ALEXANDER FORBES BELIEVES THAT THE APPLICATION OF THE PRINCIPLES OF GOOD GOVERNANCE AS CONTAINED IN THE KING CODE OF GOVERNANCE PRINCIPLES AND THE KING REPORT ON GOVERNANCE 2009 (KING III), ARE A CORNERSTONE OF THE ALEXANDER FORBES BUSINESS.

To ensure that the group's operations are executed in accordance with these principles, a management system that includes a compliance framework, code of ethics, as well as policies and protocols to govern processes and operations have been established.

The governance framework is applicable to all of the group's subsidiaries in addition to those policies and procedures that are specific to certain subsidiaries.

OUR BOARD OF DIRECTORS

Alexander Forbes has a unitary board. Its primary mission is to effectively represent and promote the interests of the company's shareholders and relevant stakeholders by adding value to the company's performance.

The board is responsible for ensuring that the group's operations, processes and activities are underpinned by a strong system of governance that is fully integrated into all aspects of its business. It remains accountable for the ongoing sustainability of the group.

BOARD CHARTER

The purpose of the board charter is to regulate how the board conducts business in accordance with the principles of good corporate governance. It sets out the specific responsibilities board members have to fulfil collectively and individually the roles expected of them. The board charter contains a policy evidencing a clear balance of power and authority at board level, to ensure that no one director has unfettered powers of decision making. The charter requires the board to provide leadership and vision to the company in a way that will enhance shareholder value and ensure the group's long-term organisational health. The full charter is available on our website www.alexanderforbes.co.za.

BOARD COMMITTEES

The board committee structure is designed to assist the board of the company in performing its duties and responsibilities. Although the board delegates certain functions to these committees, it retains ultimate responsibility for their activities.

As at the date of this report, the board has five standing committees:

- Audit Committee
- Nominations Committee
- Remuneration Committee
- Social, Ethics and Transformation Committee
- Capital Oversight Committee.

Each board committee has formal written terms of reference that are reviewed every year and, at a minimum, effectively delegate certain of the board's responsibilities. The full terms of reference for each committee are available on the company's website. The committees are empowered to seek outside or other professional advice, as the members consider necessary, to carry out their duties. The board continually assesses the need for additional committees to assist it in carrying out its duties and meeting its statutory and legislative requirements.

During the year under review, the board formed a Capital Oversight Committee to ensure an appropriate focus on how the company allocates capital and to ensure compliance with economic and regulatory capital adequacy requirements.

** The group Retail subcommittee was disbanded on 4 September 2014 and replaced by a Management Committee.*

BOARD COMPOSITION

The board is made up of individuals with a range of skills and experience, collectively suitable to carry out the board's responsibilities. They are involved in all material business decisions, enabling them to contribute to the strategic and general guidance of management and the business. Prior to their appointment, directors undergo an assessment in terms of the group's fit and proper process. All new directors go through an induction process.

The board is considered to be effective in size and composition, with an appropriate balance between executive, non-executive and independent directors, thereby enabling objective decisions and internal processes. The directors have access to management whenever required. The board's composition changed upon the company's listing on the JSE on 24 July 2014 with the private equity shareholders' exit. At the date of this report being issued, the company's board of directors consisted of 10 members. Of these, five were independent directors, three non-executive directors and two executive directors. While an executive director at the start of the financial year, 1 April 2014, the chairman of the board became a non-executive director on 1 July 2014. A lead independent director has been appointed during the transitional period. The biographies listed in this report reflect the directorship at the time of publishing.

NON-EXECUTIVE DIRECTORS

Matthews Sello Moloko *(non-executive chairman)*
Date appointed: 3 December 2007
Qualifications: *BSc (Hons), PGCE, AMP (Wharton)*
Committee responsibilities: chairman of the Social, Ethics and Transformation Committee; member of the Remuneration and Nominations Committees.

Mr Moloko is a founder shareholder and executive chairman of Thesele Group, a diversified investment holding company. He has significant financial services experience, gained over more than two decades. He is the former CEO of Old Mutual Asset Managers and former deputy CEO of Capital Alliance Asset Managers (Brait Asset Managers). Mr Moloko served on Old Mutual SA's executive committee and boards of subsidiaries of Old Mutual Asset Managers. He is the non-executive chairman of Sibanye Gold Limited and also serves as non-executive director of Acucap Properties Limited and General Reinsurance Africa. He is a trustee of the Nelson Mandela Foundation and chairs its investment committee. Mr Moloko previously served on several other boards, including Gold Fields Limited, the Industrial Development Corporation of South Africa Limited, Makalani Holdings Limited and Seartec Industries. He was the national president of the Association of Black Securities and Investment Professionals (ABSIP) from 2005 to 2007. In 2003 ABSIP presented him with the financial services pioneer award in recognition of his achievements in the field of investment management.

William Simon O'Regan
Date appointed: 31 July 2014
Qualifications: *BusSci (Hons), fellow of the Faculty of Actuaries (UK) and fellow of the Institute of Actuaries (Australia)*

Mr O'Regan is president of Mercer's Europac region with responsibility for all of Mercer's business across Europe and the Pacific. He joined Mercer in the UK in 1988, transferring the following year to Australia in 1989 to head up the Melbourne office. Following a break from 1996 to 1999, when Mr O'Regan was employed by Vanguard to establish its fund management business, he returned to Mercer to enable the company to establish a market-leading position in pensions provision. From 2005 to 2008 Mr O'Regan was Mercer's Europe region head and, from 2009 to August 2012, was responsible for Mercer's global retirement, risk and finance business, whereafter he was appointed to his current position.

David John Anderson
Date appointed: 10 October 2014
Qualifications: *Dip All, Dip SM, FASFA, FAIM, ANZIIF (fellow) CIP, AAMI CPM, MAICD*
Committee responsibilities: member of the Social, Ethics and Transformation Committee; member of the Capital Oversight Committee

Mr Anderson is Mercer's president of growth markets region, including Latin America, Asia, Middle East, Turkey and Africa. He recently held the position of managing director and market leader for Mercer in the Pacific. Having spent more than 10 years at AMP Financial Services, Mr Anderson first joined Mercer Australia in 1998. He is a certified insurance professional, a certified practising marketer and a member of the Australian Institute of Company Directors. He is a fellow of each of the Association of Superannuation Funds of Australia, the Australian Institute of Management, the Australian and New Zealand Institute of Insurance and Finance and an Associate of the Australian Marketing Institute.

INDEPENDENT DIRECTORS

Mark Derrick Collier
Date appointed: 1 August 2011
Qualifications: *HND/BA Business Studies, Dip M, M Inst*
Committee responsibilities: lead independent director, chairman of the Remuneration and Nominations Committees; member of the Audit Committee

Mr Collier is a business leader with an extensive international track record in developing and building financial services businesses both as a corporate executive in leading global companies and as an entrepreneur. His career spans 30 years in the retail and institutional sectors of the securities, asset management, wealth management, retail banking, pensions and financial services industries. He is the former president of Fidelity Investments Advisor Group (US), president of Charles Schwab Europe and CEO of Schwab International (US). At Fidelity he sat on the boards of Fidelity Investments Services Limited and Fidelity Portfolio Services Limited. At Schwab he was a director of Schwab International and the European, Asian and Latin American subsidiary companies. Today Mr Collier is a senior adviser to a leading emerging markets private equity firm and holds advisory positions on the boards of privately held financial services companies in Brazil, Indonesia and India.

Deenadayalen Konar
Date appointed: 1 February 2008
Qualifications: *BCom, PG Dip in Acc, CA(SA), MAS, Cert in Tax Law, DCom CRMA*
Committee responsibilities: chairman of the Audit Committee

Dr Konar is a member of the King Committee on Corporate Governance, the Corporate Governance Forum and the Institute of Directors. He is also a non-executive director of Lonmin and Sappi, and chairman of Mustek, Steinhoff International Holdings and Exxaro Resources. He is the past co-chair of the independent risk committee of the World Bank, former member of the safeguards panel of the International Monetary Fund (IMF) and the former chairman and member of the external audit committee of the IMF in Washington, DC. Since 1998, he has served as professional non-executive director of a number of companies. Dr Konar was previously a professor and head of the accountancy department at the University of Durban-Westville and has lectured at a post-graduate level at various other universities in South Africa.

Hilgard Pieter Meyer
Date appointed: 9 June 2011
Qualifications: *BCom, FASSA, AMP (Oxford)*
Committee responsibilities: chairman of the Capital Oversight Committee; member of the Remuneration and Nominations Committees

Mr Meyer is an actuary with extensive management experience gained over 30 years in a broad range of sectors in the financial services industry, including long-term and short-term insurance, pensions, asset management and banking. Mr Meyer is the managing partner of Nodus Investment Managers, a private equity fund manager. Prior to joining Nodus, he was the CEO of the Momentum group. Mr Meyer is a non-executive director of a number of companies.

Barend Petersen
Date appointed: 10 June 2011
Qualifications: *BCompt (Hons), CA(SA)*
Committee responsibilities: member of the Audit Committee

Mr Petersen is a chartered accountant with broad international business experience in mining, finance, auditing, energy, government relations, business turnarounds, corporate recovery, consulting and corporate governance. Mr Petersen is the executive chairman of De Beers Consolidated Mines, a director of the De Beers group of companies, chairman of the environment, health and safety committee of the De Beers group and a director of Ponahalo, the black empowerment partner of De Beers Consolidated Mines. He is a director of several companies, including Anglo American South Africa Limited and Curro Holdings Limited. Mr Petersen is the chairman of Sizwe Business Recoveries, which he founded in 1997.

Raboijane Moses Kgosana
Date appointed: 21 April 2015
Qualifications: *BAccSc, BSc (Hons), CA(SA)*

Mr Kgosana is the exiting chief executive of KPMG in southern Africa and chairman of KPMG Africa Limited. He is also a member of the KPMG global board and council and the KPMG Europe, Middle East, Africa (EMA) board. He was previously chairman of the Accounting Practices Board (a committee of the South African Institute of Chartered Accountants) and a member of the Standards Advisory Council of the International Accounting Standards Board. He has also served as president of the Association for the Advancement of Black Accountants of Southern Africa. Mr Kgosana was recently appointed to the board of Famous Brands Limited. He has experience in internal and external audit, financial management and administration, as well as business and management consultancy. He has extensive industry credentials based on his experience in various industries, including power and utilities, banking, telecommunications, consumer markets and airlines.

EXECUTIVE DIRECTORS

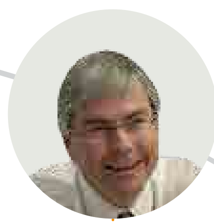
Edward Christian Kieswetter *(group chief executive)*
Date appointed: 4 January 2010
Qualifications: *NHd (electrical engineering), HdE (engineering education), BEd (mathematics and science), MEd (cognitive development), executive MBA (strategy and transformation), MCom (Tax) cum laude*
Committee responsibilities: member of the Social, Ethics and Transformation Committee; member of the Capital Oversight Committee

Mr Kieswetter was appointed group chief executive in January 2010. He has a track record of successfully transforming and building high-performance organisations. As a senior executive in power generation, banking and, most recently, deputy commissioner of the South African Revenue Service before his current role, Mr Kieswetter has broad experience in both the public and private sectors in energy and finance. He ascribes his success to building great teams with a strong execution bias. This has won him the boss of the year title in 2000, as well as other prestigious industry awards. Along with his initial training in electrical engineering, he holds three masters degrees in cognitive science (UWC), an executive MBA (Henley, UK) and commerce (North-West University). Mr Kieswetter has an appointment as a Harvard University research associate and is actively involved in education on various local and international boards. He is also the Chancellor of the Da Vinci Institute and serves as a Visiting Professor at the Da Vinci Institute and the University of the Free State.

Deon Marius Viljoen *(group chief financial officer)*
Date appointed: 3 September 2007
Qualifications: *BCom (Hons), CA(SA)*
Committee responsibilities: member of the Capital Oversight Committee

Mr Viljoen joined the group in March 2003 as finance director of Investment Solutions Holdings Limited and was promoted to group chief financial officer in 2007. He currently serves as an executive director on the main board and on numerous subsidiary boards and committees within the group. Before joining Alexander Forbes, he was a partner and director of PricewaterhouseCoopers Johannesburg in the service line of assurance and business advisory services, having joined a predecessor firm in 1987. Mr Viljoen served on a number of industry bodies, including the SAICA banking industry group, chairing SAICA's investment management and collective investment schemes industry groups for a number of years. He obtained his BCom accountancy (cum laude) in 1985 from the Rand Afrikaans University (now University of Johannesburg) and completed his BCom honours before qualifying as a chartered accountant (SA) in 1987.

Matthews Sello Moloko
Non-executive chairman
Date appointed at
Alexander Forbes: 3 December 2007

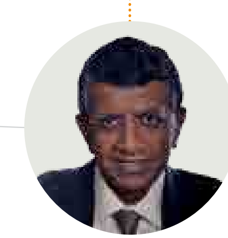


William Simon O'Regan
Non-executive director
Date appointed at
Alexander Forbes: 31 July 2014

David John Anderson
Non-executive director
Date appointed at
Alexander Forbes: 10 October 2014

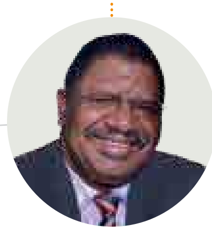
Mark Derrick Collier
Independent director
Date appointed at
Alexander Forbes: 1 August 2011

Deenadayalen Konar
Independent director
Date appointed at
Alexander Forbes: 1 February 2008



Hilgard Pieter Meyer
Independent director
Date appointed at
Alexander Forbes: 9 June 2011

Barend Petersen
Independent director
Date appointed at
Alexander Forbes: 10 June 2011



Raboijane Moses Kgosana
Independent director
Date appointed at
Alexander Forbes: 21 April 2015

Edward Christian Kieswetter
Group chief executive
Date appointed at
Alexander Forbes: 4 January 2010

Deon Marius Viljoen
Group chief financial officer
Date appointed at
Alexander Forbes: 3 September 2007

DIRECTORATE CHANGES

- Due to the listing of the company, Messrs D Govender, D Ngobeni, A Roux, JA van Wyk, Mesdames L Hall-Kimm and N Kolbe resigned as non-executive directors on 24 July 2014. Messrs JC Douin, J Masondo, A de Beer and RN Waithaka resigned at the same time as alternates to the directors with whom they served.
- Mr WS O'Regan joined the board on 31 July 2014.
- Mr DJ Anderson joined the board on 10 October 2014.

Directorate changes post-year-end

Mr RM Kgosana joined the board on 21 April 2015.

Attendance

The board met seven times during the period under review. Meeting attendance is reflected in the table below:

	Meeting dates						
Board member	16 May 2014	5 Jun 2014	19 Jun 2014	20 Jun 2014	4 Sept 2014	27 Nov 2014	12 Mar 2015
MS Moloko *(chairman)*	✓	✓	✓	✓	✓	✓	✓
M Collier *(lead independent)*	✗	✓	✗	✓	✓	✓	✓
D Anderson	n/a	n/a	n/a	n/a	n/a	✓	✓
E Chr Kieswetter	✓	✓	✓	✓	✓	✓	✓
D Konar	✓	✓	✓	✓	✓	✓	✓
H Meyer	✓	✓	✓	✗	✓	✓	✓
S O'Regan	n/a	n/a	n/a	n/a	✓	✓	✓
B Petersen	✓	✓	✗	✓	✓	✗	✓
D Viljoen	✓	✓	✓	✓	✓	✓	✓
D Govender	✓	✓	✓	✓	n/a	n/a	n/a
L Hall-Kimm	✗	✗	✗	✗	n/a	n/a	n/a
JC Douin *(alternate to L Hall-Kimm)*	✓	✓	✓	✓	n/a	n/a	n/a
N Kolbe	✗	✓	✗	✓	n/a	n/a	n/a
D Ngobeni	✗	✗	✓	✗	n/a	n/a	n/a
J Masondo *(alternate to D Ngobeni)*	✓	✗	✗	✗	n/a	n/a	n/a
A Roux	✗	✓	✓	✓	n/a	n/a	n/a
A de Beer *(alternate to A Roux)*	✗	✓	✓	✓	n/a	n/a	n/a
J van Wyk	✗	✗	✓	✓	n/a	n/a	n/a
N Waithaka *(alternate to J van Wyk)*	✗	✓	✗	✓	n/a	n/a	n/a

✓ *– Indicates in attendance*
✗ *– Indicates apologies*
n/a *– Indicates not yet a member or resigned*

PROGRESS MADE IN 2014/15

During the year the board:

- chairman's role changed from executive to non-executive;
- appointed a lead independent director to the board;
- appointed the lead independent director as chairman of the nominations and remuneration committees;
- ensured that its nominations and remuneration committees' non-executive directors comprised a majority of independent directors;
- oversaw the listing of the company on the JSE;
- adopted a number of policies, strengthening the group's governance and compliance frameworks;
- interacted extensively with, informed and approved new group strategic intent;
- reviewed and strengthened the group ethics policy;
- established a Capital Oversight Committee which oversaw the development of a capital management policy;
- strengthened the group's IT governance framework; and
- extensively reviewed, amended and strengthened risk management policies, frameworks and procedures relating to all business and operations.

Post year-end the board:

- appointed an additional independent director; and
- recognised and discussed shortfall in gender representation on the board following exit of the private equity representatives.

Evaluation

The board reviews the performance and independence of the independent directors annually. The chairman provides feedback to the directors on an individual basis regarding potential areas of improvement, should growth areas be identified. Furthermore, the board monitors the responsibilities of its committees to ensure they provide effective oversight of the respective aspects of the group's operations. This establishes a balance of power and prevents any individual from having excessive decision-making power. Committee evaluations are conducted on an annual basis.

Assessments as to compliance with the King Report on Governance for South Africa and the King Code (King III) were performed on the company and its significant subsidiaries, utilising the governance assessment instrument tool during the year under review. Reports were presented to the relevant boards and audit committees. The company's report in terms of King III can be found on its website at www.alexanderforbes.co.za.

COMPANY SECRETARY

The company secretary is Ms Janice Eva Salvado (BCom, LLB). Ms Salvado has more than 18 years' experience in the company secretarial field and has served as group company secretary in the Alexander Forbes group for the past 11 years. At a meeting of the board held on 4 June 2015 at which Ms Salvado recused herself, the board assessed Ms Salvado's competence, qualifications, experience, suitability and performance during the financial year ended 2015, as well as her arm's length relationships. The board concluded that Ms Salvado was suitably qualified to continue to act as Alexander Forbes' group company secretary.

RESPONSIBILITIES OF OUR BOARD COMMITTEES

The objectives and responsibilities of our board committees are detailed in their terms of reference, which can be found on our website at www.alexanderforbes.co.za.

AUDIT COMMITTEE

The Audit Committee comprises three independent directors, Dr D Konar (chairman), Mr M Collier and Mr B Petersen, who were reappointed by shareholders at the company's annual general meeting held on 28 October 2014.

The committee met four times during the period under review and meeting attendance is reflected in the table below:

Meeting attendance

Committee member	Meeting dates: 3 Jun 2014	3 Sept 2014	26 Nov 2014	10 Mar 2015
D Konar *(chairman)*	✔	✔	✔	✔
M Collier	✔	✔	✔	✔
B Petersen	✘	✔	✔	✔

✔ *– Indicates in attendance*
✘ *– Indicates apologies*

The internal and external auditors, management of the operations for which the committee is responsible, the group chief financial officer, the group chief risk officer, the group IT executive and other board members and invitees, as considered appropriate by the committee's chairman, attend committee meetings. The chairman of the Audit Committee is not the chairman of the board.

The committee meets at least four times per year. Additional audit committees have been constituted at subsidiary board level. These committees are mandated to review the operations of the group's subsidiaries. The group Audit Committee reviews their reports.

ACTIVITIES DURING 2014/15

During the year under review, the committee held four meetings and oversaw the following aspects of its workplan:

- Reviewed the competence, qualifications, performance, appropriateness, expertise and experience of the group chief financial officer and confirmed his suitability in terms of the Listings Requirements.
- Ensured application of the combined assurance model to provide a coordinated approach to all assurance activities.
- Reviewed the annual integrated report and interim reports and results announcements related thereto.
- Considered and approved going concern, liquidity and goodwill impairment assessments and matters associated therewith.
- Responsible for overseeing internal audit, including its objectives, resources and the coverage of its plans, reviewed co-ordination with the external audit function and other assurance providers, considered the results of internal audit work performed and the adequacy of management corrective action taken in response to significant internal audit findings.
- Responsible for overseeing the external audit process and work, nominating the external auditors' appointment, agreeing the scope of audit and related matters and considered the external auditors' independence.
- Received feedback on proceedings at subsidiary audit committee meetings.
- Ensured that normal risk management and assessment processes were in place, reviewed the company's significant accounting and financial risks, and steps being taken to mitigate these.
- Received regulatory reports and considered the solvency and capital position of the group.
- Received and considered tax status reports.
- Considered governance and reviewed regular IT governance reports.

The Audit Committee's report appears on page 79.

NOMINATIONS COMMITTEE

The Nominations Committee is chaired by the board's lead independent director, Mr M Collier, with additional members comprising Mr H Meyer (independent director) and Mr MS Moloko (the non-executive chairman).

During the year under review, the Nominations Committee held four meetings as scheduled, as well as one special meeting. Meeting attendance is reflected in the table below:

Meeting attendance

Committee member	Meeting dates: 4 Jun 2014	13 Jun 2014 (special)	3 Sept 2014	26 Nov 2014	10 Mar 2015
M Collier *(chairman)*	n/a	n/a	✔	✔	✔
MS Moloko	✔	✔	✔	✔	✔
H Meyer	✔	✔	✔	✔	✔
A de Beer	✔	✔	n/a	n/a	n/a
L Hall-Kimm/JC Douin	✔	✔	n/a	n/a	n/a
J van Wyk	✔	✔	n/a	n/a	n/a

✔ *– Indicates in attendance*
n/a *– Indicates not yet a member or resigned*

On 27 June 2014, membership of the committee was reconstituted with Mr Collier being appointed chairman of the committee and Messrs Moloko and Meyer continuing as members of the committee. The remaining members of the committee, Messrs A de Beer and J van Wyk and Ms L Hall-Kimm/Mr JC Douin, resigned from the committee on this date.

PERFORMANCE DURING 2014/15

During the year under review, the committee considered the following matters:

- The appointment of directors, taking into consideration fit and proper reports and the requirements of the board's terms of reference, and made recommendations to the board in respect of such director appointments.
- Reviewed and approved updated terms of reference.
- Reviewed the performance of the independent directors and the renewal of their contracts.
- Discussed and approved the board chairman's contract and his move to non-executive chairman.
- Considered the constitution of the board and committees in terms of King III and JSE Listings Requirements and made recommendations to the board in this regard that were approved.
- Assessed the independence of the group company secretary.
- Discussed and approved the chairman's contract and his move to non-executive chairman.
- Considered and agreed that a recommendation be made to the board that the Retail subcommittee be discontinued and replaced by a Management Executive Committee.
- Agreed on the recommended directors for rotation at the annual general meeting.
- Approved a policy on the procedure for the appointment of directors.
- Reviewed succession management.
- Discussed talent management and leadership development.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by the board's lead independent director, Mr M Collier, with additional members being Messrs H Meyer (independent director) and MS Moloko (the non-executive board chairman). During the year under review the Remuneration Committee held five meetings as scheduled, as well as three special meetings. Meeting attendance reflected in the table below:

Meeting attendance

	Meeting dates							
Committee member	23 Apr 2014	4 Jun 2014	21 Jul 2014 (special)	3 Sept 2014	26 Nov 2014	4 Feb 2015 (special)	10 Mar 2015	20 Mar 2015 (special)
M Collier *(chairman)*	n/a	n/a	✔	✔	✔	✔	✔	✔
MS Moloko	✔	✔	✔	✔	✔	✔	✔	✔
H Meyer	✔	✔	✔	✔	✔	✔	✔	✘
A de Beer	✔	✔	n/a	n/a	n/a	n/a	n/a	n/a
L Hall-Kimm/JC Douin	✔	✔	n/a	n/a	n/a	n/a	n/a	n/a
J van Wyk	✔	✔	n/a	n/a	n/a	n/a	n/a	n/a

✔ *– Indicates in attendance*
✘ *– Indicates apologies*
n/a *– Indicates not yet a member or resigned*

On 27 June 2014, membership of the committee was reconstituted: Mr Collier was appointed chairman of the committee and Mr Moloko continued as a member of the committee, as did Mr Meyer. The remaining members of the committee, Messrs A de Beer and J van Wyk and Ms L Hall-Kimm/Mr JC Douin, resigned from the committee on this date.

PERFORMANCE DURING 2014/15

During the year under review, the Remuneration Committee held four special meetings in addition to its four scheduled meetings and oversaw the following aspects of its workplan:

- Performed its annual self-assessment and received and considered the report in this regard.
- Considered and approved long-term incentive plans for the group.
- Approved the bonus pools available for each main business unit, executive annual bonuses and annual increases.
- Reviewed performance in terms of the group scorecard.
- Approved the 2014 long-term incentive and exit transaction incentive plans for participating employees.
- Considered the independent director fee increase for recommendation to shareholders at the company's annual general meeting.
- Considered and agreed the overall payroll increase to be applied for the year.
- Considered the valuation of the management share trust and made a recommendation in this regard to the board.
- Approved allocations to the employee share trust.
- Performed the annual review of its terms of reference and annual work plan and approved same.
- Considered employees retention mechanisms.
- Reviewed and commented on the group remuneration philosophy and policy.
- Considered the results of an independent remuneration review and received feedback on the project items arising therefrom.
- Approved the group scorecard.

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT

In accordance with the Companies Act and the Companies Regulations, the board took a decision on 24 November 2011 to incorporate a social and ethics committee (the committee) into its existing Transformation Committee to form a newly constituted Social, ethics and Transformation Committee.

The membership of the Social, Ethics and Transformation Committee was revised in the 2014/15 financial year following the listing of the company on the JSE Limited on 24 July 2014.

The committee is currently chaired by the non-executive chairman of the board, Mr MS Moloko, with additional membership comprising Mr DJ Anderson (non-executive director) and Mr E Chr Kieswetter (group chief executive).

The group chief financial officer, group human resources officer, group chief risk officer and the business unit leaders are permanent invitees to committee meetings. The group company secretary acts as secretary to the committee.

The committee operates under formal terms of reference which requires it to meet at least twice a year to fulfil:

- the functions assigned to it under the Companies Regulations; and
- other functions that the board assigns it from time to time to assist the board in ensuring that the group remains a good and responsible corporate citizen.

The committee receives reports from other committees and in turn reports on relevant matters within its mandate to the board. One of its members must report to shareholders at the company's annual general meeting on the functions of the committee.

The committee met three times during the period under review and meeting attendance is reflected in the table below:

Meeting attendance

	Meeting dates		
Committee member	3 June 2014	25 November 2014	9 March 2015
MS Moloko *(chairman)*	✔	✔	✔
D J Anderson	n/a	n/a	✔
E Chr Kieswetter	n/a	✔	✔
L Hall-Kimm	✘	n/a	n/a
Y Themba	✔	n/a	n/a
N Waithaka	✘	n/a	n/a

✔ *– Indicates in attendance*
✘ *– Indicates apologies*
n/a *– Indicates not yet a member or resigned*

- Mesdames L Hall-Kimm, Y Themba and Mr RN Waithaka resigned from the committee on the company's listing on 24 July 2014.
- Mr DJ Anderson was appointed to the committee with effect from 27 November 2014.
- Mr E Chr Kieswetter was appointed to the committee following the company's listing on 24 July 2014.

This report, which describes how the committee has discharged its responsibilities in respect of the financial year ended 31 March 2015, will be presented to shareholders at the annual general meeting to be held on 30 July 2015.

RESPONSIBILITIES

The objectives and responsibilities of the committee, which are aligned with the committee's statutory functions as set out in the Companies Act and Companies Regulations, form the basis of an annual workplan that the committee has adopted. The specific activities that the committee is required to monitor, with reference in particular to adherence to relevant legislation, regulation and codes of best practice, include:

- social and economic development, including the group's standing relative to the 10 Principles of the UN Global Compact, the Organisation for Economic Cooperation and Development (OECD) recommendations regarding the combating of corruption, and South Africa's Employment Equity Act and Broad-Based Black Economic Empowerment Act;
- good corporate citizenship, including the group's positioning and efforts in promoting equality, preventing unfair discrimination and combating corruption, the group's contribution to the development of communities in which it operates and the group's record of sponsorships, donations and charitable giving;
- the environment, health and public safety, including the impacts of the group's activities on the environment and society;
- consumer relationships, including the group's advertising, public relations and compliance with consumer protection laws;
- labour and employment, including the group's standing relative to the International Labour Organisation (ILO) protocol on decent work and working conditions, and the group's employment relationships and contribution to the educational development of its employees; and
- generally, the monitoring of the social, ethics, economic, governance, employment and environmental activities of the group.

The objectives that support Alexander Forbes' sustainability policy include the promotion of environmental health and public safety and good corporate citizenship, including the promotion of equality, the prevention of unfair discrimination and the reduction of corruption.

PERFORMANCE DURING 2014/15

During the year under review, the committee oversaw the following aspects of its workplan (at business unit and group levels):

Ethics

The group's commitment to the highest ethical standards is set out in the code of ethics and ethics policy. Alexander Forbes is a member of the Ethics Institute of South Africa and an ethics hotline is operated by independent service providers.

This year the committee directed a review of the group's ethics policy, which resulted in a number of concrete outcomes, including the adoption and publication of a separate ethics code and policy. Refresher training for all employees, the inclusion of expanded ethics elements in our induction training and specialised training for directors on legislative and regulatory ethical implications and expectations were scheduled for the new year.

A member of the group executive is responsible for the implementation and success of a wide-ranging ethics programme.

The whistle-blower line received seven allegations which were all investigated. In total, 24 allegations of fraud and/or corruption were reported. Gross losses related to fraud and corruption amounted to R512 015, of which the largest single amount was R393 000.

Of this, R170 000 was recovered. Total value of fraud prevented was in the order of R40 000.

One case of conflict of interest was substantiated and an employee of AFI dismissed.

There were no reported instances of discrimination reported in the year.

Labour

Our employment equity strategies and policies enshrine our commitment to the implementation of employment equity across the group. Our various transformation structures, including employment equity forums, continue to provide input into the implementation and management of employment equity initiatives in the group. During the year under review, particular attention was given to the revised Broad-Based Black Economic Empowerment Codes of Good Practice and related developments in the Financial Sector Charter. Reports on the business' B-BBEE verification by an independent rating agency were received and transformation progress reports were reviewed.

Skills development remains an area of focus and the various skills development programmes that have been implemented are reported on more fully on pages 46 to 47.

Health and safety

The group continues with its endeavours to improve its health and safety practices and regular reports are reviewed by the committee on the status of occupational health and safety. Particular focus has been given to the safe evacuation of employee in crisis situations. There was ongoing training and awareness-raising of employees around health and safety requirements; and our crisis management plan and evacuation procedures were reviewed.

Socio-economic development

In line with our strategic intent to be welcomed in the communities in which we operate, Alexander Forbes strives to support the advancement of all communities, with emphasis on previously disadvantaged communities, where its operations are located. Our corporate social investment policy entrenches this philosophy. Sustainable community development is achieved, among others, through investing in community-related projects, employment, procurement and supply chain development.

Sustainability

In considering a financial services group's sustainability, direct environmental impact is limited. However, the group focuses on minimising its footprint and paying attention to its financial sustainability. Environmental practices were reviewed by the committee during the year under review. These matters are elaborated upon on page 51 of this report.

Additional matters

The committee received regular updates on the group-wide treating customers fairly project implementation. The committee also reviewed and endorsed the responsible investing initiative spearheaded by Investment Solutions. The committee monitored the group and business unit's social, ethics and transformation reports and reviewed the results of the annual employee employment equity survey.

Conclusion

The committee has fulfilled its mandate in terms of the Companies Act and terms of reference over the past financial year.

Sello Moloko
Chairman

Sandton
30 June 2015

GROUP CAPITAL OVERSIGHT COMMITTEE

The group Capital Oversight Committee is chaired by an independent chairman, Mr H Meyer, with additional members, Mr D Anderson (non-executive director), Messrs E Chr Kieswetter and DM Viljoen (group chief executive and group chief financial officer, respectively).

The objective of the group Capital Oversight Committee is to monitor and direct the capital and capital adequacy risk profile of the group.

The committee convened its first meeting on 26 November 2014.

	Meeting dates	
Committee member	24 Nov 2014	9 Mar 2015
H Meyer *(chairman)*	✓	✓
D Anderson	✓	✗
E Chr Kieswetter	✓	✓
DM Viljoen	✓	✓

✓ *– Indicates in attendance*
✗ *– Indicates apologies*

Progress made in 2014/15

During the year under review, the committee held two meetings and:

- adopted terms of reference and an annual work plan;
- agreed additional training requirements for the committee, which were effected;
- oversaw the development of a capital management policy;
- reviewed solvency and liquidity assessments for the group and identified subsidiaries;
- considered insured subsidiaries' capital adequacy requirements and capital management;
- reviewed the group's projected capital and solvency position based on business planning and risk profiling;
- considered the group's capital structure and balance sheet management;
- discussed updates in respect of consolidated supervision;
- received feedback from the SAM Steering Committee;
- approved a group capital optimisation plan;
- considered the implications of the declaration of a dividend by the group in view of regulatory capital requirements; and
- received an update on progress regarding the development of a policy for stress and scenario testing.

OUR EXECUTIVE COMMITTEE

During the financial year under review, the group Executive Committee met on a regular basis to discuss issues of a group-wide nature and of interest to various business units. Reports were received from the group chief executive and group chief financial officer at each meeting. Matters relating to group risk and compliance, human resources, brand, marketing and communications, IT, strategy, project management and transformation were discussed.

Edward Christian Kieswetter
Group chief executive
Date appointed:
1 January 2010

Deon Viljoen
Group chief financial officer
Date appointed:
1 March 2003

Gari Dhombo
Managing director, AF Insurance
Date appointed:
1 November 2002

Peter Edwards
Chief executive officer, AFFS Holdings
Date appointed:
1 February 1996

Bradley Eliot
Group IT director
Date appointed:
1 September 1998

Thabo Mashaba
Group chief human resources officer
Date appointed:
1 April 2012

Subsequent to the year ended 31 March 2015, a decision was taken that the group executive team would in future meet on a quarterly basis with a primary focus on reviewing the state of the business. In addition to reports being received from the group chief executive and group chief financial officer, reports are received from the following cluster executive committees (excos):

1. Institutional cluster exco whose objectives include the achievement of stronger client-centricity and the enhancement of the cluster approach to key business activities.
2. Retail cluster exco, responsible for driving the retail growth strategy.
3. Operations cluster exco, which directs a group-wide drive towards a scalable operational platform to improve process efficiency, delivery effectiveness and customer experience through the effective deployment of people, systems and IT.
4. Shared services cluster exco, which drives the efficiency and effectiveness of business support services.

CHANGES IN MEMBERSHIP

Ms Dlamini resigned from the group as managing director: retail on 31 January 2015.

Mr Price joined the committee in his capacity as group executive: operations, technology and systems, subsequent to year-end, on 1 May 2015.

Derrick Msibi
Managing director,
IS Holdings
Date appointed:
1 January 2009

Vishnu Naicker
Group chief risk officer
Date appointed:
1 April 2008

Luendran Pillay
Managing director,
AfriNet
Date appointed:
1 May 2012

Stephen Price
Group executive:
operations, technology
and systems
Date appointed:
13 July 1999

Janice Salvado
Group company secretary
Date appointed:
1 April 1999

Lynn Stevens
Group executive of
brand, marketing and
communications
Date appointed:
1 August 2010

Grant Stobart
Chief executive officer,
AF International
Date appointed:
15 December 2003

KING III GOVERNANCE

Alexander Forbes aims to follow the King III principles as closely as possible and the table of how each principle is applied is available on our website. Our application of the following principles differs from the guidelines as follows:

King III principle		Explanation
Principle 2.16	The board should elect a chairman who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board.	The chairman was previously appointed as executive chairman and became non-executive on 24 July 2014. Therefore, in terms of governance practice, a lead independent director has been appointed.
Principle 9.3	Sustainability reporting and disclosure should be independently assured.	Sustainability reporting is not independently assured.

GOVERNING IT

We have in place a robust IT governance strategy which is embedded in the operations of the group IT function, with risk management being a key element in the performance scorecards of IT managers and senior employees.

The group IT director is a member of the group boards and associated Audit and Risk Committees, as well as teams heading up strategic group projects. Working groups tasked with embedding regulatory requirements including the Protection of Personal Information Act, the Solvency Assessment and Management (SAM) requirements and treating customers fairly, in the organisation all include senior IT executives.

The Alexander Forbes IT governance framework is based on the following local and international frameworks:

- King III
- Information Technology Infrastructure Library (ITIL v3)
- Control objectives for information and related technology (COBIT)

The framework is supported by a series of policies and procedures that enable the group to ensure compliance with our framework's demanding standards. At year-end considerable progress had been made towards aligning our framework with COBIT 5, the latest iteration of the framework released by ISACA, an international IT governance association.

Management monitors compliance with the IT governance framework on an ongoing basis. Disaster recovery and business continuity systems and procedures all conform to the highest international standards and protocols and are regularly tested. During 2014/15, no material control or governance deficiencies were identified.

On a functional level, the group IT Steering Committee oversees the implementation of the IT governance framework. Its work also includes monitoring and reporting on the business value of IT projects. The group IT director reports to the board (which is ultimately responsible for IT governance) through the Audit Committee on such projects, including proposals for significant IT expenditure. The CIO also reports, on a formalised quarterly basis, to the Audit Committee on the top 10 IT risks.

The Audit Committee is pleased to present its report for the financial year ended 31 March 2015. The Audit Committee is an independent statutory committee appointed by the shareholders. In compliance with the King III Report and section 61 of the Companies Act, 2008, the shareholders of the company appointed independent directors as its Audit Committee in the previous financial year. The board of directors delegates duties to the Audit Committee. This report includes those duties and responsibilities.

TERMS OF REFERENCE

The Audit 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 Audit Committee and the board. The committee has conducted its affairs in accordance with its terms of reference and has discharged its responsibilities contained therein. A copy of the Audit Committee's current terms of reference is available on the company's website at www.alexanderforbes.co.za.

COMPOSITION AND FUNCTION

The Audit Committee comprises three independent members. In accordance with King III, the Audit Committee members are appointed annually by the shareholders. The chairman of the board, certain non-executive board members, the group chief executive, the group chief financial officer, the group chief risk officer, the group IT executive, external auditors, internal auditors and other assurance providers attend meetings by invitation. The Audit Committee undergoes an annual self-assessment.

ROLES AND RESPONSIBILITIES

The Audit Committee is satisfied that it complied with its legal, regulatory and other responsibilities during the financial year ended 31 March 2015. The Audit Committee's primary objective is to assist the board with its responsibilities for the management of risk, safeguarding of assets, oversight over financial control and reporting internal controls, shareholder reporting and corporate governance, particularly relating to legislative and regulatory compliance. The Audit Committee's roles and responsibilities include statutory and regulatory duties as per the Companies Act, 2008 and according to the King III Report on Governance for South Africa 2009. In addition, the board has assigned certain other duties to the Audit Committee, embodied in its terms of reference. The board reviews these duties and terms of reference every year.

THE INTEGRATED ANNUAL REPORT

The Audit Committee is responsible for overseeing the group's integrated annual report and the reporting process. This is the group's fourth integrated annual report. It focuses not only on the group's financial performance but also on its economic, social and environmental performance. It also sets out how the business has engaged with stakeholders, addressed its material issues and governed its business.

FINANCIAL STATEMENTS AND ACCOUNTING PRACTICES

The Audit Committee has reviewed the annual financial statements for the year ended 31 March 2015, and believes that these present a balanced view of the group's performance for the period under review and that they comply with International Financial Reporting Standards.

EXTERNAL AUDITOR APPOINTMENT AND INDEPENDENCE

The Audit Committee has satisfied itself that the external auditor is independent of the group, as set out in section 94(8) of the Companies Act, 2008, which includes consideration of previous appointments of the auditor, the extent of other work the auditor has undertaken for the group and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its independence. The committee ensured that the appointment of the auditor complied with the Companies Act, 2008 and other legislation relating to the appointment of auditors. The committee, in consultation with management, agreed to the engagement letter, terms, audit plan as well as scope of work performed and budgeted audit fees for the 2014/15 year. A formal procedure has been adopted to govern the process whereby the external auditor may be considered for performing non-audit services.

The committee has nominated, for election at the annual general meeting, PricewaterhouseCoopers Inc. as the external audit firm and Mr J Grosskopf as the designated auditor responsible for performing the functions of auditor for the 2015/16 year.

The Audit Committee has satisfied itself that the audit firm and designated auditor are accredited as such on the JSE list of auditors and their advisers.

INTERNAL CONTROLS

The Audit Committee considers significant control deficiencies raised by management and the internal and external auditors and reports its findings to the board. Where weaknesses are identified, the Audit Committee ensures that management takes appropriate action. Based on assurance obtained throughout the year, the Audit Committee confirms that the internal controls are working optimally and that there are no known material deficiencies to report on for the past financial year.

WHISTLE BLOWING

During the year the Audit Committee reviewed the whistle-blowing programme and reports resulting from the programme. We have ensured that, where appropriate, management undertook independent investigations and appropriate follow-up action. The Audit Committee receives reports of any complaints, whether from within or outside the group, relating to the accounting practices and internal audit of the group, the content or auditing of the group's financial statements, the internal financial controls of the group and related matters.

COMBINED ASSURANCE

The Audit Committee is satisfied that the group has optimised the assurance coverage obtained from management and internal and external assurance providers in accordance with an appropriate combined assurance model.

GOING CONCERN

The Audit Committee has reviewed a documented assessment, including key assumptions prepared by management, of the going concern status of the group and has 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 Audit Committee, appears in the directors' responsibility for financial reporting on page 3 of the annual financial statements.

GOVERNANCE OF RISK

The Audit Committee fulfils a dual function, being both an audit committee and a risk committee. Internal audit performs a full assessment of the risk management function and framework on an ongoing basis.

INTERNAL AUDIT

The Audit 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 Audit Committee oversees cooperation between the internal and external auditors, and serves as a link between the board of directors and these functions. The Audit Committee approved the internal audit charter and the internal audit function's annual audit plan during the year under review.

The internal audit function reports to the relevant divisional 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 Committee. The head of group internal audit has direct access to the group Audit Committee, primarily through its chairman. During the year, the committee met with the external auditors and with the head of group internal audit without management being present.

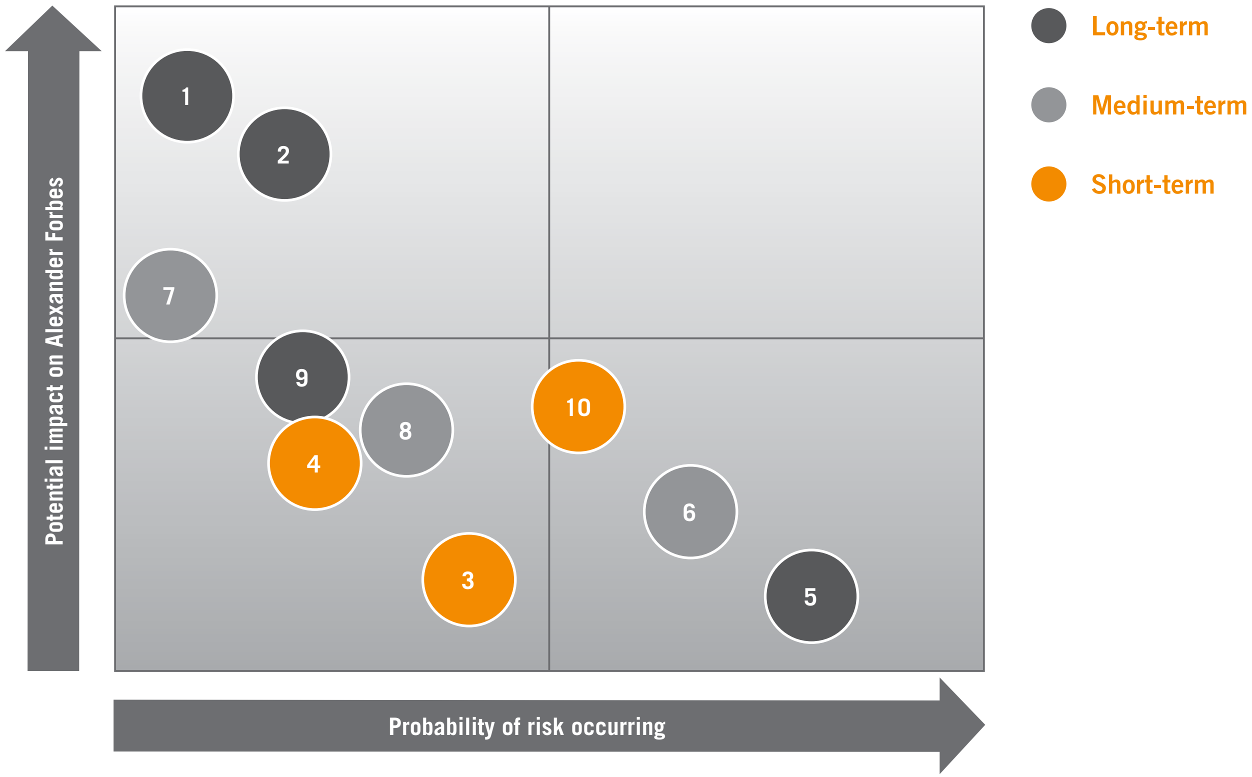
EVALUATION OF THE EXPERTISE AND EXPERIENCE OF THE GROUP CHIEF FINANCIAL OFFICER (GCFO) AND THE FINANCE FUNCTION

The Audit Committee has satisfied itself that the GCFO has appropriate expertise and experience to execute his designated functions. The Audit Committee has considered and has satisfied itself on the appropriateness of the expertise, experience and adequacy of resources of the finance function.

Dr D Konar
Chairman of the Audit Committee

Sandton
4 June 2015

KEY BUSINESS RISKS



Our major level 2 risks in 2014/15 and their level 1 risk categories

1. Non-compliance with regulatory capital adequacy requirements **(operational risk)**
2. Poor or perceived poor investment performance **(operational risk)**
3. Resources and key management dependency **(operational risk)**
4. Regulatory non-compliance **(operational risk)**
5. Impact of retirement reform on the group's business model **(business risk)**
6. Failure to meet new business targets **(business risk)**
7. Failure to maintain and generate shareholder value **(strategic risk)**
8. Failure by counterparty to meet obligations **(credit risk)**
9. Poorly structured contracts **(business risk)**
10. Failure to provide the right advice, develop the appropriate products and perform according to the group's higher purpose **(operational risk)**

It should be noted that the group's highest inherent risk is that of errors and omissions (operational risk). This risk is mitigated by way of a comprehensive insurance programme which reduces the potential impact to a level below the top 10 risks identified above.

In 2014/15, these key level 2 risks were identified and ranked by our group risk division in terms of our group risk management strategy and in consultation with subsidiary and group management. These key risks, and actions planned and taken, were interrogated, approved and monitored by the group Audit Committee. The risk categories listed against each key risk relate to the level 1 categorisation as per our group risk taxonomy. The level 1 risk categories are business, liquidity, market, underwriting, strategic and operational and are determined according to the business model, complexity and proportionality of the group.

An overview of our Risk Taxonomy including Level 1, 2 and 3 risk (see Governing risk management on page 85), appears on pages 82 to 83.

On this and the following page we detail our level 1 (high-level) risk categories, actions taken during the year under review and plans for the following year.

Level 1 risk categories	Actions taken during 2014/15	Plans for 2015/16
Operational risk (incorporating regulatory risk) The risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events which gives rise to errors and omissions.	• Completed phase 2 of the group's own risk and solvency model. • Enhanced systems for tracking operational risk losses and forward stress testing. • Revised the operational risk framework to adjust for regulatory changes. • Professional indemnity cover renewed to cover professional and operational risk failures. • Phase 1 of assessing the implementation of the advanced measurement approach (AMA) initiated. • Development and implementation of a real-time compliance tracker system.	• Improve task segregation, preventing any one individual from taking advantage of numerous aspects of a particular transaction, business process or practice. • Limit complexities in business processes by curtailing manual activities and the number of people and exceptions that arise during the implementation of business processes. • Reinforce organisational ethics by creating a strong ethical compass that can be strengthened by aligning personal values with the ideology of the organisation. • Monitor and evaluate business processes at regular intervals with well-designed key performance indicators (KPIs) to ensure timely detection and mitigation of risks – in effect proactively identifying discrepancies and managing these accordingly. • Periodic assessment of all facets of operational risks to gauge regulatory obligations, IT assets, skills, competencies, processes and business decisions. • The group to renew its Comprehensive Professional Indemnity programme with approximately R2 billion cover for each claim year.
Business risk The risk that the company will generate inadequate profits.	• Implemented key risk indicators and risk tolerance levels for business risks. • Completed phase 1 of the group's economic capital model to facilitate internal capital and solvency assessment. • Further refined business risk performance metrics.	• Further enhancement of the group's stress-testing capabilities to ensure appropriate definition of all possible stress-testing scenarios. • Further enhancement of the group's key risk indicators to signal stress.
Credit risk (incorporating liquidity risk) The risk that a supplier, while solvent on a balance sheet basis, either does not have the resources to meet its obligations or can secure these only at excessive cost.	• Redefined the group's credit and counterparty risk management system. • Reassessed and re-set key risk indicators and tolerance levels for flagging potential liquidity risks or vulnerabilities. • Enhanced systems for projecting liquidity within the group's planning horizon. • Redefined credit risk tolerance levels for all businesses within the group.	• Enhance the group's liquidity risk tolerance model. • Develop a liquidity stress-testing model. • Enhance our processes for managing the group's intra-day liquidity risk and collateral.

Level 1 risk categories	Actions taken during 2014/15	Plans for 2015/16
Market risk Loss due to factors affecting the overall performance of financial markets.	• Finalised the development and implementation of the group's stress-testing policy. • Completed phase 1 of developing and implementing internal controls and systems to monitor consolidated market risk and associated exposures. • Established an independent group Capital Oversight Committee to monitor capital and concentration risk exposures.	• Realign group stress-testing framework in line with regulatory requirements issued by the FSB in 2015. • Develop and disseminate market risk management policy. • Improved dynamic market risk reporting to Capital Oversight Committee. • Continuous development and improvement of proprietary scoring models for underwriting, affordability assessment, portfolio performance and collection activity. • Customer and risk-focused product development together with appropriate risk-based pricing. • Effective monitoring and understanding of the sensitivity of credit risk metrics and trends relative to various risk parameters.
Underwriting risk Loss on underwriting activity, whether from factors within or beyond our control.	• Enhanced monitoring of reinsurance contacts to minimise potential losses from concentration risk. • Improved monitoring of claims ratio and root cause analysis. • Implemented improved framework to monitor and manage underwriting results.	• Reassess and redefine reinsurance model guidelines. • Create dynamic repricing models. • Improve churn rate monitoring and intervention tools.
Strategic risk Loss arising from the pursuit of an unsuccessful business plan.	• Creation of clusters to drive strategic intent and monitor strategic risks. • Creation and implementation of an independent enterprise planning and management office (EPMO) to ensure that business plans supporting the strategic objectives are implemented successfully.	• Develop an ongoing process to periodically update the assessment of strategic risks. • Develop a framework for using risk analytics to inform investment and strategic decisions. • Capacitation of the enterprise project management office to track and validate deliverables for strategic projects.

The board and management recognise that the ongoing and effective management of business risks is vital to the group's continued growth and success. This requires us to target, on an annual basis, very specific risk management initiatives and projects which assist the group in maintaining its position within the market.

Key achievements in the 2014/15 financial year were as follows:

1. The Financial Services Board (FSB), during the 2014/15 year, issued many directives concerning the implementation of Solvency Assessment and Management (SAM). The group has responded by ensuring that the following were completed within the required timeframes:
   - Substantially completed and operationalised SAM capital adequacy requirements in line with pillar 1 requirements.
   - Ensured the successful implementation of Board Notice 158 – Governance and Risk Management Framework for Insurers. This framework requires an insurer to adopt, implement and document an effective governance framework that provides for the prudent management and oversight of its insurance business and that adequately protects the interests of policyholders. A significant subset of our implementation of Board Notice 158 was the enhancement of the group's three lines of defence governance model to ensure that all statutory governance requirements are met, with special focus on a strong sense of accountability, responsibility, independence, reporting, communication and transparency, both internally and with all key external stakeholders.
   - Completed implementation of the standardised approach for operational risk, which assures the regulator that adequate systems and processes exist to avoid any operational risk failures that might place clients and stakeholders at risk.
   - Finalised own risk and solvency assessment (ORSA) framework which is now being implemented within the group. An ORSA is intended to ensure that an insurer assesses its risks and determines the capital required to protect against those risks. This process must be documented, evidenced and submitted to the regulator on at least an annual basis.
   - To minimise potentially inefficient provisions to meet regulatory capital requirements, the group applied to the FSB for permission for Investment Solutions to implement an internal model to calculate its capital requirements. Such permission was granted and significant progress made with the implementation of such an internal model.
2. In light of the group's greater strategic focus on AfriNet, the group extended the enterprise-wide risk management framework fully to integrate all AfriNet subsidiaries.
3. To better understand the financial sustainability position of the group, an exercise to determine the stressed conditions that the group could be exposed to was undertaken with the participation of the board and senior executives. This subsequently led to the building of stress-testing models and accompanying contingency plans in the eventuality of the stressed situations identified arising.
4. The group continued to evolve its risk management approach to ensure flexibility and relevance to its business needs in a changing regulatory and operating environment. As a result of the listing of the group on the JSE, greater focus was placed on improving compliance requirements and enhancing the reputational risk management model.
5. Safety, health and environment and business continuity programmes were significantly modified.
6. The group's risk appetite measures and dashboard were realigned to ensure that risk-tolerance levels continue to protect our stakeholders, specifically our clients.
7. In light of the recent amendments and proposed amendments to money laundering and corruption laws, the group undertook a full due diligence assessment of its anti-money laundering and financial crime programme. At year-end, areas had been identified for enhancement so as to effectively deal with any form of risk.
8. The group completed the Alexander Forbes risk management strategy for implementation during the 2015/16 financial year.

For details on our risk outlook, emerging risks and actions taken and planned, see our website at www.alexanderforbes.co.za.

GOVERNANCE OF RISK MANAGEMENT

The Alexander Forbes board and management acknowledge that risks accompany change and are often accompanied by potential benefits and opportunities. Better risk governance implies enabling the group to minimise the negative consequences of its associated risks.

The group embraces a strong risk governance model which is pragmatic and ensures oversight efficiency, accountability, responsibility, independence, reporting, communications and transparency – both internally and with all our key external stakeholders.

The Alexander Forbes board has approved and adopted the COSO model's three lines of defence, as set out in the figure on the right, each with a specific role as follows:

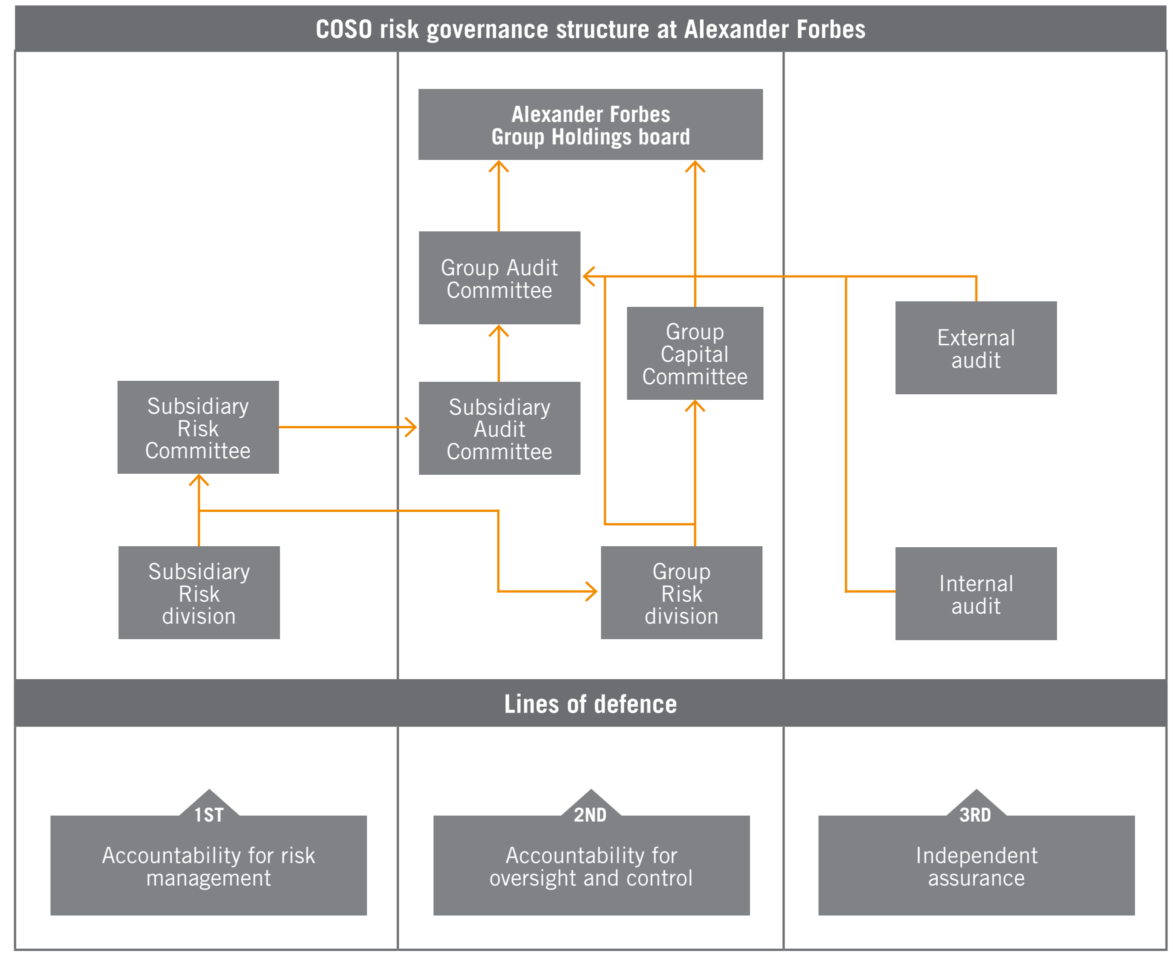
- First line of defence: centred on day-to-day management's responsibility and accountability. Management's role, through various operational committees, is to provide oversight, including strategy implementation, performance measurement, risk management, company controls and governance processes.
- Second line of defence: in respect of the formal enterprise risk management (ERM) framework which includes policies and minimum standards. Objective oversight continuously challenges risk management in terms of its performance and reporting.
- Third line of defence: the oversight/assurance provided by an independent third party on the adequacy and effectiveness of risk management governance and internal control within Alexander Forbes, as established by the first and second lines of defence.

RISK APPETITE

Risk appetite is the amount of risk that the group is willing to accept in pursuit of achieving its stakeholder objectives. It sets parameters within which the group can operate in order to achieve business objectives and drive important investment decisions. Risk appetite is used in setting strategies and in business planning and acts as a reference point for all important business decisions.

Alexander Forbes' risk appetite has been broadly split into four key risk measures, namely capital, earnings, liquidity and operational risk. Thresholds and measurement principles are agreed at a group level. The qualitative statements in relation to each of these four measures are set out below:

- **Capital:** The group will hold the larger of the economic capital requirement and the regulatory capital requirement.
- **Earnings:** The group's earnings at risk will not exceed 20% of the earnings projected over a 12-month forward-looking period.
- **Operational:** The group will pursue a commercial balance between the costs of mitigating actions and the expected future (financial and non-financial) losses that may arise from the occurrence of operational risk events.
- **Liquidity:** The group's liquidity requirements for each relevant business/entity will be based on the best operational cash flow estimates over a 12-month forward-looking period, taking into account any minimum regulatory capital requirements that may apply.



REMUNERATION PHILOSOPHY

The Alexander Forbes remuneration philosophy seeks to enable the business to attract, motivate and retain talented high-performing people. The group aims to create a reward structure that is:

- aligned with the organisation's values;
- designed to reward the right behaviours and outputs; and
- structured in such a way that the policy will not result in any unfair outcomes for customers.

The remuneration policy is based on best practice and good governance principles. Alexander Forbes will strive to comply with the remuneration guidelines of King III to the fullest extent possible and will be cognisant of the remuneration-related guidance provided by legislative and regulatory regimes in all jurisdictions in which it operates.

REMUNERATION PRINCIPLES

These principles inform the implementation of our remuneration policy:

- **Long-term interest** – Overall remuneration policy and practice is in line with the group's business and risk strategy, profile, objectives, values, risk management practices, the interests of its stakeholders and long-term entity-wide interests.
- **Management of risk** – The remuneration policy applies to the group as a whole in a proportionate and risk-based way and contains specific arrangements that take into account the roles of the different levels of employees undertaking activities that involve significant risk taking.
- **Transparency** – There is a clear, transparent and effective governance structure for remuneration including the definition of the remuneration policy and its oversight.
- **Appropriate mix of short- and long-term pay** – There is a balance between fixed and variable pay, with fixed pay representing a sufficiently high proportion of total remuneration to avoid employees becoming overly dependent on variable pay, except in situations where the market dictates otherwise. The variable portion is based on a combination of business and individual performance. The short-term incentive may vary year on year depending on the performance of the relevant division and individual's contribution.
- **Treating customers fairly** – Performance scorecards and incentives are structured in such a way to ensure that the way in which we reward people, at all levels, does not result in any unfair outcomes for customers. Customers' interests and company interests are treated with equal importance.
- **Defining performance** – Performance measurement is based on a balanced scorecard which includes both financial and non-financial measures and includes measures for current and future risks.
- **Internal and external disclosure** – The remuneration policy is transparent internally and adequately disclosed externally when required.
- **Legislative compliance** – The policy is cognisant of the remuneration-related guidance provided by legislative and regulatory regimes in all jurisdictions in which the group operates.
- **Approvals and decision-making** – The group Remuneration Committee has a mandate to monitor, review and approve all changes to the remuneration policy, including the long-term incentives (LTIs) and its rules (for final approval by the shareholders), the determination of the short-term incentives (STI) for the group, divisions as well as the group Executive Committee awards. The group chief executive has a mandate to approve remuneration and rewards for all executives reporting to the group Executive Committee.

Remuneration is regularly measured against peer companies to ensure that it is both fair and effective.

REMUNERATION STRUCTURE

Our remuneration policy provides for a mix of fixed (or guaranteed) and variable pay. This mix is aligned with market best practice where a large proportion of executives' remuneration is variable but is managed within defined levels. The components of the remuneration mix are, broadly:

- guaranteed pay – aligned with market levels and provides the individual with appropriate security and reward in terms of salary and benefits;
- short-term incentives (STIs) – aligned to operational, financial and other non-financial annual targets that seek to drive operational wins in the short to medium term; and
- long-term incentives (LTIs) – primarily a performance-driven LTI plan whereby awards are subject to appropriately stretching performance conditions and may be settled in company shares or in cash.

Guaranteed pay

Guaranteed pay is a core element of remuneration reflecting the individual's role and position and is payable for undertaking expected day-to-day responsibilities. Guaranteed pay includes all guaranteed items such as basic salary, car allowance, medical aid contributions, retirement fund contributions and guaranteed allowances.

Guaranteed pay is structured as a total cost-to-company (TCTC) package and is typically benchmarked against the 50th percentile of the market to create the opportunity for exceptional performers to earn up to the 75th percentile in total through STIs.

Remuneration is generally benchmarked against the financial services market through reputable and independent market remuneration surveys. The group has a job evaluation system in place which is based on stratified systems theory and correlated to the Paterson Modern grading system.

The group provides normal market-related benefits. These include (but are not limited to) company contributions to the retirement fund, medical aid and other benefits as agreed to, including death, disability and funeral cover.

Executive directors have permanent employment contracts with the group. Although these contracts do not provide for a restraint of trade, they do carry three-month termination periods, with the group retaining the right to terminate a contract in the event of poor performance or misconduct.

Executive Committee members and some senior managers are subject to performance assessments by the group chief executive. Reviews are based on their contribution to achieving the group's strategy as well as other key stakeholder objectives such as the sustainability of operations. The Remuneration Committee reviews and approves salary reviews for Executive Committee members to ensure that total compensation is both fair and appropriately benchmarked. The committee also reviews and sets the group chief executive's annual compensation.

The guaranteed pay for the 2014/15 and 2013/14 financial years for the executive directors of the group board were:

R'000	Salary	Benefits and allowances	Retirement fund contributions	Total 2015	Total 2014
MS Moloko (chairman)*	567	130	80	777	2 604
E Chr Kieswetter (group chief executive)	4 900	254	513	5 667	5 209
DM Viljoen (group chief financial officer)	3 318	174	535	4 027	3 699
Total for the year	8 785	558	1 128	10 471	11 512

** Mr Moloko became non-executive chairman on 1 July 2014.*

Short-term incentive (STI)
STIs are discretionary. Senior employees above a certain grade may be eligible to participate in an annual STI plan.

Alexander Forbes' STI scheme aims to reward performance for meeting short-term organisational targets. The guiding principles are as follows:

- A direct link is established between performance management and rewards.
- Objectives and measures used in the incentive scheme are derived from the overall annual strategic objectives. These are cascaded down to determine relevant objectives and targets at all levels.
- 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.

Alexander Forbes STI bonuses relates to performance against annual objectives consistent with the creation of long-term value for shareholders. Individual and corporate performance targets, both financial and sustainability-related, are tailored to the needs of the business and reviewed regularly to ensure they remain appropriate.

The primary risk from a short-term incentive perspective lies in the measurement of performance and the resulting quantum of the incentive. This is determined subject to the following considerations:

- **Determination and size of the incentive pool** – The incentive pool is self-funded through a share of the net operating profit. The size of the incentive pool is dependent on a year-on-year increase of the required profitability.
- **Incentive capping** – Paterson A to D band employees are generally offered a 13th cheque equal to one month's pensionable salary while employees in E to G bands could receive up to a maximum of 200% of their on-target bonus as their incentive, as indicated by the bonus qualification percentages.
- **Performance measurement** – Incentives are dependent on performance measured over a 12-month period. Performance is measured according to personal and divisional measures. The divisional scorecard is evenly split between financial and non-financial measures but scorecards for individuals may have a different weighting. Performance measures are based on audited financial results of the company and the measures are independently verified by the group programme and project office and reviewed annually. Internal audit may also be required to independently verify reported results against scorecard measures when required.
- **Bonus deferral** – Bonus deferrals are applicable for divisional managing directors and any other identified roles. Deferral percentages will vary from time to time and will be determined depending on the needs of the organisation. Such deferral and/or claw-back provisions as may be deemed appropriate may be approved by the Remuneration Committee from time to time.

STIs paid to executive directors for the past and previous financial years are as follows:

R'000	Total 2015	Total 2014
MS Moloko (chairman)*	3 100	2 250
E Chr Kieswetter (group chief executive)	7 800	5 200
DM Viljoen (group chief financial officer)	5 500	3 600
Total for the year	16 400	11 050

** Mr Moloko became non-executive chairman on 24 July 2014 and as a result no longer participates in any variable remuneration plans. The payment reflected in 2015 was in respect of the 2014 financial year made subsequent to that year-end.*

Long-term incentive plan (LTIP)
The Alexander Forbes LTIP applies to executive directors, senior managers and other key executives and managers of the company. LTIPs offered over a period of three or more years are designed to:

- align performance with the achievement of long-term Alexander Forbes objectives;
- act as a retention mechanism for senior executives; and
- drive a continuous and sustained growth and improvement culture within Alexander Forbes.

The share-based LTIPs are governed by rules as approved by shareholders.

As the scheme rules were originally approved by the exiting private equity shareholders, the rules are re-tabled for approval by current shareholders at the next annual general meeting.

The chairman and other non-executive directors are not eligible to receive LTIPs geared to the share price or corporate performance. Alexander Forbes' LTIPs are intended to align the interests of executives with those of shareholders and link reward to performance over the longer term.

To align shareholders' and executives' 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. Such performance measures are linked to factors enhancing shareholder value and require strong levels of overall corporate performance, measured against an appropriately defined peer group or other relevant benchmark/s.

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.

The number of conditional shares awarded under the LTIP during the financial year was as follows:

'000 shares	Total 2015	Total 2014**
MS Moloko (chairman)*	–	–
E Chr Kieswetter (group chief executive)	1 315	–
DM Viljoen (group chief financial officer)	881	–
Total for the year	2 196	–

** Mr Moloko became non-executive chairman from 1 July 2014.*
***The new share scheme became effective on listing the company on 24 July 2014.*

Historical long-term incentive plans
During the seven-year private equity control, certain long-term incentives and share ownership plans were put in place for key individuals and senior employees of the group. All these historical schemes matured at exit of the private equity shareholders (with some deferral in certain instances).

Attendant upon the listing of the group on 24 July 2014, the 2014 Exit Transaction Incentive Plan was crystallised and all liabilities in terms of this plan were fully recognised in the year reviewed.

Similarly, the Alexander Forbes Management Trust and Management Co-Investment Trust was wound up following the listing and members of the trust compensated for the dilution of their shareholding in Alexander Forbes Equity Holdings that resulted from the 2014 capital restructure.

The 2011 Executive Long-Term Incentive Plan, which was amended in June 2014, was constructed and designed as a restricted bonus incentive scheme which is cash-settled. The plan did not involve the purchase, transfer or issue of shares or share options, nor was it linked in any way to shares. The participation by executive directors in the plan was required to be approved and confirmed by the Remuneration Committee. Various senior managers and directors of the company were designated as eligible employees under the plan. Fifty percent of the awards made to eligible employees in terms of the plan vested upon listing on 24 July 2014, while the remaining 50% will vest after 18 months from the date of listing. The awards were conditional upon acceptable performance by participants over the period and upon participants being employed by a member business of the group at the date of payment. The liability was recognised in line with its retention period.

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

REMUNERATION OF NON-EXECUTIVE DIRECTORS

Independent directors receive letters of appointment that include a notice period of three months. Other executive directors do not receive such letters as they are shareholder representatives.

The overarching principle applying to the remuneration of independent non-executive directors is to compensate them fairly and at a level that is appropriate to attract the desired talent and expertise.

The remuneration of non-executive directors consists of directors' fees based on board and board committee participation. To compensate for additional responsibility, the chairmen of the board and committees are compensated at levels higher than other members. Different levels of remuneration are also paid in respect of the different board committees based on the complexity and amount of preparation and level of responsibility required by the committees.

Market benchmarking is undertaken periodically to ensure that the remuneration of non-executive directors is appropriately aligned to the market. Each year the Remuneration Committee receives recommendations from the group chief executive and the chairman concerning the remuneration of non-executive directors, who are paid fixed fees. All directors' fees are approved annually in advance by shareholders in general meeting.

The independent directors' fees paid in the year reviewed are shown in the table below, with comparative figures for the previous financial year. The next non-executive directors' increase in fees (a proposed 5% for 2015/2016) will be subject to approval at the annual general meeting of shareholders as detailed in the notice of that meeting included in this report.

Non-executive directors' fees paid in the past financial year:

2015	Group board	Subsidiary boards	Group Audit Committee	Subsidiary Audit Committee	Remuneration and Nominations Committees	Social, Ethics and Transformation Committee
Chairperson	1 689 000	261 057	456 844	261 057	195 787	97 902
Member	456 844	130 528	195 787	130 528	97 902	52 216
2014						
Chairperson	n/a	246 280	430 985	246 280	184 705	92 360
Member	430 985	123 140	184 705	123 140	92 360	49 260

INDUSTRY LEADERS

Taking compliance to the next level

Alexander Forbes is committed to a higher purpose to secure the financial well-being of clients and having a consistently positive impact on their lives. We want to do business in a way that is ethically and morally above reproach. One way to we do this is by embedding and living by the principles of Treating Customers Fairly (TCF). TCF is a Financial Services Board (FSB) initiative to ensure financial services companies put customer needs first. It is based on six principles of fairness, also known as six fair outcomes.

OPEN, INTERACTIVE RELATIONSHIPS INFORM THE VALUE OF TRUST, WHICH UNDERPINS OUR SERVE MODEL

To build relationships based on trust, we need a mutual understanding of what is of interest and concern to our key stakeholders, and so we constantly engage with all of those with a legitimate interest in our business through a variety of methods.

The offices of the group chairman, group chief executive and the public sector division manage key elements of our stakeholder engagement but all employees are responsible for engaging openly, fairly and honestly with stakeholders. A number of our senior executives serve on industry forums and speak on public platforms. In so doing they share our considerable intellectual capital with a broad range of stakeholders, for wider socio-economic benefit.

Here we detail our key stakeholder groups, what interests they have in Alexander Forbes and how we engage with them and their interests and concerns.

Dedicated functions, including procurement, HR, brand, investor relations and community relations, interact regularly with specific stakeholders, but we seek to foster a culture of open and frank communication throughout Alexander Forbes, a culture that is engaging and open to all stakeholders.

Key relationship	Their key issues	How we engage	Page reference
Clients	• Performance • Service • Value for money • Impact of investments • Innovation • Insight	• Face-to-face meetings • Regular reporting • Newsletters, emails and websites • Client engagement forums, including LifeGauge, leading conversations, and Ready, Set, Retire • Benefits barometer • Financial well-being • Regular email and posted reporting	See Providing impactful service to our clients on page 43 for details of how we work to make a difference for clients
Employees	• Strategic issues • Business performance • Fairness • Care and concern • Reward and recognition • Career progression	• Line manager communication and team meetings • Group CE and managing director road shows • ‘Talk to Edward’ email forum • Newsletters • Junior board and junior marketing and technology council • Personalised letters • Recognition through SuperSERVE • Well-being in the workplace	See Ensuring employee engagement on page 46 for more on how we engage with our people
Shareholders	• Return on investment and sustainable growth • Effective risk management and governance • Good corporate citizenship • Regulatory compliance • Transformation	• Integrated annual report • Full year and interim results road shows • SENS announcements • Annual general meeting • Analyst briefings • Ad hoc telephonic and electronic engagement	See the group chief executive’s review on page 33 and Ensuring long-term financial integrity on page 37 for more on our engagement with shareholders

Key relationship	Their key issues	How we engage	Page reference
Governments and regulators	• Compliance • Stakeholder relationships • Governance and accountability • Fair treatment of members • Policy formulation • Economic crime prevention • Socio-economic impact	• Direct engagement • Industry forums • Statutory reporting • Policy formulation • Public-private partnerships • Informal issue-based engagement	See Complying with legislation and regulation on our website and Managing against fraud, corruption and economic crime on page 52
Suppliers	• Mutually beneficial business relationships • Consistent, fair and efficient procurement processes • Relationship management • Compliance • Opportunities for new business	• Direct consultation • Contract negotiations • Networking forums • Well-being in the workplace	See Putting transformation into practice on page 49
Media	• Newsworthy information • Information on group financial performance • Industry insights	• Results presentations • Regular media releases and opinion/ research features • Interviews with corporate and thought leaders • Website • Electronic communication	

See our value creation model on page 17 for how our business model impacts stakeholders.