 977

During the year Ms M Ramplin acted as chief executive officer between 25 September 2018 and 1 November 2018, during which she received a salary amounting to R426 000 included in the above amount.

Former independent non-executive directors (R'000)		2019	2018
D Konar	Resigned 08/12/2017	–	1 763
RM Kgosana	Resigned 03/07/2017	–	302
HP Meyer	Resigned 31/12/2017	–	753
MS Moloko (chairman)	Resigned 31/10/2017	–	1 039
		–	3 857

For comparative purposes, we have included the fees paid in the prior year to non-executive independent directors that resigned during the 2018 financial year. Refer to the related parties note 43 (page 87) in the Annual Financial Statements for the year ended 31 March 2018.

## Proposed non-executive directors' fees for 2020

Refer to special resolution number 1 set out in the notice of annual general meeting for approval by shareholders.

# MANAGING RISK

## Risk appetite

Alexander Forbes' risk appetite – the amount of risk we are willing to accept in pursuit of our objectives – defines the parameters within which we operate. Our risk appetite serves as a valuable reference point for important business decisions. The risk appetite is defined by measures for each of the major categories of risk. We are clear on the risks that the organisation actively seeks, avoids or accepts, as well as on the balance between risk and reward.

Each category has a set of key metrics that are monitored quarterly against set thresholds. Additionally, qualitative principles regarding our appetite and expected risk behaviour have been set for each of the categories. In the regulatory risk space, we have made progress on implementing a risk appetite framework for market conduct and financial crime. As discussed elsewhere and in the annual integrated report, the board spent a considerable amount of time discussing and debating the risk appetite and it will continue to be refined in the coming months, especially to incorporate the impact of the strategic review.

Risk category	Risk appetite and how we monitor these
<b>Strategic risk</b>	<p>We seek strategic risk and are willing to balance the risk of potential losses in pursuit of higher returns. We do not seek strategic risk in excess of our risk-bearing capacity.</p> <p><b>Key risk indicators:</b></p> <ul style="list-style-type: none"> <li>▪ Normalised return on equity over five-year period</li> <li>▪ Growth in revenue</li> <li>▪ Return on capital employed</li> <li>▪ Earnings at risk (deviation from budget)</li> <li>▪ Profit margin</li> <li>▪ Cost-to-income ratio</li> <li>▪ Operating leverage</li> </ul>
<b>Liquidity risk</b>	<p>We avoid liquidity risk and seek to maintain liquid assets to meet both planned and unexpected cash outflows. We avoid redemption risk, which is forced exits or withdrawals from investment positions. We will avoid mass withdrawals from our funds during market stress events at all costs, as it creates systemic risk in the financial services industry and has an impact on revenue.</p> <p><b>Key risk indicators:</b></p> <ul style="list-style-type: none"> <li>▪ Own funds allocated to liquid assets, short duration assets</li> <li>▪ Level of cash conversion</li> </ul>
<b>Credit risk</b>	<p>We have limited appetite for credit risk and hence limit our exposure to non-investment grade counterparties and actively manage our credit concentrations.</p> <p><b>Key risk indicators:</b></p> <ul style="list-style-type: none"> <li>▪ Exposure to non-investment grade counterparties</li> <li>▪ Counterparty concentration</li> </ul>
<b>Insurance risk</b>	<p>We seek insurance risk through our underwriting activities in the insurance licences of Alexander Forbes Investments and Alexander Forbes Life. The material portion of the Alexander Forbes Investments business is written on a life insurance licence; however, it is not exposed to life underwriting risk. We seek to manage insurance risk by appropriate and disciplined risk pricing, underwriting practices and the monitoring of lapses and expenses. We will also seek to diversify insurance claims risk and mitigate catastrophe risk as far as possible. This will change dramatically as we progress with the sale of our insurance businesses.</p> <p><b>Key risk indicators:</b></p> <ul style="list-style-type: none"> <li>▪ Loss ratios</li> <li>▪ Lapse ratios</li> <li>▪ Annual premium growth or gross written premium (GWP)</li> <li>▪ Change in reserves</li> <li>▪ Expenses or cost-to-income ratio</li> </ul>

Risk category	Risk appetite and how we monitor these
<b>Market risk</b>	<p>We have limited appetite for market risk on our own funds and aim to invest in short-dated fixed interest instruments. We accept limited levels of mismatching risk on insurance liabilities. Our revenue stream from the investment business is exposed to market risk; the downside protection of its own revenue stream is aligned with the protection of client assets as far as possible. Protection of client assets occurs through our multi-management investment philosophy which is underpinned by superior manager research and high levels of manager and asset diversification.</p> <p>We have limited appetite for currency translation risk on emerging markets businesses.</p> <p><b>Key risk indicators:</b></p> <ul style="list-style-type: none"> <li>▪ Nature and duration of assets</li> <li>▪ Insurance liabilities matched as per asset liability management policy</li> </ul>
<b>Operational risk</b>	<p>We have a limited appetite for the failure of people, processes, systems and for the impact of external events. The impact of operational risk spans across the business and will be managed by implementation of the appropriate controls. We have zero appetite for reputational risk.</p> <p><b>Key risk indicators:</b></p> <ul style="list-style-type: none"> <li>▪ Staff turnover</li> <li>▪ System downtime (occurrences on key systems)</li> <li>▪ Errors and omissions</li> <li>▪ Process failures (number of erroneous transactions)</li> <li>▪ Internal fraud</li> <li>▪ External fraud</li> <li>▪ Customer complaints</li> </ul>
<b>Regulatory risk</b>	<p>We will avoid situations arising from non-compliance with laws, regulatory requirements, and codes of conduct applicable to the industries in which we operate that will result in a compromise of our business model, objectives, reputation and financial soundness. We will specifically focus on minimising its market conduct, financial crime and privacy risks.</p> <p><b>Key risk indicators:</b></p> <ul style="list-style-type: none"> <li>▪ Group and solo entities' solvency capital requirement</li> </ul> <p>The following KPIs will be developed:</p> <ul style="list-style-type: none"> <li>▪ Market conduct</li> <li>▪ Financial crime</li> <li>▪ Privacy</li> </ul>

## MANAGING RISK [CONTINUED]

### Own risk and solvency assessment (ORSA)

The Solvency Assessment and Management (SAM) regime commenced on 1 July 2018. As part of this regime, the Prudential Authority requires all insurance companies to complete an ORSA annually. The ORSA aims to investigate the adequacy of insurers' and insurance groups' risk management and assess the group's current and future solvency under normal and severe stress scenarios.

We define our strategy over the business planning period through a rigorous budgeting process. The results form the basis of the ORSA analysis of future projected solvency. These solvency results then undergo stress testing to determine the robustness of the business and its various contributing entities, and to determine the maturity of its risk management practices. The ORSA process and risk management responsibilities are then monitored and embedded through the ongoing and recurring ERM processes.

Our ORSA process is designed in order to determine and highlight the following:

- the overall solvency needs of the group and solo insurance entities by considering the specific risk profile, approved risk appetite and business strategy;
- the significance with which the risk profile of the insurance entity deviates from the implied risk profile underlying the financial soundness requirements;
- compliance, on a continuous basis, with financial soundness requirements; and
- the resilience of the solvency position of the Group and insurance entities across a number of sensitivities and scenarios.

### Key results

We conducted our most recent group-level ORSA and submitted results to the Prudential Authority in December 2018. The key findings are summarised below:

- the group and solo entities are sufficiently capitalised. The group and each solo insurance licence have eligible own funds in excess of its solvency capital requirements (i.e. cover ratios for all entities are greater than 1).
- Risk within the group is concentrated in a few entities, with the insurance entities being the main contributors. The results of the recent strategic review (and the consequent reorientation of the group's business model), as well as the inherently onerous regulatory demands within the insurance operations, has led to the group's recent decision to dispose of the group risk, retail life and short-term insurance units.
- The group's surplus and solvency cover ratio improves over the business planning horizon.
- The capital targets discussed in the ORSA were assessed to be adequate given the size, business mix and complexity of the insurance operations.
- The resilience of the group's projected solvency position was assessed using scenario testing techniques and found to be sound under various scenarios, including significant market deterioration.

The ORSA revealed the following focus areas to be targeted in the foreseeable future:

- ensuring that the ORSA is a more continuous process that is implemented throughout the financial period;
- improved integration and embedment of the strategy, risk management and capital planning processes;
- simplification of the ORSA processes and reporting;
- it is envisaged that more focused consideration and assessment will be given to group-specific risks such as complexity, contagion and concentration in future ORSA cycles. This will include more detailed analyses and assessment of the intra-group transactions and other dependencies within the group;
- improvement of the out-of-cycle ORSA methodologies to support intelligent and timely decision-making;
- strengthening of the three lines of defence to better support the ORSA processes; and
- continuous enhancement of the efficiency and consistency in the ORSA process through strengthening the centralised risk, compliance, capital and actuarial functions.



# KING IV APPLICATION

Principle	Explanation of practices
<b>1</b> The governing body should lead ethically and effectively	<p>The board collectively, and each director individually, subscribes to the ethical characteristics of integrity, competence, responsibility, accountability, fairness and transparency. The steps taken in response to unacceptable leadership behaviour are discussed throughout the annual integrated report and speaks to the board's willingness to decisively make the difficult decisions in the best interests of the organisation and stakeholders holistically.</p> <p>The board had spent a considerable amount of time on introspection and critically assessing whether there were any indicators or risk factors they may have missed prior to the allegations, as referenced in the reportable irregularity. They are comfortable that steps were taken immediately and decisively on confirmation of real and material concerns and that previously there had not been sufficient evidence to suggest unacceptable behaviours or circumstances.</p> <p>In determining appropriate focus areas for 2020, the board has debated how they can better perform effective oversight over the organisational culture as a whole, but especially the ethical culture. They have been reminded of the importance of setting the correct, visible tone from the top and their decisive action in 2019 was a step to send a clear message. This message will continue to be entrenched and they will focus on ways in which to remain close to the true organisational DNA so as to continue the positive trajectory already visible following the February 2019 employee engagement survey results.</p> <p>As reported in 2018 directors, in their consent to act, are required to also commit to acting in good faith and in the best interests of the company.</p>
<b>2</b> The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture	<p>The board, and in some instances the social, ethics and transformation committee, approves group-wide ethics-related policies. A revision of the code of ethics is currently under way to include new best practice and improvements.</p> <p>The notable areas of focus in 2019 included:</p> <ul style="list-style-type: none"> <li>▪ Policies relating to ethics were reviewed in order to incorporate revised regulations, requirements and the remaining aspects of King IV not dealt with in 2018.</li> <li>▪ In order to avoid or mitigate conflicts of interest all staff are required to disclose the following:             <ul style="list-style-type: none"> <li>– financial interests received;</li> <li>– financial interests offered;</li> <li>– personal account trading;</li> <li>– outside business interests; and</li> <li>– any other potential conflict of interest.</li> </ul> </li> </ul> <p>A critical review of the efficacy of these declaration processes are currently under way and improvements will be implemented in 2020.</p> <p>Our independently managed whistle-blowing programme enables concerned individuals to anonymously report conflicts of interest, fraud and corruption. We ensure that, where appropriate, management conducts independent investigations and takes appropriate follow-up action on such reports.</p> <p>In 2019 our whistle-blowing line received five allegations regarding fraud or corruption (2018: nine), which were all investigated. In each case the complaint was reviewed and appropriate corrective action was taken. A further 15 reports were made regarding ethical matters, such as diversity, discrimination or misuse of company resources (2018: 16). A new ethics risk analysis will be undertaken in the 2020 financial year in order to gauge the effectiveness of existing programmes and to provide details on any new ethics-related risks. We automated our declaration system for potential conflict of interest scenarios and rolled it out to all staff on a global basis. We will also derive and provide training in line with the revised code and policies during the 2020 financial year.</p> <p>The planned areas of focus for 2020 include:</p> <ul style="list-style-type: none"> <li>▪ The establishment of a management level ethics committee as a subcommittee of the social, ethics and transformation committee to specifically deal with whistle-blowing and other allegations of unethical and unacceptable behaviours.</li> <li>▪ The appointment of the Ethics Institute of South Africa to perform an independent ethics risk and opportunity analysis in line with King IV.</li> <li>▪ Bespoke and responsive training and information campaigns following completion of the above ethics risk analysis.</li> <li>▪ Establishment and communication of a fraud risk management programme that demonstrates the expectations of the board and senior management and their commitment to high integrity and ethical values regarding the management of fraud risk.</li> <li>▪ Aligning with anti-money laundering and anti-bribery and corruption compliance-focused initiatives.</li> </ul>

	Principle	Explanation of practices
3	<b>The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen</b>	<p>The group's social, ethics and transformation committee primarily oversees the group's approach to corporate citizenship as well as the policies governing corporate citizenship. As a responsible corporate citizen, the group is committed to adherence with all legislation and regulation and aspires to apply and comply with codes of good practice.</p> <p>The committee, which oversees the corporate citizenship policies, approved the empowerment and transformation strategy. This included ensuring compliance with broad-based black economic empowerment legislation as well as employment equity and skills development legislation that form part of the transformation framework.</p> <p>FY2018 saw the release of a number of transformation legislative changes impacting on the strategies that were in place. In FY2019 the company had to comply with the Amended Financial Sector Code which was gazetted on 1 December 2017. With the changed legislative landscape, the social, ethics and transformation committee has been reviewing and aligning policies and strategies in order to meet the new requirements. In order to put this into effect a more integrated group-wide approach is envisaged, with the group vision forming a firm foundation from which to build and draw direction. Refer to the social, ethics and transformation committee report for further information.</p> <p>As discussed in the annual integrated report, we influence enterprise development through our R14 million investment into the ASISA Enterprise Development Fund. We manage our corporate social initiatives through the Alexander Forbes Community Trust. The group contributed R5.5 million to the trust this year. Please refer to the integrated report on page 54 of the integrated report for further information.</p>
4	<b>The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value-creation process</b>	<p>As discussed in the annual integrated report, a detailed strategic review was conducted from late 2018 and the revised strategy approved by the board in March 2019.</p> <p>Although similar in some respects to the previous Ambition 2022 strategy, it provides clear and focused direction and more closely aligns with the company's agreed core purpose. Both internal and external stakeholders have responded very well to the revised strategy and have confirmed high levels of comfort that execution of the agreed strategy will create holistic stakeholder value.</p> <p>The revised strategy informed the approval of management budgets and execution plans for 2020. In response to suggestions from shareholders during the governance roadshows, the scorecards for 2020 include fewer objectives to ensure absolute focused execution, but still ensure a balance between financial and non-financial metrics.</p>
5	<b>The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects</b>	<p>The board is committed to communicating openly and transparently through an integrated annual report and has attempted to be especially open and transparent in reporting on a tumultuous 2019.</p> <p>Although the group is complex and diverse, the board is confident that the integrated reporting suite articulates all material items relevant to stakeholders. The board, however, looks forward to a 2020 report that will disclose a much more integrated business, aligned with the strategic objective to simplify and operate as a single integrated business.</p> <p>The audit and risk committee assists the board with oversight over all external reporting, ensuring its integrity, but the board as a whole approved the integrated report.</p>
6	<b>The governing body should serve as the focal point and custodian of corporate governance in the organisation</b>	<p>The board is comfortable that the King IV principles are all applied and the application leads to the intended outcomes. As expected, there are a few practices where improvements continue to receive focus.</p> <p>The board charter and all board committee terms of reference and annual plans were updated to fully align with the King IV principles, practices and outcomes.</p> <p>The board is supported by the executive: governance, legal and compliance, Ms Carina Wessels. Details of her annual evaluation as executive: governance, legal and compliance is disclosed in the integrated report.</p>

## KING IV APPLICATION [CONTINUED]

Principle	Explanation of practices
<b>7</b> The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively	<p>During the first part of the year the non-executive director portion of the board settled well through the appointment of the final members necessary to address previously identified skills and experience gaps and to specifically ensure sufficient coverage for all board committees.</p> <p>The second part of the year, as discussed elsewhere and in the annual integrated report, was focused on addressing initially the chief executive officer vacancy as expeditiously and efficiently as possible and, after the resignation of the previous chief financial officer, to also find a suitably skilled and experienced replacement. The nominations committee and board are comfortable with the current board composition, from a skills, experience, diversity, age, gender and independence perspective. The impact of the revised strategy on board requirements will receive increased focus in FY2020 and may lead to some changes over time. As the company transitions to a more narrowly focused integrated business with primary attention on South Africa, it may necessitate a review of skills and experience requirements.</p> <p>All new directors underwent a formal, independent fit and proper evaluation, as well as a critical review of their availability prior to nomination and appointment.</p> <p>The terms of their appointment are detailed in a formal letter of appointment and they have completed detailed induction sessions enabling them to rapidly contribute optimally to the group.</p> <p>Information on directors' tenure, gender, race and independence, as well as the company's performance against agreed gender and diversity targets are discussed in more detail on pages 51, 52, 58 and 60 of the integrated report.</p> <p>As discussed elsewhere, governance sessions were recently introduced to formalise the continued development of and information sharing with directors. In future each board meeting will include a presentation on relevant governance, industry, legislative, economic, regulatory and other topical items.</p> <p>Directors fully comply with the Companies Act requirements in relation to the disclosure of personal financial interests, but also ensure that all conflicts and potential conflicts of interest are proactively managed at each meeting, including those of directors nominated by large shareholders.</p> <p>Mr Mark Collier still serves as lead independent director and his role, as well as that of the board chair and chief executive officer are clearly articulated in the board charter, which also includes details of the divisions of responsibility.</p>
<b>8</b> The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties	<p>The board acknowledges the need to delegate certain matters to board committees to ensure more comprehensive oversight over all governance matters. However, despite the delegation the board retains full accountability for all oversight, other than in respect of the audit and risk committee's statutory responsibilities.</p> <p>The board is confident that the establishment of the existing standard and ad hoc committees assist in ensuring good performance and effective control over legislated and material issues. As part of the focus on transitioning to an integrated business, the current complex governance model (resulting primarily from a complex corporate and regulatory structure) has been extensively analysed and a number of decisions made to streamline forums and processes. The board agreed that, following the termination of the modernisation programme and an initial focus on changing the previous modernisation board subcommittee into an information technology governance committee, it was determined in June 2019 to collapse information technology oversight back into the audit and risk committee, of which it had originally formed part. A number of changes within the subsidiary governance processes and structures are also under consideration and will likely be implemented in the third quarter of 2020 on approval from the Prudential Authority and/or aligned with the disposal of the short-term insurance business-related companies. Post the disposal of the insurance businesses and as part of the implementation of the intended capital-light model, it is likely that the capital oversight committee will also be collapsed into the audit and risk committee at a point in future.</p> <p>Refer to page 58 of the integrated report for a diagrammatic overview of our governance structure and committee and subsidiary board interrelationships, also in the context of risk governance and external and internal assurance.</p> <p>Formal terms of reference have been established for all board committees. The terms of reference include detailed annual planners to ensure the committees meet all of their objectives and requirements, which also include the new extensive prudential requirements applicable to insurance groups.</p> <p>A comprehensive group governance framework was approved in March 2019 but is under review following the strategic changes and the intended governance simplification under way.</p> <p>During any particular quarterly board cycle, committee meetings are held over the first two days, culminating in the board meeting on the third day. Where possible, draft committee minutes are included in the board meeting that immediately follows. Notwithstanding inclusion of the minutes, all committee chairs report back on matters dealt with at the committees and especially any matters recommended to the board for approval. There is significant overlap of directors on the various committees and particularly independent non-executive directors. This ensures matters are not considered in isolation, but also in the broader context of other matters delegated by the board.</p> <p>The nominations committee is comfortable with the various committee members' skills and experience.</p> <p>All committees consist of at least three directors. Non-committee directors, as well as appropriate management representatives are standing invitees. Composition and attendance disclosures are included on pages 58 and 59 of the integrated report and in the relevant committee reports.</p>

	Principle	Explanation of practices
9	<b>The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members support continued improvement in its performance and effectiveness</b>	Formal board evaluation was only completed for the combined insurance board as it was deemed too early for the AFGH board due to the large number of new directors (67% of directors with a tenure of fewer than two years). However, the areas of improvement identified in the evaluation were universal in nature and could therefore still be applied to improve the board's processes and oversight.
10	<b>The governing body should ensure that the appointment of, and delegation to, management contributes to role clarity and the effective exercise of authority and responsibilities</b>	<p>As discussed elsewhere and as communicated in relation to the termination of the services of the previous chief executive officer, the board was no longer comfortable with its relationship of trust, which also led to a loss of confidence in the previous chief executive officer.</p> <p>One of our independent non-executive directors, Ms M Ramplin stepped in to address a number of critical areas and to guide the effective exercise of authority and responsibilities during the interim period.</p> <p>The board recognised a number of deficiencies in the delegation of authority to management, which has since been addressed in a revised delegation of authority framework, which continues to be further refined and optimised. The board is comfortable that, following the improvements, the policy and processes ensure role clarity, as well as the efficient and effective execution of responsibilities. The group nature of most policies and delegations adopted by subsidiary companies are described in the group's governance framework.</p> <p>The nominations committee evaluates the chief executive officer's performance against specific individual key performance metrics and the agreed group scorecard. His performance-related remuneration is based, inter alia, on achievement of the scorecard objectives. The remuneration committee approves all executive and heads of control functions' appointments and remuneration. Refer the remuneration committee report for further information.</p> <p>Ms Carina Wessels provides professional governance and general legal counsel services to the board and its committees. She was appointed by the board as group secretary on 1 October 2017 and also became the group's general counsel on 1 April 2018 and the executive: governance, legal and compliance on 1 March 2019. She holds a LLB; two LLM degrees, one in Labour Law and one in Extractive Industry Law in Africa (cum laude); a PMD and FCIS. She is also an admitted advocate of the High Court of South Africa and past president of both Chartered Secretaries Southern Africa and the Corporate Secretaries International Association. She met the continued professional development requirements to maintain her chartered secretary (FCIS) membership.</p> <p>After completing a formal process, the board endorsed her skills, competence and experience and confirmed her objectivity, gravitas and arm's length relationship with the board, as also discussed in the annual integrated report.</p>

## KING IV APPLICATION [CONTINUED]

11

Principle	Explanation of practices
<b>The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives</b>	<p>Due to our highly regulated environment, risk governance receives oversight at a multitude of levels within the group, as explained on pages 34 to 36 of this report and pages 64 to 67 of the integrated report.</p> <p>The group board, however, provides ultimate oversight to ensure alignment between strategy, risk and sustainability, while aspects of risk governance have been delegated to the audit and risk committee.</p> <p>Following the identification of the need for more in-depth risk governance discussions, we decided to conduct two bespoke risk-focused audit and risk committee meetings per year, resulting in the committee meeting six times a year to ensure full coverage of all areas of oversight.</p> <p>As part of the board's strategic development process, the significant strategic risks associated with each of the group's strategic objectives were evaluated through a risk lens.</p> <p>The key areas of focus in 2019 included:</p> <ul style="list-style-type: none"> <li>▪ review of the risk appetite metrics for the group as well as the insurance licences;</li> <li>▪ improving risk-governance reporting to enable better interrogation of the information and discussion thereof by the various governance forums;</li> <li>▪ improving the risk culture by providing training to the business on the Prudential Standards requirements and also establishing dedicated senior management risk forums;</li> <li>▪ specific risk assessments on products and innovations to be launched across the group were conducted; and</li> <li>▪ conducting and co-ordinating the own risk and solvency assessment (ORSA) across the group and taking steps to better align it with the strategic management process.</li> </ul> <p>An independent review of the risk function was conducted with findings being addressed as part of the function's 2020 strategy.</p> <p>The planned areas of focus for 2020 will include:</p> <ul style="list-style-type: none"> <li>▪ a review of the enterprise-wide risk management framework to rectify some of the identified weaknesses and provide better guidance to the business;</li> <li>▪ a review of the risk management strategy, focusing on risk governance, risk escalation and the approach to risk appetite;</li> <li>▪ launching a company-wide training programme post-finalisation of the improved enterprise-wide risk management framework and risk management strategy;</li> <li>▪ embedding the risk policies at holding company/controlling company (or insurance group as defined in the Insurance Act) level;</li> <li>▪ improving the ORSA process to better facilitate proactive implementation of ORSA insights and results; and</li> <li>▪ further delineation of the first and second lines of defence and strengthening the operational relationship between them in order to holistically mature risk governance.</li> </ul>

Principle	Explanation of practices
<b>The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives</b>	<p>The appointment of a new chief technology officer has resulted in a newly defined IT strategy with an aligned operating model and structure that will support the strategic alignment of core IT projects to the business objectives.</p> <p>This new strategic directive encompasses all functions within IT, enforcing policies and procedures, robust governance through mandated committees and providing assurances across key performance indicators to ensure risks are managed within appetite.</p> <p>Focus areas of the IT strategy include applying general hygiene and maintenance across IT by ensuring that processes are defined and key roles and responsibilities have been defined for continuous delivery. Cybersecurity has become a key driver for managing information risk and there has been a large investment to scale up the internal IT security and risk teams as well as requisite investments in defensive technologies. A newly formed project management office has been established to robustly focus on programmes and projects with associated business cases to enforce the correct vigour of governance and reporting. IT risk management has become a more continuous effort with risks being recorded, tracked and remediated with visibility on exposures and trends.</p> <p>The board together with the IT governance committee (in future the audit and risk committee) oversee the governance of IT. The audit and risk committee during the year also increased its focus on technology, information, compliance and maximisation of opportunities while also managing risk factors. A key risk factor has been the exposure to continuity of operations and a dedicated disaster recovery manager has been appointed to ensure resilience plans are in place and continually tested for validated assurances on continuity. There are currently key man dependencies which raises risks to sustainable delivery. However, aggressive recruitment channels are used to address the risk to ensure an optimum operative model.</p> <p>During the year the refocused IT governance operated with a renewed focus on holistic IT assurances across key IT functions and initiatives. Refer the committee's report for further information. The committee has delegated the day-to-day management of, and tasked management with, the implementation of the IT governance framework to ensure risks are managed. Technology and information risk is integrated in the company's risk management and executed through the various management level IT committees.</p> <p>Beyond IT business continuity, holistic business continuity and disaster recovery management are critical aspects for the group. Systems and procedures all conform to the highest international standards and protocols and are regularly tested.</p>

## KING IV APPLICATION [CONTINUED]

	Principle	Explanation of practices
13	<b>The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen</b>	<p>Similar to risk governance, compliance in our highly regulated environment is governed on multiple levels. The group board, however, also retains ultimate oversight, supported by the audit and risk committee and especially the regulated subsidiary company boards.</p> <p>As in many other large corporates, but especially in financial services and insurance-related companies, the extent of regulation to be implemented has become extremely onerous, especially related to the time and effort required from the business to align with and implement new requirements. The company recognises that compliance is in many ways a formalisation of good governance and business practices and have therefore strengthened compliance teams across the business in both the first and second lines of defence.</p> <p>Some focus areas for 2019 included:</p> <ul style="list-style-type: none"> <li>Establishment of a centralised compliance project team to drive implementation of important pieces of legislation such as financial crime control, market conduct and privacy. Significant investment into this team occurred by sourcing sought-after skills across the industry. These skills have strengthened the company's approach to compliance risk management specifically with regard to the execution of large-scale compliance projects.</li> <li>A review of the company-wide compliance to the Insurance Prudential Standards was conducted post the 1 July 2018 implementation date. Remedial plans have been put in place to improve and strengthen some of the governance-related requirements. A number of the required policies and standards under the Prudential Standards have already been updated in respect of the insurance licences. An independent review of the business continuity management and risk management functions' compliance to the Prudential Standards requirements were conducted.</li> <li>Compliance auditing (separate from internal audit) against the compliance plan was conducted, with quarterly reporting to management and the audit and risk committee.</li> </ul> <p>The planned areas of focus for 2020 include:</p> <ul style="list-style-type: none"> <li>entrenching first line compliance capabilities and re-establishing second line compliance relationships within the business to improve overall compliance maturity;</li> <li>following the appointment of a new chief compliance and AML officer, reviewing compliance requirements in accordance with the revised strategy, and aligning structures and resources to ensure appropriate support and enablement;</li> <li>further implementation and finalisation of the financial crime and market conduct requirements;</li> <li>resuming and prioritising previous work that was conducted to be compliant with the privacy requirements; and</li> <li>reviewing and adjusting the risk management compliance plans to promote more efficient collaboration between the first and second lines of defence.</li> </ul> <p>For further information regarding our response to regulatory changes refer to page 42 in the integrated report.</p>
14	<b>The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term</b>	Refer to the remuneration committee report for the detailed remuneration policy and its implementation on pages 13 to 33.
15	<b>The governing body should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation's external reports</b>	<p>The group's previous combined assurance framework and approach was largely risk based and therefore the framework and approach are currently under review to align with best practices and generally to better entrench the concepts and principles in the organisation. This process is regarded as a medium-term journey and we believe this is an area with tremendous opportunity for improvement over the next two to three financial years.</p> <p>Currently, assurance over the annual financial statements and integrated reporting suite generally is provided by our external auditor, the audit and risk committee and the board. The group has not yet implemented a formal assurance process in relation to internal and external reporting and this will receive attention as part of the overall combined assurance framework improvements.</p> <p>The chief audit executive, Ms Rose Meltz, and the internal audit function are appropriately empowered and have the requisite access to the audit and risk committee chair and other key forums. Internal audit works very closely with the risk function and in the reporting period have specifically reviewed and assured the efficacy of the risk governance process undertaken. Areas for improvement have been communicated and are currently being dealt with by the business and risk management teams.</p> <p>Independent assurance on the internal audit function was conducted in 2016 and forms part of the internal audit charter work programme. This charter is also in the process of being optimised and aligned with best practice.</p>

Principle	Explanation of practices
In the execution of its governance role and responsibilities the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time	<p>The social, ethics and transformation committee has not yet considered a formal stakeholder management policy, although several policies affect and govern the management of stakeholder relationships. It will address a few of the recommended King IV practices that are currently not optimally applied.</p> <p>The committee did, however, approve a complaints framework during the year to govern this critical aspect.</p> <p>The marketing department is responsible for the implementation and execution of stakeholder relationship management, although business plays a key role.</p> <p>The key areas of focus in 2019 included:</p> <ul style="list-style-type: none"> <li>▪ <b>Clients:</b> Several of our divisions restructured to better serve clients from an account management perspective. We conducted research for client feedback and responded with several initiatives to improve our complaints management. A significant driver of our revised strategy is client-centricity (please refer to the Strategy and Client sections in the integrated report on pages 15 and 44).</li> <li>▪ <b>Our people:</b> Considerable focus was placed on rebuilding our company culture and morale, including initiatives to respond to our culture survey conducted at the end of 2018. We also changed our rewards philosophy to align remuneration with performance and launched two leadership development programmes as part of a larger learning and development strategy (please refer to page 48 in the integrated report).</li> <li>▪ <b>Regulators:</b> A number of engagements took place to regularly update regulators on our progress with implementing legislative and regulatory changes. Numerous engagements with the Prudential Authority in particular took place to discuss the details of the new Insurance Act and Prudential Standards. We proactively and transparently reported the leadership changes to regulators, as well as the eventual reporting irregularity.</li> <li>▪ <b>Investors:</b> Various material shareholder roadshows took place and a number of retail investors attended the company's annual general meeting. The first governance roadshow was held in April 2019 and was extremely well received – refer to the remuneration committee report and integrated report for specific changes made to policies and principles following the engagements. The AGM minutes were made available on the company's website.</li> <li>▪ <b>Society:</b> Engagements were focused on our Alexander Forbes Community Trust investment activities and corporate social investment; management of all B-BBEE activities and investments; transformation matters; and diversity and inclusion.</li> </ul> <p>The planned areas of focus for 2020 include:</p> <ul style="list-style-type: none"> <li>▪ <b>Clients:</b> Our priority for the coming year is on implementing our strategic deliverables concerning enhancing our advice-led approach and providing measurable client benefits (refer to pages 17 and 18 in the integrated report).</li> <li>▪ <b>People:</b> We plan to reinforce the company's high-performance culture and capability in support of the revised operating model. Our people function will also focus on building resilience as we embark on an organisation-wide change.</li> <li>▪ <b>Regulators:</b> Maintaining our transparent relationship with regulators. We regard regulators as critical partners to enable and support our new strategy, inter alia, requiring regulatory approvals to enable some of the intended transactions and governance simplification towards business integration. Focus on implementing the significant number of regulatory changes discussed elsewhere in the report as well.</li> <li>▪ <b>Investors:</b> Ongoing investor engagements and roadshows are planned to continue: we regard it as critical to visibly show progress on delivering the revised strategy. Maintaining engagement at the AGM, where it is once again anticipated that all directors will be present, as well as the designated external audit partner. Following the number of engagements with shareholders during the governance roadshows and the level of engagement on remuneration policy, it is anticipated that materially improved remuneration policy and implementation report votes will be received. However, if not, information on opportunities to engage on the policy and report will be communicated.</li> <li>▪ <b>Society:</b> Entrenching transformation into our day-to-day culture; contributing positively to the communities within which we operate; and leveraging our strengths to increase our efforts towards the financial education of society.</li> </ul> <p>As discussed elsewhere, a holistic group governance framework was approved in the year, but is being refined following the strategic changes and governance simplification.</p>



Our existing code of ethics and ethics policy are available online at [www.alexanderforbes.co.za/investorrelations/company-overview/governance/standards-and-policies](http://www.alexanderforbes.co.za/investorrelations/company-overview/governance/standards-and-policies) and the revised versions will be made available upon completion of the ethics risk analysis exercise.



# CORPORATE INFORMATION

## **ALEXANDER FORBES GROUP HOLDINGS LIMITED**

Registration number: 2006/025226/06

Tax reference number: 9404/921/15/8

JSE share code: AFH

ISIN: ZAE000191516

(Incorporated in the Republic of South Africa)

### **Independent directors**

N Nyembezi (Chairman), MD Collier, RM Head, M Ramplin, NG Payne, BJ Memela-Khambula, T Dloti

### **Non-executive directors**

DJ Anderson, WS O'Regan, NB Radebe

### **Executive directors**

DJ de Villiers (chief executive officer)

BP Bydawell (chief financial officer) (appointed effective 1 April 2019)

### **Executive: governance, legal and compliance (company secretary)**

CH Wessels

### **Investor relations**

Z Amra

### **Registered office**

Alexander Forbes, 115 West Street, Sandown, 2196

### **Transfer secretaries**

Computershare Investor Services Proprietary Limited

Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

PO Box 61051, Marshalltown, 2107

### **Sponsor**

Rand Merchant Bank (A division of FirstRand Bank Limited)

1 Merchant Place, corner of Fredman Drive and Rivonia Road, Sandton, 2196

### **Website**

[www.alexanderforbes.co.za](http://www.alexanderforbes.co.za)

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