INTEGRATED ANNUAL REPORT 2016

ALEXANDERFORBES
Securing your financial well-being

Contents

ABOUT THIS REPORT

Our integrated reporting journey

Since 2011, Alexander Forbes has produced integrated reports with the intention of conveying the most material financial and non-financial aspects of performance for the group and its businesses. Following our listing in 2014, the call for transparent integrated reporting has grown even louder. This report, our sixth integrated report and the second since our 2014 listing on the JSE Limited (JSE), represents a further step in the strengthening of our reporting and the underlying processes.

This year our focus was on presenting a holistic view of the group in line with our strategy of service to clients. Instead of outlining performance in a siloed, business-by-business approach, we now give a view of our successes, challenges and ambitions through the lens of our five material themes. These, too, have been revisited during the year (see 'Our 2016 – 2020 strategic ambition', page 22 for detail) and have been adjusted to align more closely with our key stakeholders – clients, employees, investors and society – all the while underpinned by sound governance.

Scope

This report covers the Alexander Forbes Group Holdings (AFGH) financial year spanning 1 April 2015 to 31 March 2016, hereafter referred to as 2016. Its contents relate to the activities and performance of our continuing operations.

This report contains summary commentary on the key elements of our financial performance in the Investors section, page 42, in an effort to streamline content and reduce redundancy. Both the full and abridged financial statements are available on the Alexander Forbes website at **www.alexanderforbes.co.za**. This report contains a summarised form of our annual governance report. The full version is available online as part of our online integrated annual report.

Reporting principles

Alexander Forbes takes direction on its governance and reporting from the King Report on Governance for South Africa 2009 (King III) and aligns its reporting with the Integrated Reporting Council's Integrated Reporting (<IR>) Framework.

Our financial statements are produced in accordance with the International Financial Reporting Standards (IFRS) and comply with the JSE Listings Requirements as well as the Companies Act of South Africa 2008.

Assurance

While this report contains financial information from audited information, it is not itself audited.

Our annual financial statements are audited by PricewaterhouseCoopers who expressed an unmodified opinion thereon. The audit report does not necessarily report on all of the information contained in this report. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the information that has been audited, they should obtain a copy of the auditor's report together with the accompanying audited consolidated annual financial statements, both of which are available online.

Our B-BBEE rating has been independently verified by Empowerdex Proprietary Limited.

Feedback

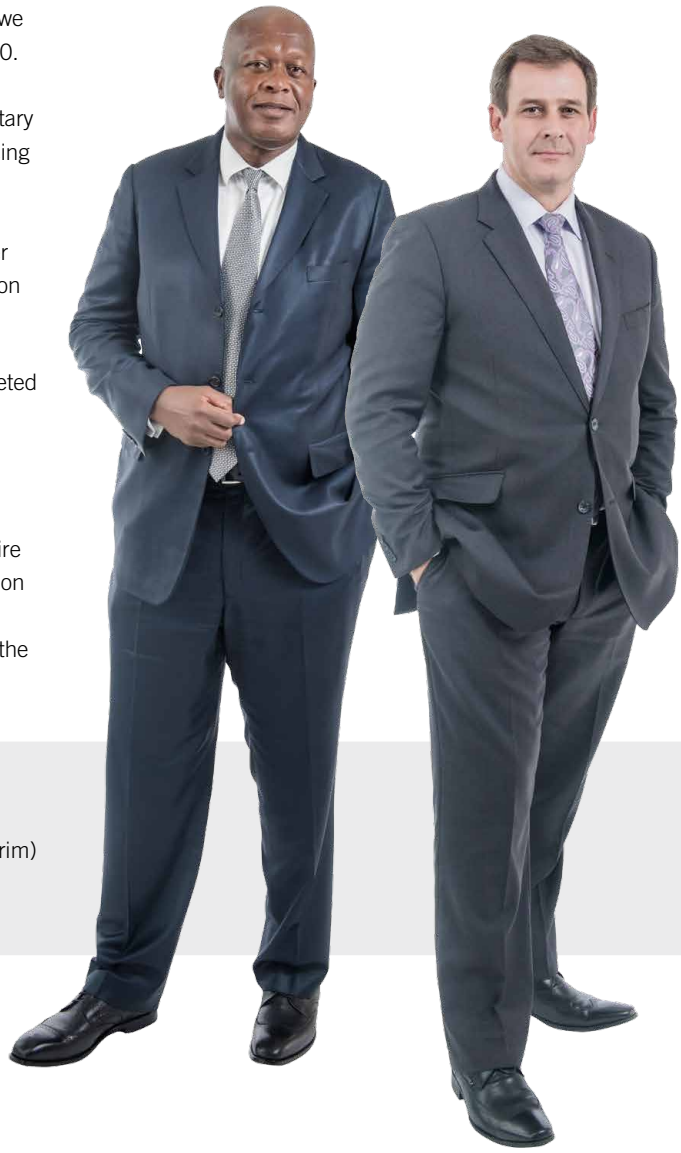
In line with our heightened focus on our stakeholders, gathering their input is of particular importance. We welcome all feedback – on this report and otherwise – via e-mail at StakeholderRelations@aforbes.co.za.

MESSAGE FROM THE LEADERSHIP TEAM

Alexander Forbes's 2016 financial year has been the type that tests our organisation across multiple dimensions. In the first full year since relisting on the JSE, the South African trading environment has experienced an extraordinary mix of economic turmoil, political uncertainty and regulatory change. The financial services sector is inextricably linked to macroeconomic drivers such as job creation, economic growth, equity and bond markets and market confidence, and our business lines are no exception. Certain areas of our business such as LCP, AfriNet and the retail cluster performed very well in 2016 while the core South African businesses responded well to the increasingly difficult trading conditions that became more apparent as the year progressed. On a whole the group has navigated a difficult environment admirably, with 12% growth in normalised profit after tax (R950 million, up from R850 million in 2015).

Following the group's listing in the previous financial year, we announced our new strategic intent spanning 2016 to 2020. This intent centres on our ambitions of growing our core business, leveraging that core and developing complementary businesses, striving for operational excellence and embracing innovation. In executing against this intent, we build and draw on the strength of our relationships with four key stakeholders: clients, employees, investors and the broader society. Our focus for the year under review was therefore on translating this intent into action.

The reconfiguration of our operating structures was completed during the year – an important step towards realising our intent. Our new institutional and retail clusters reflect Alexander Forbes's client-centric approach to supporting clients' financial well-being. Our employees, products and processes are now fundamentally realigned across the entire value chain and we are now far better organised to deliver on a fully integrated value proposition to both institutional and individual clients. At the same time, we remain mindful of the



Sello Moloko
Executive chairman

Deon Viljoen
Group chief executive (interim) and chief financial officer

fact that for most of our clients who are also members in the funds we advise and administer, the integration of these two offerings is essential for the drive towards more affordable yet tailored solutions.

We are confident that the foundations have been laid for substantial growth. In addition, the recently established operations and technology (Optech) cluster now supports the group holistically in order to ensure better value for capital projects and to better prioritise resources.

Clients

Competition in the financial sector is on the rise and stagnant economic growth in South Africa means we must grow our business by competing for market share and exploring new products and markets. We are conscious that defending our leadership within the institutional space while forging a path in the retail sector requires that we remain responsive to the rapidly changing environment whilst maintaining the key relationships that are the foundation of our business. During the year we invested significant resources to realign our employees and distribution channels, equipping them to sell and service the entire suite of products and services within their cluster.

As mentioned earlier, we remain mindful of the fact that the institutional arrangements and relationships are all ultimately aimed at providing better outcomes and financial well-being for our individual clients (members within the funds we provide solutions to). We believe one of our key strengths as a group lies in our ability to combine these offerings for the benefit of our clients. Our primary strategy is to service individual members of our institutional business by demonstrating our value and the strength of our holistic product offering. The strength and importance of relationships are not one-way, however; we believe that by serving individual retail clients well, we will also bolster our reputation with their employers – our institutional clients.

We are cognisant that the challenging economy impacts our clients as much as it does the group and we have therefore carefully considered our product and service offerings, ensuring that we have a solution for every need. For example, churn in our insurance business has declined to 18% (2015: 20%), while gross written premium has grown 11% while the market grew 7% due in part to the introduction of a number of lower-cost products aimed at retaining clients.

The launch of a new tax-free savings account during the year marked the first time that clients have been able to not only access information but also transact online from the convenience of their computer or tablet without additional intervention. We believe that this represents an important step in our ability to automate and digitise client service, engaging with clients through the channels and platforms they prefer and serving their needs efficiently. In the coming years we hope to build on this success through the roll-out of our digitisation and modernisation strategy.

Our core institutional business retained its strong market position amid increasing competition and regulatory change. Leadership in the retirement fund industry is determined by membership under administration and assets under administration – both of which we grew from the previous year. Client satisfaction also grew to 86% (2015: 82%), while retention increased to a commendable 98.5% (2015: 97.6%). Financial Services continues to develop and improve its flagship umbrella retirement fund, providing relevant and cost-effective solutions to the South African market. Its AF Access and AF Coreplan umbrella funds showed strong growth in the year, albeit off a smaller base. Combined, the total assets under management in the institutional umbrella funds in South Africa increased by 9% in 2016 to R65.3 billion, with 9% growth in the number of active member records administered (more than 304 000) and a 16% increase in the number of participating employers (1 320). In the coming year, the cluster will launch an in-fund solution for its umbrella fund, marking a significant evolution for its flagship product. The solution will allow members to preserve and annuitise their money within the fund even as their circumstances change.

Operating income from consulting, actuarial and administration services to retirement funds grew by 5% in 2016 despite negative employment growth and retrenchment activity in our client base in South Africa. Through diligent expense management and operational efficiency the profit from operations for these business units increased by 12% in the year under review.

Our public sector division increased revenue by 4% to R216 million in 2016. While below the division's desired growth rate, we nevertheless made good progress in building the Alexander Forbes brand and reputation within the sector and strengthened strategic networks and relationships.

Employees

It is only through the commitment of our employees that we are able to deliver against our strategic intent, and we remain grateful for their continued efforts. In order to attract and retain the best talent, we continually re-evaluate our employer value proposition in 2016, more clearly articulating the benefits we offer to our workforce. This includes fair and competitive compensation, opportunities for personal and career development, a comfortable work environment, and additional benefits and incentives. During the year, we developed a monthly total reward statement that outlines the full suite of rewards each employee receives through his or her employment with the company. We also continue to work to ensure that remuneration is both fair and well structured to allow for continuity and retention of top talent.

We are conscious that our drive for increased productivity has placed pressure on some of our employees and this was reflected in a decrease in our engagement index to 60.9 (2015: 63.8). While this decline is regrettable, engagement remains within a normal range for the industry and we are humbled by our employees' embodiment of Alexander Forbes's SERVE values. In 2016, we awarded 19 employees with platinum SuperSERVE awards, the company's highest level of recognition for staff that go beyond expectations to support their colleagues and clients.

Alexander Forbes's success is driven by its employees and it is only right that they share in this success. Following the issuance of 1 000 shares per employee after the group's 2014 listing, we granted each employee a further 200 shares in the year under review. These have a vesting period of three years and help to align employee interests with the company while supporting their financial well-being.

Investors

Operating income from continuing operations grew 11% from 2015 to R5.4 billion in 2016. Revenue growth was significantly enhanced by the weakening rand exchange rate applied to international earnings; excluding Alexander Forbes International (AFIL), operating income for Africa grew by 4% to R3.5 billion.

In Africa, where 34% of the group's revenue is linked to the assets under administration and management, income was negatively impacted by weaker markets. More significantly, the economic downturn has meant that clients continue to gravitate from specialist mandates toward balanced portfolios and index/passive portfolios, both of which result in lower net margins earned by the group. Investment Solutions' diversified investment product range is well positioned to offer this flexibility and is an integral part of the group's value proposition to clients. Growth in African operating income excluding asset-based fees was a commendable 7% in the current economic climate.

Operating profits from continuing operations, before non-trading and capital items, increased by 6% to R1.2 billion. This was similarly buoyed by the international operations' currency exchange. Excluding these, the growth for Africa was a modest 1%, resulting in an operating profit of R924 million.

Operating expenses attributed to continuing operations (excluding non-trading and capital items) grew 12% to R4.2 billion, impacted significantly by exchange rates. In Africa, operating expense growth was contained to 5% (R2.6 billion). This expense base now also includes accounting for the newly introduced share-based long-term incentive scheme. In the past, this was provided through a direct shareholding structure prior to listing which had no accounting impact.

The overall group operating margin on net revenue was 22.5%, down from 23.4% in 2015. This was largely impacted by the absolute value of assets under management and the migration to lower-margin products within the institutional cluster as described above.

While we expect our client-centric approach to drive top-line growth in the medium term, our short-term focus has been on careful cost management. The introduction of the group shared services and operations and technology (Optech) clusters represents an important step in achieving this.

The Optech cluster has been instrumental in establishing a single source of accountability and expertise for group operations and technology and, in 2016, the cluster made great strides towards developing enterprise-wide systems and unified operational and client platforms. This will allow our P&L businesses to focus on growth and client service while the cluster enhances our operational and digital capabilities in line with its new strategic modernisation programme.

Our shared services cluster aims to improve operational efficiency by re-engineering the way we do things. During the year under review, the cluster has carefully considered the way our people, processes and use of technology can support the achievement of our strategic intent. We are in the process of implementing our newly defined shared services operating model.

Society

In pursuing our higher purpose, we are committed to having a positive impact on the society in which we operate. This includes supporting the vulnerable, contributing to transformation, delivering financial education, investing responsibly and minimising the environmental impact of our operations.

In 2016, Alexander Forbes's flagship In-4-Life programme provided R5.0 million to community partners who provided holistic support to more than 6 600 beneficiaries from early childhood development through to adulthood.

We are pleased to have maintained our level 2 B-BBEE empowerment status during the year. Progress was made with regards to employment equity and our South African workforce is comprised of more than two-thirds previously disadvantaged individuals (2015: 66%). Transformation at senior levels remains a challenge, however, and we will need to redouble our efforts here in the years to come.

Our Investment Solutions business remains an important player in South Africa's developing responsible investment space. In the year under review, it assessed the environmental, social and governance credentials of 17 asset managers through its manager assessment and ranking system.

Alexander Forbes's member education unit is housed within our institutional cluster. In 2016, the team travelled more than 40 000 kilometres to deliver 1 341 presentations, providing financial education services to over 22 000 individuals.

As a financial services company, our environmental footprint is small relative to other sectors; however we nevertheless are conscious of the obligation to carefully manage it as a good corporate citizen. Our biggest impacts are in the form of the electricity and water consumed by our offices and in the waste generated over the course of doing business. For the first time, we are now able to estimate our water and electricity consumption beyond our Sandton head office to all South African sites.

Appreciation

We would like to extend our sincerest thanks to Mr Edward Kieswetter who retired from his role as chief executive with effect from 8 February 2016 and wish him the best in his future pursuits. We are grateful for the foundation he has helped to lay and remain committed to guiding the group on its future path in pursuit of its higher purpose.

We would also like to acknowledge Mr Barend Petersen, who resigned as a member of the board effective 4 September 2015.

In conclusion

We are pleased with the way the group has endured through the challenging environment and are confident that our chosen path is a promising one. With diligent focus on executing our strategic intent paired with the continued support of our key stakeholders, we look forward to enhancing the value created, grown, protected and distributed by the Alexander Forbes Group.

Sello Moloko
Executive chairman

Deon Viljoen
Group chief executive (interim) and chief financial officer

30 June 2016
Sandton

OUR BUSINESS MODEL

Financial capital

- R9.0 billion market capitalisation
- R705 million total borrowings
- R6.2 billion group own capital

Social capital

- Investors
- Clients (institutional and individual customers)
- Employees
- Trustees
- Regulators
- Government
- Intermediaries
- Communities

We rely on a number of inputs ...

Intellectual capital

- Knowledge
- Insights
- Thought leadership
- Experience

Human capital

4 347 employees

... to conduct our business activities ...

Alexander Forbes's impact extends far beyond its portfolio of products and services. Our philosophy is to deliver our products as the outcome of sound financial advice and, in doing so, support our clients' financial well-being, now and into the future. We are well positioned to achieve this, as our businesses are specifically aligned to all of the key components that ensure clients achieve financial well-being.

Our institutional consultants ensure that their clients implement the most appropriate employee benefits for their employees. Investment Solutions provides appropriate portfolios to grow clients' savings. Personal risks are managed by our short-term and long-term insurance businesses and health risks by our health consultants. Our retail consultants ensure that we can engage more deeply with individuals in order to help them to understand their financial status and implement any necessary actions and plans to secure their financial well-being. All of this is supported by our administration systems that provide us with powerful data that we use to assist individual clients in better knowing their financial status.

In addition, we conduct many activities that support the delivery of our products and services. These include, but are not limited to:

- More than 200 000 hours of employee training and development in 2016
- Business development and sales
- Strategic client relationship building and maintenance
- Client servicing
- Marketing

... in order to achieve our desired outcomes ...

Financial capital

- R5.4 billion net operating income
- R950 million normalised profit after tax
- R352 million dividends issued

Human capital

- R2.99 billion paid in salaries and benefits to group employees in 2016
- 148 internal promotions in South Africa and AfriNet
- Employment equity score of 9.17 out of 15.00

Social capital

- R888 million paid to suppliers, of which:
  - R870 million preferential procurement
  - R14 million spent on enterprise development

... and fulfil our higher purpose

- Building culture of long-term savings
- Supporting our clients' financial well-being
- Preserving wealth and managing clients' key risks
- Over 1 029 000 members under administration benefiting from Alexander Forbes peace of mind
- R5 million invested in communities

OUR CLUSTERS

	1 Institutional	2 Retail
Businesses	Investment Solutions (IS) | AF Financial Services (AFFS)	AF Insurance (AFI)
Products and services	■ Standalone and umbrella retirement fund administration and consulting ■ Retirement fund and health actuarial consulting ■ Asset and investment consulting ■ Insurance consulting ■ Beneficiary fund consulting ■ Investment manager surveys ■ Multi-manager portfolio construction, manager research and advice ■ Health and medical scheme consulting, and absenteeism and disability reporting, management and consulting ■ Group risk insurance ■ Investment management administration services	■ Multi-manager portfolio construction, manager research and advice ■ Individual financial planning, wealth management, savings and investment product administration ■ Bespoke investment portfolios for IFAs ■ Short-term insurance ■ Long-term insurance
Clients	Retirement funds Corporates Public sector Trustees Medical schemes Unions and organised labour SMEs	Individuals and dependents
KPIs	**South Africa** ■ Member records under administration: 1 029 087, of which 304 211 are in our umbrella funds ■ Assets under management in our umbrella funds: R65.3 billion ■ A total of R419 billion assets under administration and management by AFFS (Institutional) ■ R282.4 billion assets under management by IS ■ 98.5% client retention across AFFS Institutional ■ AF Life gross written premium: R397 million	**South Africa** ■ R62.2 billion retail assets under advice through financial planning consultants (FPCs) ■ R52.2 billion assets under administration in AFICA ■ R43.4 billion assets under management by IS ■ R1 435 million gross written premium (short-term insurance); R22 million gross written premium (long-term insurance) ■ Number of clients: 130 214

Supporting our ambition

While the institutional and retail clusters serve different types of clients, we believe that they are nevertheless closely linked. Our main strategy is to leverage our longstanding relationship and proven track record within the institutional base to build our retail client base. By providing holistic advice and solutions to individual members in the institutional funds we aim to support their financial well-being. Successfully doing so will also support our ambition of growing our retail business. This is complemented by our growth in the open market.

5 Operations and technology

The operations and technology cluster supports the group's strategic ambition by driving operational excellence, technology enablement and efficiency through a single point of accountability. Its objectives include:

- Group-wide scalable online and operational platforms
- Effective deployment of people, systems, information and technology, driving strategic projects through group enterprise project management office.

3 AfriNet

Alexander Forbes International (AFIL) 4

Footprint

Namibia | Botswana | East Africa (Kenya, Uganda and Zambia) | West Africa (Nigeria)

UK | Ireland | Netherlands Channel Islands

Products and services

- Standalone and umbrella retirement fund administration and consulting
- Public sector consulting
- Actuarial consulting
- Asset and investment consulting
- Retail offering including short-term insurance, financial planning consulting and retail umbrella funds for savings
- Multi-manager portfolio management, manager monitoring and consulting

- Pensions actuarial consulting and administration
- Employee benefits consulting
- Investment consulting
- General insurance actuarial consulting
- Business analytics
- Individual financial advice (Channel Islands)

Clients

Retirement funds
Corporates
SMEs
Public sector
Individuals

Small to large corporate clients
Pension fund trustees
Individuals (Channel Islands)

KPIs

- 15 602 short-term insurance policies
- R253 million gross written premium
- 385 679 members under administration
- R3.5 billion assets under management in Investment Solutions Namibia

- Actuarial and consulting income: £89 million
- 620 employees, of whom 240 are qualified or part-qualified actuaries
- Market share: 8%

Supporting our ambition

AfriNet represents the group's geographic expansion into Africa, outside of South Africa. Its strength lies in its products and services that are proven in South Africa and tailored to local markets.

Through AFIL, the group is a 60% partner in Lane Clark & Peacock, the UK-based actuarial consultant, which provides services in the UK and, together with its subsidiaries in Ireland and Netherlands, elsewhere in Europe.

Shared services 6

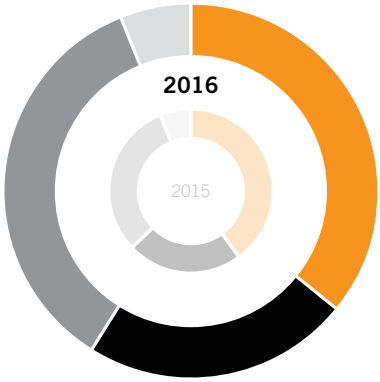
Shared services enhances the efficiency and effectiveness of key functions within the group, including HR, finance, treasury, risk compliance and governance, technology, procurement, facilities, insurance, payroll and marketing.

Cluster and geographic contribution

Each cluster supports our pursuit of our strategic intent in their own way. Our operating income and profit is derived from the institutional, retail and geo-centric clusters as illustrated below. The proportion of the workforce from each cluster is also shown below.

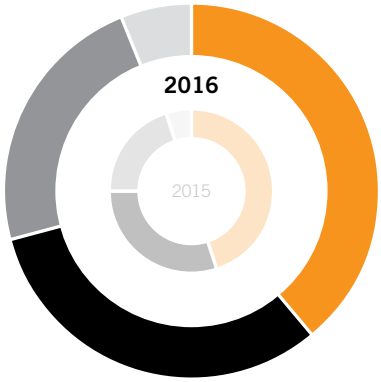
Alexander Forbes is headquartered in Sandton, South Africa, and derives the majority of its operating income (59%) and operating profit (71%) from the country. It is represented in the rest of Africa and Europe by AfriNet and AFIL, respectively.

Contribution to operating income



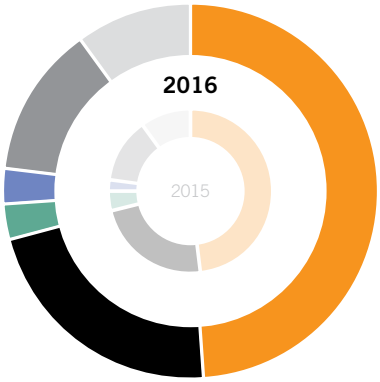
SA institutional	**36%**	(2015: 40%)
SA retail	**23%**	(2015: 23%)
International	**35%**	(2015: 31%)
AfriNet	**6%**	(2015: 6%)
– Namibia	**3%**	(2015: 3%)
– Botswana	**2%**	(2015: 2%)
– Uganda	**0%**	(2015: 0%)
– Kenya	**1%**	(2015: 1%)
– Nigeria	**0%**	(2015: 0%)
– Zambia	**0%**	(2015: 0%)

Contribution to operating profit



SA institutional	**39%**	(2015: 45%)
SA retail	**32%**	(2015: 30%)
International	**23%**	(2015: 20%)
AfriNet	**6%**	(2015: 5%)
– Namibia	**3%**	(2015: 2%)
– Botswana	**2%**	(2015: 2%)
– Uganda	**0%**	(2015: 0%)
– Kenya	**1%**	(2015: 1%)
– Nigeria	**0%**	(2015: 0%)
– Zambia	**0%**	(2015: 0%)

Contribution to headcount



SA institutional	**2 099**	(2015: 1 986)
SA retail	**942**	(2015: 948)
Operations and technology	**129**	(2015: 152)
Shared services	**129**	(2015: 89)
International	**620**	(2015: 534)
AfriNet	**428**	(2015: 402)
– Namibia	154	(2015: 147)
– Botswana	111	(2015: 108)
– Uganda	11	(2015: 11)
– Kenya	133	(2015: 118)
– Nigeria	12	(2015: 14)
– Zambia	7	(2015: 4)

OUR OPERATING CONTEXT

Economic environment

Alexander Forbes is in the business of creating, growing and protecting clients' wealth and managing their financial risk, ultimately assisting our individual clients in securing their financial well-being, now and into the future. As such, the health of the economy can significantly impact our performance.

In recent years, growth in the South African economy has slowed; quarter-on-quarter change at the end of Q1 2016 was -1.2% according to StatsSA. While finance, real estate and business services account for the largest portion (20.9%) of nominal GDP, the government represents a close second at 17.4%, having grown by R40 billion during the year.

In the last three calendar years, the standard unemployment rate has increased steadily by 0.2% per year and reached a high of 26.7% at the end of March 2016. The increase in unemployment has a strong correlation with cash being withdrawn from pension savings and member numbers in the retirement funds administered by the group – significant cash flows paid to employees who leave the formal employment sector has given rise to reduced revenues.

Wage inflation generally has a positive impact on a number of our businesses whose fees are derived from the related increase in pension contributions. The wage inflation trend over the past nine months has declined and, more importantly, the gap between wage inflation and consumer price inflation has narrowed, placing pressure on consumer spending.

Business confidence fell sharply in 2015, with confidence among manufacturers declining to levels last seen during the 2009 recession.

The South African Reserve Bank has increased the benchmark prime interest rates by 2% after it hit an all-time low of 5% in 2013. This rise in interest rates should help savers but more might still be needed to solve the structural problem. Household debt as a percentage of household income now stands at approximately 80% and, according to the Old Mutual Savings and Investment Monitor, only a quarter of those between the ages of 18 and 30 are saving for retirement. Low disposable income growth, paired with sluggish job growth, a rising tax burden and an inflationary environment are likely exacerbating the challenge. As a result, only 6% of South African retirees are currently financially secure for retirement – a daunting proposition to say the least.

Year-on-year growth of the all share index (ALSI) and the SWIX to 31 March 2016 was 3.2% and 2.7% respectively. Volatility in the equity market has fuelled the switch to lower-margin products. More than one-third (34%) of the group's African revenue is asset-based and this component of revenue fluctuates not only with markets, but with trends related to asset classes, product mix shifts and default choices.

Quarter-on quarter GDP change at the end of Q1 2016 was **-1.2%**

The weighted average rate for the GBP/ZAR exchange rate increased by 17% to 20.8 during the financial year. This impacted on results due to the translation of revenues and expenses from its international operations and, to a smaller extent, countries in Africa. In addition, certain costs, including technology-related licence fees on US systems, increased based on the 21% depreciation of the ZAR against the USD during the same time.

Regulatory and legislative environment

Retirement reform

In South Africa the National Treasury's initiative to reform the retirement landscape creates new opportunities to advise employers, individuals and trustees of funds, providing financial education and guidance, as well as appropriate retirement products. Current and anticipated changes to governance; default preservation, annuitisation and investment strategies; compulsory annuitisation and the harmonisation of the tax treatment of various types of retirement funds aim to ensure that those who benefit from retirement tax incentives and fund membership go on to secure an income for life.

The group has engaged with National Treasury and other regulatory bodies both directly and through industry groups. Internally we have devoted significant resources to understanding potential implications and adjusting our advice, systems, products and processes accordingly in anticipation of the changes. While the implementation of certain portions of the reform has been delayed, these preparations nevertheless mean that the group is ready for their eventual introduction.

It is anticipated that the reforms will result in a consolidation of funds, both as clients move from standalone retirement fund arrangements to umbrella retirement funds and as hybrid funds or multiple funds within an employer group are consolidated. We expect that umbrella funds will continue to see growth due to the increasing responsibilities on trustees and the search for improved costs and charges; however the overall consolidation of multiple or hybrid funds may be slower than expected as pension to provident fund transfers will remain taxable until 2018.

With the exception of high income earners, individuals are now generally able to contribute more to their retirement in a tax-efficient manner. As a result, contribution rates could increase over time, leading to a growth in assets under advice, administration and management. An increase in contribution rates would, however, be competing with base expenditure and commitments our individual clients have which continues to be under pressure with rising inflation, interest rates and administered prices. For high net worth clients, the absolute value capping of tax-deductible contributions may require further advice and alternative strategies and products.

In addition, treasury has published a discussion paper specifying that all funds have default strategies with regards to investment, preservation and annuities. While these requirements are not yet signed into law, Alexander Forbes is already well positioned to meet them and will be launching innovative changes to its umbrella retirement funds from August 2016.

Retail distribution review

The retail distribution review (RDR) proposes reforms to the regulatory framework for distributing retail financial products to customers in order to eliminate undesirable practices which exist in the industry. The reforms seek to remove conflicts of interest caused by product provider bias and inappropriate remuneration structures; improve transparency of product charges and service fees; and reveal the nature of the relationship between product providers and intermediaries. Conduct standards will create improved product provider accountability to clients and widen access to financial advice in a cost-effective manner in order to support the consistent delivery of fair outcomes to customers. The intention is for customers to be able to assess and select the types of services available to them, and the cost and value of those services. Remuneration structures will not be allowed to undermine suitable product advice and must be reasonable and commensurate with the actual services rendered.

Alexander Forbes strongly supports initiatives that will ultimately result in better outcomes for investors and has engaged directly with the Financial Services Board (FSB) as well as through the Association for Savings and Investment South Africa (ASISA) and the South African Insurance Association (SAIA). The group is already largely aligned with RDR principles. We already have a fee-for-advice model as opposed to offering purely commission-based products and services. Furthermore, we have removed performance fees from some unit trusts and portfolios.

While the changes will be implemented in phases and the extent has not yet been determined, the first phase is not

expected to be implemented until January 2017 at the earliest. The threat of these changes alone, however, has already had significant impact on the industry, weeding out poorer practices that have developed over time. It is also anticipated to push further clarity on value proposition and intended market among financial services providers.

Solvency Assessment and Management framework

The Solvency Assessment and Management (SAM) framework continues to be rolled out by regulators through various stages of implementation. Key regulatory guidelines (released in 2014 and 2015) have now been fully embedded with the go-live date of the main legislation anticipated for after the enactment of the so-called Twin Peaks regulatory framework.

The FSB anticipates an 'extreme workload' facing insurers to co-ordinate the continued implementation of SAM. As far as the group is concerned, this will have an impact on our individual insurance entities as well as at a group level from a capital, governance and risk management perspective, as well as external reporting requirements. The current focus remains on the development of the group's Own Risk and Solvency Assessment (ORSA), ensuring alignment amongst the different insurance entities in the group, as well as preparation for parallel capital and risk reporting during the coming year.

Investment Solutions has applied to be allowed to use an internal model (reliant on risk-based assessment) for the determination of capital requirements under SAM. The formal assessment and approval by the regulator of the internal model for purposes of determining regulatory capital requirements is only expected to occur some time after the formal introduction of SAM.

Protection of Personal Information Act

The Protection of Personal Information Act (POPI) is a comprehensive set of privacy and data protection requirements that apply to any organisation that collects or processes personal information (PI) about data subjects. POPI aims to protect the constitutional right to privacy of personal information. The compliance conditions associated with POPI are not yet in effect and we will have one year from the effective date(s) to reach compliance.

Where companies process PI, they are required to adhere to POPI's principles, including the stipulation that PI may only be collected and used for a specific purpose. They must also ensure that adequate security safeguards are in place to protect PI and that they comply with requirements related to special PI, children's PI, unsolicited electronic communications, trans-border flows of PI and account numbers.

Alexander Forbes has made significant progress in preparing for the requirements of POPI. A detailed analysis of processes has been performed to determine data entry and touch points across the group. Further analysis of the requirements has helped to develop a clear set of actions to address any gaps. Priorities will focus on high risk, high effort items, with a centralised project team driving activity through the group. In the meantime, we continue to implement immediate actions in order to comply with POPI in time. These include education and awareness, monitoring of our clean desk policy, encryption, procurement objectives, building security actions, mobile device management, and revised customer and third-party documentation.

Treating customers fairly

Treating customers fairly (TCF) is the FSB's regulatory framework to regulate market conduct and centres on embedding fairness in all aspects of customers' experience with the company.

Compliance with TCF requires companies to demonstrate that the TCF outcomes are firmly embedded at all levels (and at all stages of the customer relationship). Companies must also identify and manage the risks of unfair customer treatment and demonstrate improvements in customer treatment.

TCF is now fully embedded throughout the group but remains an important – and continual – area of focus. The TCF outcomes are tracked at business unit level, incorporated into individual scorecards, built into our product development process and ultimately, engrained into culture.

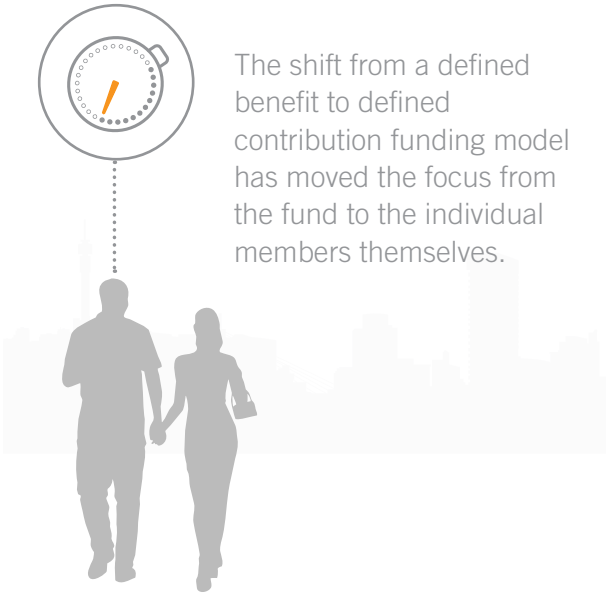
Competitive environment

Retirement funds

A stalled South African economy and slowed job creation continues to negatively impact the retirement fund industry. In the competition for market share, administrators are under pressure to deliver sophisticated solutions allowing trustees to address individual member-level outcomes and to provide the tools to enable financial literacy and sound decision-making. Increased financial literacy is resulting in greater awareness of the need to improve net replacement ratios on retirement – a key indicator of an individual's potential for a financially sound retirement.

Meanwhile, rising operating costs and increased governance and compliance obligations have led employers to shift from standalone retirement funds to umbrella schemes. Significant industry consolidation continues as a result. Fee pressure on administration, consulting and investments continues to be a significant factor in the umbrella fund market.

The shift from a defined benefit to defined contribution funding model has moved the focus from the fund to the individual members themselves. Trustees are now expected to be far more accountable for these members' outcomes and whether their needs are adequately and appropriately met by the solutions provided. In the future, this will extend beyond the member's contributory years.



The consulting approach to retirement funds has evolved in line with member expectations for focusing on their financial well-being, now and into the future.

Notwithstanding the muted growth in public sector employment levels, the government remains the largest single employer in South Africa. Even though real government consumption expenditure decelerated significantly in 2015, the government remains a core contributor to the South African economy, with overall spending representing more than 20% of the national GDP.

As the fiscal space narrows and growth remains subdued the National Treasury has introduced cost-cutting measures in the public sector to curb spending and this is expected to impact employment levels in the sector over time. Though National Treasury forecasts that the economy will improve over the medium term, the current economic climate has implications for AF's business, placing pressure on administration business and retirement fund assets. The majority of new administration and asset management opportunities are currently coming from funds seeking to switch their administrators and/or asset managers. It follows that this increasingly competitive environment calls for differentiated solutions and agility to retain and grow business.

In the sub-Saharan countries in which we have an established presence, economic growth is more robust and individual access to employee benefits, including provision for retirement, is gaining momentum.

In the UK, while defined-benefit funds remain a significant part of the industry, new joiners to employers are typically joining defined-contribution funds.

Medical schemes

The number of registered medical schemes in South Africa declined 42% from 2000 (144) to the end of 2014 (83). This consolidation appears to be slowing, however, with no amalgamations in 2015 and only one announced in 2016 at the time of publication.

The Competition Commission inquiry into the private health sector has entered its second year. This is a general investigation to establish if the sector contains features that

prevent, distort or restrict competition. Various stakeholders including medical schemes, administrators, intermediaries and regulators have appeared at the public hearings conducted by the Commission, and the inquiry report and recommendations are expected to be published in December 2016.

The white paper on national health insurance (NHI) was released in December 2015 and once more affirmed the desire for all South Africans to have access to quality healthcare as articulated in the Bill of Rights. The country commenced with the phased implementation of NHI in 2012, with implementation expected to be complete in 2025. Medical schemes will co-exist with NHI, but will focus on providing complementary services.

Retirement investment funds

Today, three-quarters of South African pension funds are defined contribution (DC) schemes, effectively shifting responsibility for the individual's post-retirement well-being from the employer to the individual. In the past decade the South African savings pool has grown marginally ahead of GDP, driven solely by exceptional growth in capital markets (primarily equities). There is a marked shift of assets from traditional savings schemes to unit trusts, which offer greater control for individual members, transparent fees and portability. Investment Solutions has been a direct beneficiary of these shifting preferences; between 2012 and 2016, Investment Solutions' retail assets under management increased from R29.7 billion to R43.4 billion.

The South African Reserve Bank estimated the market for savings and investments at R7 trillion in December 2014. Retirement funds have experienced outflows to pay benefits for retiring members, retrenchment and general redemptions of retirement savings by individuals when they change employers. The trend is not expected to change in the short term.

The selection of investment options and managers has become increasingly wide and daunting for investors. At the same time, their needs and goals have also become more varied. The challenge lies in developing investment solutions that can address highly variable financial planning needs for these savings. In this respect, the multi-manager investment framework is ideally positioned to address rising demands.

The number of registered medical schemes in South Africa declined

42% from 2000 to the end of 2014

Short-term insurance

Despite the significant growth of direct insurers the short-term insurance sector is largely characterised by extensive interrelationships and dependencies, with most distribution still being done by agents and brokers, whether tied or independent.

The short-term insurance market continues to grow, driven largely by the entry of previously uninsured individuals, most particularly those in the emerging black middle class. Given the fact that some 65% of vehicles on South African roads are still uninsured, the scope for growth is obvious and considerable. The market remains extremely competitive on price and the introduction of niche and differentiated products is seen as a key driver of premium growth.

The impact of the weakening of the rand has put pressure on average loss per claim, which impacts general underwriting performance of the industry. We have also seen a reduction in vehicle sales year on year. It is anticipated that the tough economic environment will result in client lapses due to affordability.

Political environment

The upcoming South African municipal elections due in August 2016 may have the effect of slowing decision-making on tenders from municipal employers and associated retirement funds.

The National Treasury has introduced a central supplier database registration system to manage procurement across all government departments and entities. This is expected to provide a clear and complete overview of tender activities and the nature of services required in the public sector and will generally improve governance across the spectrum.

2

Our strategy

In 2015, Alexander Forbes introduced its 2016 – 2020 strategic intent. This five-year strategy articulates how we aim to achieve our ambition of building a great company.

OUR 2016 – 2020 STRATEGIC AMBITION

In 2015, Alexander Forbes introduced its 2016 – 2020 strategic intent. This five-year strategy articulates how we aim to achieve our ambition of building a great company. It includes working closely with our key stakeholders – clients, employees, investors and society – to form long-term, mutually beneficial relationships and achieve our higher purpose.

During the year under review we reconfirmed these four stakeholders and the set of associated key issues in consultation with executive leadership. This integrated report is structured to report against these material issues. For performance highlights against these, see 'Performance underlying our strategic intent,' page 23.

Our strategic intent also describes five actions that will form the foundation of our sustainable growth. Progress against these is described in 'Performance against our strategic intent,' pages 24 to 27.

OUR HIGHER PURPOSE

Why we exist

Our higher purpose
Helping people attain peace of mind through securing their financial well-being, now and in the future

CREATE | GROW | PROTECT

OUR AMBITION 2016–2020

Building a Great company

Clients
– to SERVE with positive impact and secure their financial well-being

Employees
– to create an engaging enviroment where everyone finds personal and professional fulfilment

Society
– to have a positive and lasting impact

Investors
– to continually review how we grow our business to create sustainable value

OUR STRATEGIC INTENT

1. **Grow our core with fanatical discipline**
   Employee benefits | Investment
2. **Leverage the core to grow**
   Retail | Public Sector | Africa beyond SA
3. **Develop our complementary business**
   Motor & Household Insurance | Life
4. **Strive for excellence**
   Service & operational excellence and technology enablement
5. **Innovate**
   Create internal capacity to disrupt ourselves through innovation

OUR APPROACH

- Retain and build on what we have
- Be more ambitious
- Work differently
- Continue to engage GREAT people
- Be distinctive among our peers
- Be responsive to the needs and aspirations of our clients

PERFORMANCE UNDERLYING OUR AMBITION

Material theme	KPI		2016	2015	2014
Clients	Media efficacy score: thought leadership	(%)	**84**	64	21
	Client satisfaction index: AFFS Institutional	(%)	**86**	82	84
	Umbrella fund: assets under management	(Rbn)	**65.3**	60.1	57.2
	Standalone retirement funds: assets under administration	(Rbn)	**347**	315	275
	Number of active member records in institutional retirement funds		**1 029 000**	1 018 000	997 000
	Retail new business				
	■ FPC new business	(Rm)	**8.2**	8.2	7.3
	■ % FPC flows with AF products	(%)	**89.5**	84.7	*
	■ AFI gross written premiums	(Rm)	**1 466**	1 307	1 191
	Client retention: AFFS institutional	(%)	**98.5**	97.6	97.6
	Number of clients				
	■ Asset-based clients		**57 411**	54 972	41 913
	■ Short-term insurance**		**79 395**	76 812	75 197
	■ Retail long-term insurance		**3 010**	1 749	1 535
	■ Number of clients with multiple retail products		**3 564**	3 494	*
Employees	Number of full-time employees		**4 347**	4 111	3 912
	Average training expenditure per employee	(R)	**6 560**	6 645	6 206
	Engagement rate	(%)	**60.9**	63.8	59.6
	Percentage of employees registered on e-Care	(%)	**34.2**	31.0	23.6
	Total payroll	(Rbn)	**2.97**	2.63	2.29
	Productivity: revenue per employee	(Rm)	**1.25**	1.18	1.10
	Percentage of South African workforce: African, Indian or Coloured	(%)	**68**	66	64
Investors	Operating profit	(Rm)	**1 210**	1 137	1 030
	Normalised return on regulatory capital	(%)	**90**	84	76
	Operating expenses	(Rm)	**4 166**	3 714	3 308
	Dividend cover ratio	(times)	**1.7**	1.7	–
	Operating margin	(%)	**23**	23	24
	Normalised headline earnings per share	(cents)	**62.2**	60.1	52.9
	Profit/(loss) from continuing operations	(Rm)	**891**	505	(167)
Society	Electricity consumption at head office	(kwh)	**8 203 799**	6 336 058	8 634 176
	Water consumption at head office	(kL)	**46 783**	39 284	44 459
	Total CSI expenditure	(Rm)	**5.0**	4.4	4.0
	Number of CSI beneficiaries: children		**5 170**	5 483	6 063
	Number of CSI beneficiaries: adults		**1 450**	1 564	1 330
	Whistle blower notifications		**13**	7	23
	Number of asset managers assessed for environmental, social and governance issues		**17**	*	*

* Indicator not tracked during the year.
** Number of policies.

PERFORMANCE AGAINST OUR STRATEGIC INTENT

● Achieved ● In progress ● Not achieved

1 Grow our core with fanatical discipline

Employee benefits, Investment

Ambition	2016 Progress
Grow our five-year operating profit in the institutional core of our business, CAGR, by between 1% and 2% above nominal GDP (real GDP plus inflation)	The group strategy was refined and adopted during 2015. Through the course of the current financial year, product lines were re-allocated between clusters and cost allocations were refined in order to align with our strategy. As a result, historical comparisons of operating profit which reach further back than the prior financial year are difficult to provide. However, the five-year operating income CAGR from the institutional cluster was 7%.
Actions	**Performance**
● Create a joint institutional cluster (AFFS Institutional and Investment Solutions) to optimally manage the value chain	The transition to institutional and retail structures was managed through an internal change management process and completed during the year under review. The core leadership of IS and AFFS have assumed responsibility for co-ordinating the servicing of common clients.
● Reposition the public sector division to report at an institutional cluster level	The public sector team is now strategically accountable to the institutional cluster and co-ordinates interaction with the public sector across IS and AFFS.
● Campaign to improve client engagement	The employee benefit consulting and administration and the healthcare divisions were successful in the year under review by, among other things, senior management engagement with clients and through dedicated client servicing teams. The positive consequential results were a reduction in lost business and improved client satisfaction levels. Clients evaluated as being 'at risk' for various reasons are also tracked and discussed at monthly institutional cluster meetings and key actions determined. IS continues with its Adopt-A-Client initiative in which executive committee members are assigned responsibility for building relationship with strategic clients. The business conducts an annual client engagement survey to test the depth of client satisfaction.
● Develop a sales operating model and dashboard to have more focus and visibility on new business	A sales management, recording and reporting process has been designed using Microsoft CRM. This allows management to track key metrics such as pipeline strength, sales team activity and conversion ratios. The AFFS Institutional and IS Institutional sales heads meet monthly so that an institutional cluster approach can be taken to new business and sales activity.
● Focused growth of world-class umbrella funds	In 2016, we introduced a new end-to-end pricing model for our umbrella fund. In 2017, we will continue to enhance the product, focusing on an improved cost effective solution for SMMEs. In addition, we will launch in-fund umbrella preservation and annuitisation solutions for our members in August 2016 and a group retirement annuity solution later in the year.
● Defend our market leadership while exploring new sources of growth	Market leadership in the retirement fund industry is a factor of membership under administration and assets under administration – both of which we grew from 2015. Assets under management in all our umbrella funds grew by 9% to R72.6 billion, while assets under administration in our standalone retirement funds grew by 10% to R346.5 billion. Members under administration totalled 1 029 087 at the end of the financial year. Complementary growth areas commenced in 2016 and 2017 have been beneficiary fund administration (in addition to the consulting services we provide), Africa employee benefit solutions including a pan-African health solution and multinational risk pooling. Initiatives to penetrate non-retirement funds have been slower than anticipated. We are exploring providing insurance consulting services to insurers in the Middle East and Turkey, expanding from our African client base and our more traditional opportunities.

2+3 Leverage the core to grow and develop our complementary businesses

Retail, public sector, Africa beyond SA, motor and household insurance, life

Ambition	2016 Progress
• Grow the retail cluster's five-year operating profit by CAGR of at least 15% per annum • Grow AfriNet's five-year profit from operations by a CAGR of at least 20% per annum	The group strategy was refined and adopted during 2015. Through the course of the current financial year, product lines were re-allocated between clusters and cost allocations were refined in order to align with our strategy. As a result, historical comparisons of operating profit which reach further back than the prior financial year are difficult to provide. The five year operating income CAGR from the retail cluster was 12% and from AfriNet was 20%.
Actions	**Performance**
Formalise the retail cluster structure	The transition to institutional and retail structures was managed through an internal change management process and completed in 2016.
Move towards a single distribution model – establishing a joint sales force	On 1 April 2016 the new operating model was implemented with an integrated distribution model delivering short-term, long-term and investment solutions. In enabling success and delivery, retail IT, a common client experience, brand messaging and marketing have been given priority.
Institute a worksite campaign to encourage early engagement and financial planning with members in our fund – to ensure their financial well-being	Financial well-being days piloted at Alexander Forbes and an institutional client during the year under review. These generated significant learnings which have been incorporated into a new and improved financial well-being concept to be launched in the new financial year.
Expand our AfriNet footprint through acquisitions	While we have had good organic growth within AfriNet in 2016, no acquisitions were concluded. We use a robust scoring methodology to assess the attractiveness of various African markets when making the strategic decision to enter or exit a market. An acquisition in West Africa is being explored and expected to be concluded in 2017.

● Achieved ● In progress ● Not achieved

4 Strive for excellence

Service and operational excellence and technology enablement

Ambition	2016 progress
Achieve at least 5% productivity improvement over five years	6% year-on-year improvement in productivity in terms of revenue per employee.
Actions	**Performance**
● Establish accountability within the group to drive operations, systems and technology through the operational cluster	The operations and technology cluster has been established, and holds accountability for the full operational and technology platform within the group.
● Establish the group shared services cluster to optimise shared services	The shared services cluster was established in 2016 to drive efficiency and operational effectiveness throughout the group.
● Drive strategic and enterprise programmes through an enterprise project management office	Executive head of the EPMO appointed and broad range of group-wide projects identified and prioritised for implementation. Further building of EPMO capacity to occur as projects initiate.
● Invest in senior leadership	The group continues to invest in developing the leadership skills of its management team. For more on these programmes, see 'Ensuring continual development,' pages 40 to 41.
● Continue employee engagement and performance to drive productivity	While productivity increased 6% during the year, the engagement index declined 5% to 60.9%, with 57% of employees positively engaged, excluding employees in the UK.

5 Innovate

Create internal capacity to disrupt ourselves through innovation

Ambition	2016 progress
Ten betterment innovations and at least one 'enabling' innovation over the medium term	The innovation hub received 437 new ideas in 2016. Nine of these have been developed into 'betterment innovations,' and their business cases will be pitched in our annual innovation den. Our enabling innovation team launched a website called BetterWage.com, which connects freelance workers and freelance work opportunities globally. We were also shortlisted for two innovation awards this past financial year. Our Lifegauge model was a finalist at the SA Innovation Awards and our Stokvel product was in the top ten financial services innovations of 2015.
Actions	**Performance**
Step up our company-wide innovation campaign	Our innovation programme was launched in 2014. Employees are encouraged to submit original ideas with the potential to increase revenue, decrease costs or streamline a process.
Include betterment innovation targets in the divisional businesses' key performance indicators and allocate resources to achieve this	We targeted ten betterment innovations over the medium term (three years) and have already brought six to market.
Set up a disruptive innovation capacity within the group	The disruptive innovation team was established in 2015 and aims to design and implement solutions that radically change the way the Financial Services Industry approaches challenges.

Our investment case

1 Continued growth in operating income and profit

Operating income from continued operations – five-year CAGR of
12% to March 2016

Operating profit before non-trading and capital items – five-year CAGR of
9%

Last 12 months trading
11% growth in operating income

2 Predictable and highly recurring operating income

Excellent client retention – in the high 90s

Institutional

- 62% fee and commission income from consulting and administration
- 34% from investment activities
- 4% only from insurance activities

Retail

- 47% fee and commission income from consulting and administration
- 43% from investment activities
- 10% only from insurance activities

3 Market leader in core business

#1 employee benefits consultant and retirement fund administrator in sub-Saharan Africa

#1 umbrella fund and standalone provider in South Africa measured by assets

#1 multimanager in sub-Saharan Africa

PMR.africa Diamond Award for Top Retirement Fund Administrator for the ninth consecutive year

PMR.africa Diamond Award for Top Retirement Fund Consultant for the ninth consecutive year

Leading healthcare specialist consultant in South Africa – BHF Titanium Award for Best Healthcare Advisory Service

4

Highly cash generative

High cash conversion ratio

Collection of cash largely under our control – minimal working capital strain

Investment in retail and other growth strategies mainly through the income statement:

- front-end capacity (people) and
- IT systems (amortised over relatively short period)

5

Capital "lite"

Group solvency capital requirement of just over

R1bn

Normalised return on TNAV:

57.9%

Normalised return on capital:

18.2%

Operating income from insurance activities:

- Retail **10%**
- Institutional **4%**

Low insurance risk retention – AF Insurance Motor & Household

75% reinsured, Group Life in excess of 80% reinsured

6

Dividend

Due to capital lite and highly cash generative nature of the business a dividend policy of 1.5x to 2x cover

Balancing transition to new SAM regulatory capital framework with balance sheet efficiency through dividend policy

Declared an interim dividend of R201m (15c per share)

Declared a final dividend of R295m (22c per share)

1.5x cover ratio on attributable PAT

3

Building a great business

1 CLIENTS

– to SERVE with positive impact and secure their financial well-being

2 EMPLOYEES

– to create an engaging enviroment where everyone finds personal and professional fulfilment

3 INVESTORS

– to continually review how we grow our business to create sustainable value

4 SOCIETY

– to have a positive and lasting impact

CLIENTS

Highlights

- AFFS Institutional client retention remained high at 98.5%
- Increased client cross-sell for AF Life group risk into the institutional client base
- Tax-free savings account – the first fully online product – successfully launched during the year

Challenges

- Growth in public sector revenue slowed to 4% (2015: 12%)
- Spiking call centre volumes during times of client initiatives and campaigns
- Further enhancement of online capability both at institutional and individual client levels

Our approach

Alexander Forbes's commitment to fulfilling its higher purpose means that we aim to have a positive impact by helping our clients to understand their financial status, implement corrective measures and navigate their financial needs at every stage of their lives. Doing so requires that we abandon our formerly siloed approach to addressing specific needs in favour of a more holistic operating model. We have fundamentally shifted our internal structures to reflect this client-centric approach. Our retail and institutional clusters are therefore intended to encourage a more cross-cutting view of client service in which we can draw on a range of products and services as relevant to meet their needs.

Retail

The retail cluster has made significant progress in creating a client-centric operating environment with the creation of an integrated distribution model that allows the cluster to deliver holistic solutions to the client. Furthermore, the cluster has established a business and distribution enablement division to provide training and tools to our distribution channel, ensuring that our consultants are world-class. The division also identifies customer needs, creates value propositions to address them and drives focused campaigns to the market.

Clients are engaged mainly by the integrated distribution channels. This engagement takes multiple forms, including face-to-face meetings, call centre interaction, newsletters, forums such as Hot Topics, Leading Conversations and our thought leadership publication, Benefits Barometer.

The cluster's focus remains accessing the institutional member base with a complementary focus on the open market.

Institutional

Within the institutional cluster, engagement is targeted at an organisational level, and managed by senior leadership, consultants and key account executives.

Competition in our chosen markets is intensifying and with the economy and job creation stagnating, growth is primarily in the form of market share. We believe that in serving clients well, market share will follow, and we gauge our success in terms of client retention rates, satisfaction rates, capture and preservation rates, and new business volume.

Stakeholder profile

Anusha Naidoo, Head: AFFS client services

What matters most to us is our clients. We exist because of them. Building lasting relationships with clients is my number 1 priority. I strive to keep it simple by making it easy for our clients to do business with us.

Our performance

Building our brand

Our clients entrust us with both their assets and their financial well-being, and it is therefore essential that we maintain a brand founded on trust and competence, backed by solid performance and service.

Alexander Forbes serves a diverse array of clients, each with unique needs and interests. For example, the institutional market is deeply relationship-based and successfully navigating the retail sector means adapting quickly to fast-moving, rapidly changing consumer demands while managing and deepening relationships with the individual.

We have identified the public sector as a segment with significant opportunity for new business growth. We are cognisant, however, of the unique needs of the sector, which is characterised by long lead times and requires significant investment in relationship-building. During the year we continued to court government and parastatal clients with the goal of building trust and track record in the sector. Our aim is to gain access to key public sector opportunities through our status as a trusted adviser.

In optimising marketing resource, our aim is to reinforce the strength of our brand through targeted and impactful interventions, underpinned by consistent and impactful media engagement. This maintains our thought leadership position within the financial services sector. During the year, we focused on increasing our social media presence and building our reputation within the retail market, primarily through our existing relationships with institutional clients. As a result, the annual media efficacy audit conducted during the period under review confirmed our thought leadership score at 84%, up significantly from 64% in the previous year.

We also build our reputation through the merit of our solutions and service. During the year, we won the following awards in South Africa: the Diamond Award for Top National Fund Administrator for the ninth consecutive year (PMR), the Diamond Award for Top Retirement Fund Consulting and Actuarial firm, also for the ninth consecutive year (PMR) and the Titanium Award for Best Healthcare Advisory Service Provider (Board of Healthcare Funders). In AfriNet, several countries won awards, including in Kenya for the Pension Fund Administrator of the Year, Best Occupational Fund and Best Individual Pension Plan. The MD of the Kenya business won the award for outstanding pension industry contribution and has been appointed chairman of the Africa committee of the IAA. In Namibia, AFI won the Diamond Arrow Award for being the highest-rated short-term insurer in Namibia (PMR Africa).

Delivering a holistic solution

Our strategy is to access retail members through our existing institutional client base. This requires that our institutional and retail teams work together to conceptualise and present the best solutions for both institutional clients and the potential retail members within.

In 2016, our priority was on gaining access to these members by demonstrating our value to the trustees and HR teams in order to reinforce our status as a trusted advisor. Our approach centred on the ways that Alexander Forbes can enhance the members' entire financial well-being beyond the existing retirement solutions provided.

Our retail and institutional clusters are inextricably linked by our ulitmate goal: providing holistic financial advice to individuals.

Entering the retail market in the rest of Africa requires that AfriNet takes a more externalised retail model that focuses equally on growth from existing institutional clients as well as from those new to the group.

In 2016 we began to develop the curriculum for a new retail sales academy, intending to deepen our employees' understanding of the unique nature of the retail market. For more on the academy, see 'Ensuring continual development,' pages 40 to 41.

The recent launch of our new group website represents an important step in our efforts to present a single digital interface for our clients. The updated site provides current and potential clients a unified and consistent experience of the group, helping to reinforce our holistic approach to serving our clients.

Ensuring a quality experience

The satisfaction of our clients is linked to multiple factors and these vary according to the products and services they receive. At a high level, the most important factors include the value and quality of advice they receive, pricing, clear communication, excellent service and the returns of their investments. All these factors ultimately combine to support clients' financial well-being.

Retail

The retail strategy places significant emphasis on providing clients with a quality experience. Our financial planning business engages clients on a face-to-face basis, targeting 75% of all client engagements conducted in person each year. Financial planning employees are expected to diligently attend to clients' needs and requirements. This includes providing written confirmation within a prescribed period of time and meeting expected service levels; as a result, our customer service index result for the year was an outstanding 9.26 out of 10.

Service consultants in our AFI businesses are also guided by a set of tailored guidelines, KPIs and incentives intended to deliver an excellent experience to clients. Our motto *'The sun never sets on a complaint'* means that employees are expected to respond to all concerns or queries within the same business day, working tirelessly to ensure clients receive the answers and service they require. These efforts are paying off; the business's churn rate has decreased from 20% in 2015 to 18% in 2016. Its customer service index score was 7.83 for the year.

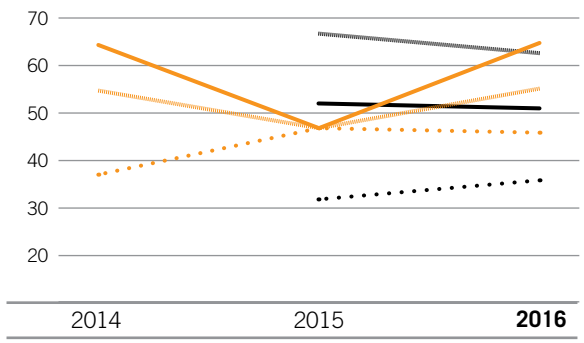
The same principles have been incorporated into the new integrated distribution model to ensure all our retail clients have a quality experience that is consistent across all our businesses.

Institutional

Within AFFS, client satisfaction in our consulting businesses remains high. The administration side of the business, however, is a far more complex system to manage. Our call centres field client questions and help to facilitate transactions. During the year, we experienced significant spikes in call volume when clients embarked on special exercises such as the tracing and paying of unclaimed benefits, registering their members for online access or offering alternative fund contribution selections. This impacted agents' ability to address member queries consistently and at the endeavoured service levels. In the future, we will be working more closely with clients to plan call centre capacity and overflow contingencies in advance of these events.

Both our retail and institutional clusters use net promoter score (NPS) as an indicator of our success in meeting and exceeding clients' expectations. NPS scores can range from -100 to 100, with scores over 50 considered excellent.

Net promoter score: Institutional versus retail



Institutional cluster
- Standalone multi-carrier clients
- Umbrella fund clients
- Consulting operations and administration

Retail cluster
- AFICA
- FPC
- AFI

1. Data available for the period September 2014 – March 2015.
2. Data available for the periods October – November 2014; February – March 2015.
3. Data available for the period December 2014 – March 2015.

Over the past three years, the institutional divisions generally saw a positive trend in NPS scores as a result of more focused intervention to identified areas of deficiencies in client services levels and relationships management.

Within the public sector, maintaining relationships is key to ensuring satisfaction. As a result, the division is measured on the number of engagements conducted and in 2016, key individuals within the group conducted 38 high-impact engagements and events as well as 138 tactical and strategic engagements with key public officials. These aid in Alexander Forbes's lead generation, brand positioning, brand presence and media coverage. In addition, the public sector division introduced targeted stakeholder engagement and tactical client engagement plans. We encourage the group's senior leaders to participate in dialogue with the public sector in order to demonstrate commitment and to lend thought leadership and expertise to issues of importance to the government. During the year, we regrettably lost one major government client in our health management solutions business, with significant impact, when the appointment went to tender in terms of the public sector rules.

Client retention at Investment Solutions remains high at more than 98% of assets under management in 2016. In light of market shifts, clients are looking for alternative solutions, requiring the business to provide a wider range of advice and portfolio options covering different levels of fees. These range from lower-cost options to premium/actively managed solutions and a hybrid model in-between.

Optimising distribution channel strategy

Key distribution channels

- **Tied agents**
- **Multi-tied agents**
- **Independent financial advisers**
- **Brokers**
- **White-labelling partnerships**
- **Outbound call centre distribution**
- **Internet (self-service)**

Our products and services are distributed through various channels that are aligned to serve different markets and client segments (see box, above).

In 2016, the retail cluster focused on leveraging the institutional member base with a client-centric approach, distributing and delivering the full Alexander Forbes product offering.

As the group adopts a client-centric view, it is important that the same philosophy is reflected in those who sell our products. No longer will single-product specialisation be sufficient. All consultants are subjected to extensive training to equip them to convey the value represented by the group as an entire entity as opposed to a specific and isolated product or service.

All retail distribution has been consolidated into one central channel to service all businesses within the cluster. This new model is expected to result in a unified sales and services centre, with superior consultants focused on delivering innovative solutions to our clients. Technology is integral to our ability to interact efficiently with current and potential clients.

In 2016, we launched our tax-free savings account, our first fully digital product. The product is available to our institutional member base, who can now learn about the product, sign up for it and transact from the convenience of their computer or tablet. This is an important step in our digitisation and modernisation strategy, and demonstrates the potential of automation and a web-based client interface.

AfriNet introduced dedicated service desks for its larger institutional clients during the year, giving the business better access to the retail base (through these institutional clients) while it also gains a better understanding of clients' needs. The strategy has also helped to improve the efficiency of resolving client queries, reducing average call times from approximately 15 minutes to three.

Maintaining our position of thought leadership

In a rapidly evolving economic, regulatory and competitive market, maintaining our reputation for thought leadership is an important means to securing client and investor trust.

Alexander Forbes's research and development (R&D) unit fulfils three important roles: ensuring best practice, research for group publications and product development. The first two of these are discussed in this section, with the last covered in developing innovative financial products and services to meet clients' needs, below.

Clients expect advice and products that are in line with the latest developments. We therefore invest in ensuring best practice, both with regards to intellectual content as well as the delivery method. For example, the retail investment process is embedded in our advice framework, which is designed and maintained based on thought leadership on best practice.

The financial services sector encompasses a complex range of products and services and we understand that navigating these can be a daunting proposition, particularly amid significant regulatory changes. Our series of thought leadership publications helps current and potential clients to understand the latest developments and the associated implications. Benefits Barometer, for example, provides an annual review of South Africans' savings, particularly the role that employee benefits play in social protection and financial well-being.

Developing innovative financial products and services to meet clients' needs

Remaining competitive requires that we continually adapt our products and services to the changing environment, and develop new solutions to meet new opportunities.

Retail

The retail cluster's newly created business and distribution enablement team is responsible for developing comprehensive client value propositions. Market segmentation and research will be integral to creating niche products and services that meet specific client needs.

AFI continues to work with its clients to provide more affordable insurance solutions. During the year, it introduced a number of affordable products, ensuring clients' assets remain protected and improving retention rates within the business.

Our new tax-free savings account launched successfully, with nearly 100 institutional clients enabling salary deductions for the product. Furthermore, a new suite of innovative life products were launched during the year as well as a simplified life product and a funeral product that helped to fill gaps in our retail product portfolio.

Institutional

In 2016, the institutional cluster reviewed the pricing and service levels of its umbrella fund, ultimately adopting a more holistic end-to-end pricing model between Financial Services and Investment Solutions.

Investment Solutions launched a range of competitively priced lower-cost investment portfolios across the risk/return spectrum for individuals and institutional clients to cater for preferences across the fee spectrum. Various investment portfolios were revamped or closed in response to emerging trends in investment management and to meet client needs. The business also introduced a product targeted specifically at Stokvels that was named by Moneyweb as one of the top 10 innovative financial products launched in 2015.

In the rest of Africa, our growth strategy has centred on winning business by introducing new products to the markets in which we compete and – where certain products are already embedded – winning clients from competitors. We do this by offering additional products and services, competitive pricing and strong client service.

Innovation

In 2016, our new innovation programme yielded a number of game-changing business innovations that increase revenue, decrease costs and streamline processes. Among these are:

- **Auto escalation:** When retirement fund members receive an annual salary increase, a selected portion is automatically added to their retirement contribution. This boosts their savings, the health of their retirement monies and their replacement ratios.
- **One Premium:** An institutional product with one monthly fee for group life and health risk consulting.

In addition, we have also implemented several cost-saving and process innovations during the year with positive results.

Looking ahead

Going forward, our focus will be on conducting extensive market segmentation and research to properly understand client needs and to create products that are tailored to meeting them. Solutions will be focused on supporting the entire financial well-being of the client, including financial planning, wealth creation and protection, and financial risk management through the provision of short-term and long-term insurance.

Our piloted financial well-being days reinforced our drive to access individual retail clients; however we plan to do so through more scalable channels in the coming year. The retail strategy will be focused on accessing the top clients in the group's institutional base through careful analysis of their unique needs and targeted engagement with trustees. Follow-up financial well-being days will focus on these unique needs and circumstances.

Following the successful demonstration of self-service technology with the tax-free savings account, we plan to further roll out automation technology in the areas that stand to gain the most from the technology. This will focus on the areas with the highest volume of transactional processes in the business such as AFFS's claims processing and client onboarding in the retail business. The improved efficiency of these and other such processes will help us to decrease our cost base and reduce the risk of human error.

Our modernisation strategy will entail the further roll-out of web, online and mobile functionality. This will improve the user experience in line with our clients' evolving digital preferences and expectations.

In the coming year, AFFS will launch in-fund solutions for its umbrella funds. This will mark a significant evolution for its umbrella funds, allowing members to preserve and annuitise their money within the fund despite changes in circumstances. This will provide substantial benefit to clients, who will now have one solution providing holistic and lower-cost support across multiple life stages as they change work, build up their savings and eventually retire.

The current lower return and volatile investment environment for investment management and consulting services is expected to persist into 2017. As a result, clients' fee sensitivity will continue. Our focus will therefore remain on offering a wide range of investment options across the fee spectrum supported by competent advice.

Due to tepid returns from local markets and the expected currency depreciation, clients will continue to move more assets into harder currency jurisdictions thereby requiring expertise in looking after global investment portfolios. Our relationship with Mercer will be instrumental in enabling us to provide global solutions for our clients.

Finally, in 2017 the group's operations and technology cluster will embark on a process of consolidating the view of our clients across the group. This will entail combining the various CRM instances and implementing processes for master data management. Ultimately, we expect this will give the group a better understanding of the various ways we currently serve our clients, while highlighting areas for further opportunity in the future.

EMPLOYEES

Highlights

- Reviewed and benchmarked the full complement of compensation and benefits
- Total reward statement introduced to give employees a better view of their full complement of compensation and benefits
- Enhanced financial well-being proposition for employees includes continued dividend payment from share scheme and ESOP

Challenges

- Transformation at mid- and senior management level remains a challenge
- Attrition at middle and junior management
- Building a succession pipeline of critical skills focusing on black employees
- Retention of key skills

Our approach

Our 4 347 employees are the foundation upon which we are able to deliver on client and investor expectations. It is therefore important that we treat them with respect and safeguard their well-being.

Human resources (HR) has been transitioned into the group's shared services model. This means that its divisional HR heads are supported by HR business partners who reside within the divisions. They are accountable for implementing strategy and are supported administratively by the central shared service resource that oversees tasks such as hiring, employee induction and exits, and administration of leave. In addition, the group has designated centres of excellence responsible for centrally developing strategy related to leadership, learning, reward, benefits, employee relations, well-being and transformation.

Employee engagement is generally conducted at a business unit level, however we also conduct an annual group-wide engagement survey to measure satisfaction.

Based on employee input and company need, we have identified our most material employee issues as:

- Creating a compelling employer value proposition
- Managing for high performance
- Ensuring continual development
- Safeguarding employees' wellness
- Building a diverse and inclusive workplace

Our performance

Creating a compelling employer value proposition

In order to attract and retain a workforce equipped to deliver our unique offering, we need to ensure that we have created a work environment that appeals to the type of people we want to employ. To this end, Alexander Forbes revisited its employer value proposition (EVP) in 2016, aiming to enhance its status as an employer of choice and to more clearly articulate the benefits we offer our workforce. The exercise was based on a combination of raising awareness of our existing offering while making improvements as needed.

We believe that our positive work environment is influenced by how and where work takes place. Our headquarters at 115 West Street in Sandton was designed to inspire innovation and collaboration among our employees. Through a combination of open plan workstations and informal gathering spaces, there is a place to accommodate all kinds of working scenarios and requirements. This type of environment has been important for encouraging the group's move towards a collaborative, holistic philosophy in line with our group strategy.

In 2014, following the group's listing, we granted each Alexander Forbes employee 1 000 shares. We topped these up with a further 200 shares per employee during the financial year. The funding for this top-up allocation was made available from the senior management short-term bonus pool in recognition of the contribution made by more junior employees. These have a vesting period of three years and help to align employee interests with the company while supporting their financial well-being. Since the original allocation of shares the group paid dividends which flowed through to employees.

IMPACTFUL SERVICE

S IMPLICITY (How we deliver)

E XPERT INNOVATIVE SOLUTIONS (What we deliver)

R ELATIONSHIPS (What we strive for)

V ALUE OF TRUST (What we stand for)

E NRICH PEOPLE'S LIVES (Why we exist)

In 2016 we identified the opportunity to encourage employees to serve as ambassadors to the company. We now offer each employee 100 megabytes of free Wi-Fi data per day and encourage them to share their experience with Alexander Forbes on social media in line with our social media policy. The extra data also helps them to look after their personal matters as required and is intended to increase productivity.

We realise that our employees' work/life balance is important and aim to support them with flexible working arrangements when the nature of their job allows. The recent economic downturn has depressed hiring throughout the group, and as a result, some employees are finding the workload and pressure growing. These sentiments were reflected in our annual employee engagement survey, which showed our engagement index score declining to 60.9 (2015: 63.8). While this is a decline from the previous year, we feel it is nevertheless in line with the industry. We continue to work closely with our employees to ensure they are able to perform their jobs without neglecting the other things that matter to them.

The strength of our EVP is an important tool for attracting and retaining the best talent. In 2016, we hired 803 new employees, up from 2015 (733). This increase accompanies a 6% growth in overall headcount (4 347, up from 4 111 in 2015), primarily as a result of hiring in the front line sales, administration and contact centre environment in South Africa and within the AfriNet businesses.

Total employee turnover increased to 10.5% (2015: 9.6%), largely due to higher turnover in entry level roles within

Stakeholder profile

Dipesh Radia, AFI head actuarial

Dipesh Radia was one of 19 employees to receive the coveted SuperSERVE Platinum award during the year.

He went above and beyond the expectations of his role to resolve a task previously considered 'undeliverable' over a single weekend. In doing so, Dipesh secured more time for his colleagues to assess client refunds in detail, ensuring that only valid requests are processed.

Says Mr Radia, 'I was pleasantly surprised when they called my name for the Platinum Award. The SuperSERVE awards are a great gesture to formally thank staff members for going the extra mile. Because I treat Alexander Forbes with the same care as I would if it was my own business, I was glad to have been recognised for my effort. It definitely motivates me to always give my best in everything I do. Thank you Alexander Forbes.'

the financial services division. This trend is in line with the industry norm; however we are making concerted efforts to improve employees' understanding of the group's EVP and strengthen career progression initiatives.

Managing for high performance

All employees receive at least two formal performance reviews each year. These are facilitated by the HR department and delivered by line management. In 2016, we focused on improving the quality of these discussions to ensure that employees receive clear guidance on what is expected of them and how they are performing against these expectations. Survey results indicate that employees feel they receive valuable guidance from leadership in these discussions.

The outcome of performance reviews is now more closely linked to reward. For more detail on our short-term incentive scheme see the remuneration report, pages 77 and 78.

Furthermore, we encourage and reward employees embodying the group values through our SuperSERVE recognition programme. Employees are encouraged to nominate their colleagues who best embody the group's SERVE principles or demonstrate the Treating Customers Fairly (TCF) principles in their daily work. Rewards for commendable acts range from 'badges' to public recognition and up to R15 000 cash prizes. In the year under review, 19 employees were awarded platinum SuperSERVE awards – the highest level – in a formal event held in July 2015.

Our total salary expense for 2016 was R2.97 billion, up from R2.63 billion in 2015. We aim to compensate employees in line with the market but adjust compensation where justified.

Employees' basic pay includes their salary as well as other benefits such as a car allowance, medical aid contributions, retirement fund contributions and guaranteed allowances. For more detail, including our approach to short- and long-term incentivisation.

In 2016, we developed a total reward statement, aimed at improving communication with employees on the various components that comprise their compensation.

The statements capture the salary, bonus, dividends, long-term awards and SuperSERVE rewards paid to each employee in the past 12 months. In addition, it highlights the various benefits they have access to through their employment with the company.

Ensuring continual development

As Alexander Forbes grows and evolves, so too should our employees. We remain committed to developing the skills and experiences of our workforce, enabling them to pursue successful careers in support of our strategic intent.

Key Risks

- **Turnover in critical roles**
- **Succession planning**
- **Employment equity**

In 2016, we spent R34 million on training as calculated by the Financial Sector Code (2015: R49 million). This enabled 2 268 employees to gain new skills through programmes including:

- **Crucial Conversations**, a training session that helps participants learn how to approach difficult or confrontational situations in the workplace
- **The Duke University Leadership Development Programme**, a formal leadership programme that focuses on key skills required to lead effectively
- **Harvard Manager Mentor Programme**, which aims to build the skill sets required for sound leadership
- **Manager as Coach Programme**, which aims to equip managers and leaders with the skills to coach employees to drive improved performance
- **Managing Generations**, a programme aimed at sensitising our leaders to generational differences and how to manage people of different ages optimally
- **Leader Discussions Group**, a modular programme covering essential managerial skills for team leaders

In addition, we provided bursaries to 278 individuals, of whom 76% were black (African, Indian, Asian or Coloured) in terms of B-BBEE classification. Furthermore, 48 individuals participated in our internship programme (84% black) and 81 participated in our learnership programme (75% black).

Each year, we re-evaluate our curricula and make adjustments based on the needs of the business. In 2016, the retail cluster's business and distribution enablement team began to develop a retail academy with the purpose of delivering technical, skills and personal development. Once launched, the academy will aim to embed a culture in which all retail employees serve as brand ambassadors of the group's services and solutions.

Learning happens not only in training sessions but also on the job. The new cluster structures introduced across the group have given employees the opportunity to broaden their product and business knowledge. This new operating model creates opportunity for further development.

Safeguarding employees' wellness

Alexander Forbes takes a three-pronged approach to supporting its employees' wellness. By addressing the physical, emotional and financial aspects of their well-being, we ensure that they are equipped to meet their full potential, both in the workplace and beyond.

All employees participate in our medical aim schemes unless opting out through their partners' medical aid. This gives them access to a range of benefits, including a disease management programme. Our headquarters in Sandton contains a physiotherapist, a spa and a Wellness Clinic that was enhanced in 2016 through additional services such as the provision of annual flu vaccines and an on-site doctor. A series of wellness events give employees access to voluntary HIV counselling and testing (VCT) as well as other medical check-ups and information. Furthermore, employees are entitled to holistic health risk assessments that help to flag and address risk to their well-being. In 2016, 700 employees in SA took advantage of this offering.

Our employees' emotional well-being is also important. Through our wellness programme they gain access to a range of counsellors who can provide advice on legal, marital and other social issues via telephone and face-to-face meetings as well as e-mail. E-care newsletters provide employees with information on managing stress, obesity and other issues they face.

During the year we piloted our financial well-being day programme with our own employees, encouraging them to learn more about protecting and growing their personal wealth. Advisers helped them to evaluate their own financial habits and recommended tools and products for investing, saving and risk coverage.

Building a diverse and inclusive workplace

We aim to build a workforce that reflects the diversity of the countries we serve. Our performance with this regard is measured against employment equity in the Financial Sector Codes (FSC). In the year under review, the group scored 9.17 out of a possible 15 points for this element of the FSC scorecard, up from 8.32 in the previous year.

At year-end, 68% of our employees in South Africa were black (2015: 66%) and 43% were black women (2015: 42%). While we are generally pleased with the transformation taking place within our workforce, meeting our targets at mid- and senior management levels have been a challenge. Where possible, we aim to draw on our own talent pool to fill vacancies and in 2016, 70% of promotions were black employees. Our workforce is 58% female (2015: 56%).

Looking ahead

In the coming year, the retail cluster will officially launch its retail sales academy, ensuring that employees understand the full suite of products we offer as well as the unique nature of the market. We also plan to address the gaps highlighted in the annual engagement survey and enhance the link between proficiency, performance and reward.

INVESTORS

Highlights

- 11% growth in operating income
- 6% growth in profit from operations
- 12% growth in profit after tax
- Continued strengthening of the regulatory capital position
- Final dividend of 22 cents, bringing the total dividend for the 12 months to 37 cents
- Core business growth in financial services
- Retail business gaining traction
- Strong growth in Africa outside of South Africa

Challenges

- Weak economic and business environment in South Africa
- Margin pressure in asset management and administration fees due to external factors
- Unemployment driving significant cash outflows
- Continuing changes in the regulatory environment

Our approach

Alexander Forbes recognises the benefit of fostering and maintaining strong relationships with its investors through effective communication. The board takes overall responsibility for investor relationships, ensuring they have a sound understanding of the group's value. Management and the chairman of the board interact with investors through a variety of channels, including webcasts, analyst briefings and one-on-one meetings in order to provide clear and definitive guidance on our half- and full year results.

The group maintains an investor relations function that reports to the group CFO. Enhancements have been made during the year, including an upgrade to the investor relations website featuring improved share price and financial data for investors' convenience.

Our track record of consistent public integrated reporting and engagement with investors predates our 2014 listing; we previously reported through the listed preference share investment vehicle and its associate investment in Alexander Forbes Equity Holdings.

We have adopted formal reporting of our results in line with best-practice governance and regulatory requirements. This includes our integrated reports, annual financial statements, a formal pre-closed period interaction with investors, results announcements and our annual general meeting.

Our performance

The group's headline earnings increased 89% to R744 million for the 2016 financial year. This increase is a result of the listing and transaction costs incurred in the prior year and detailed in the related listing documents. A normalised representation of the results presented in our results announcement reflects growth in profit after tax of 12% to R950 million. The weighted average number of shares in issue increased marginally due to the timing of the listing and the related issue of shares in the prior year which resulted in the headline earnings per share increasing by 82% to 58.1 cents per share.

Stakeholder profile: Mercer LLC

Mercer, the world's largest human resources consulting firm, is the largest single shareholder of Alexander Forbes since it acquired a 34% stake of the group at the time of its 2014 listing. Mercer operates in more than 130 countries and can therefore support Alexander Forbes's clients currently operating outside of Africa and those planning to expand beyond the continent. Mercer also contributes strategic expertise and global perspective to the group's operations.

Shareholder performance measures

		2016		2015	2014	CAGR
		Actual	Normalised	Normalised	Normalised	Normalised
Earnings per share	(cents)	**56.9**	**62.8**	60.1	52.9	18.8
Headline earnings per share	(cents)	**58.1**	**63.0**	60.1	52.9	18.8
Return on equity	(%)	**12.4**	**13.6**	13.8	N/A*	
Return on capital employed	(%)	**17.4**	**17.7**	17.9	14.9	

* 2014 return on equity not presented due to significant subsequent change in capital structure.

In this section, we detail our performance against the key issues related to our financial performance, namely strategic resource allocation, controlling costs and maintaining investor confidence.

Strategic resource allocation

Funding structure and regulatory capital

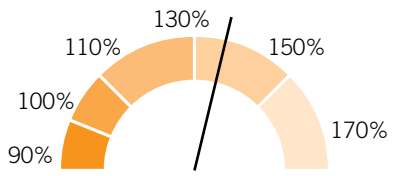
The group's capital structure is managed largely within regulatory bounds, specifically in anticipation of requirements expected to be legislated under SAM. These standards will impose more stringent requirements on long-term and short-term insurers, with additional regulatory requirements on the ultimate holding company of insurance groups. Alexander Forbes has positioned its capital to meet these requirements in advance of the legislation which is expected to be promulgated on 1 January 2017. The capital cover of the group and insurance entities as at 31 March 2016 is reflected below.

The group maintains an unsecured flexible revolving credit facility that is renewable annually. The facility provides limited financial leverage and the group continues to manage its capital structure as efficiently as possible while ensuring compliance with the regulatory requirements.

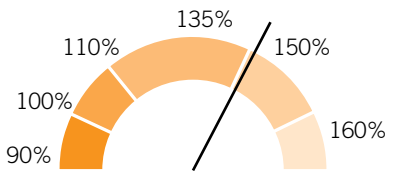
Quality and sustainability of revenues and profits

Recurring nature

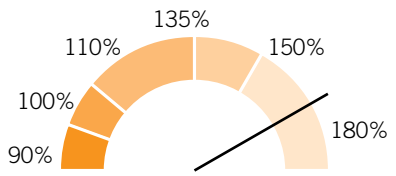
Approximately 77% of Alexander Forbes's revenue base is considered recurring or predictable in nature. The recurring fee income comprises asset-based income, fees for services rendered in month administration (either on a fee-per-member or percentage of salary contribution), consulting fees and commission income. Our net operating income by type is reflected below.



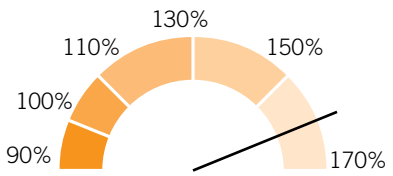
Alexander Forbes Group Holdings



Investment Solutions



Alexander Forbes Life



Alexander Forbes Insurance

Actual

Revenue exposure to equity markets

A key component influencing the group's revenue is the underlying asset base upon which fees are earned. It is therefore important that we grow assets both through new business flows and through asset performance. Fees linked to the asset base include revenue from multi-manager activities, administration fees and fees charged for financial advice. The revenue generated by fee type is shown below.

Maintaining and growing the core (institutional)

	Operating income			Profit from operations		
	31 March 2016	Var. %	31 March 2015	**31 March 2016**	Var. %	31 March 2015
Institutional business						
Financial Services	**1 287**	3	1 254	**183**	(2)	186
Investment Solutions	**641**	(8)	696	**279**	(15)	328
AF Insurance	**20**	67	12	**5**	150	2
	1 948	(1)	1 962	**467**	(9)	516

In 2016, the group derived credible results from the core retirement fund consulting, actuarial, and operations and administration businesses in a difficult operating environment. With strong expense management and operational efficiency, profit from operations for these business units increased by 12% year on year.

Our Financial Services division developed and improved its offering through its flagship umbrella fund, which grew to more than 1 300 clients (up 16%) from the prior year.

Despite new business gains resulting in a 24% increase in gross annualised premium, the underwriting results from AF Life declined as a result of poor claims experience in the currently difficult economic climate where disability claims increased and rehabilitation tends to be more difficult.

Investment Solutions experienced higher-than-expected ongoing cash outflows primarily related to the decreasing employment rate in South Africa. In 2016, these outflows exceeded recurring cash inflows by R13.5 billion. Results were further depressed by an increasing trend of clients moving toward lower-cost investment options given the prevailing market environment. As a result, the entire investment and savings value chain has seen depressed margins in the South African market.

The institutional segment of the short-term insurance business has seen significant success for the year, with gross written premiums increasing by 55% to R67 million and profit from operations up 150%, albeit off a very small base.

Leveraging the core to grow (retail)

	Operating income			Profit from operations		
	31 March 2016	Var. %	31 March 2015	**31 March 2016**	Var. %	31 March 2015
Retail business						
Financial Services	**615**	8	569	**207**	12	185
Investment Solutions	**150**	7	140	**68**	10	62
AFI	**431**	9	394	**108**	14	95
	1 196	8	1 103	**383**	12	342

Alexander Forbes made significant progress in developing and implementing its client-centric strategy during the year. Through an integrated approach we intend to deliver holistic solutions to the client.

Financial planning consultants delivered an 8% increase in the number of clients, ending the year with more than 46 000 clients (2015: 44 000). Assets under advisement grew by 9% over the year to R62.2 billion (2015: R56.9 billion) and assets under administration on our LISP platform grew by 8% to R52.2 billion (2015: R43.3 billion).

AF Life provides long-term insurance to individual clients. During the year, its focus on increased distribution channels and the launch of a new funeral policy resulted in a 61% increase in the number of policyholders.

Retail assets under management by Investment Solutions increased by 7% to R49.2 billion off the back of good cash flows from new business. This was off-set somewhat by the negative impact of volatile markets, increased withdrawals and annuity payments. Nevertheless, the business grew operating income and profit from retail by 7% and 10%, respectively.

AFI grew its gross written premium 11% to R1.4 billion in 2016. The business continues to grow ahead of competitors, based on an enhanced product offering and superior service. For more on its service and product commitment to clients, see 'Clients,' pages 32 to 37. Unfortunately, a number of high-value weather-related claims had a detrimental effect on claims for the year, resulting in a loss ratio of 76% for the motor household business. While this was higher than the prior year (72%), it nevertheless remains within the long-term target range and work continues to ensure that the cost of claims is managed optimally and the pricing of the book is accurate.

AfriNet

	Operating income			Profit from operations		
	31 March 2016	Var. %	31 March 2015	**31 March 2016**	Var. %	31 March 2015
Afrinet (Africa excluding SA)	**346**	19	291	**74**	23	60

It is pleasing to note that East Africa and retail are now consistent and larger contributors to the overall AfriNet growth. From a geographical perspective, East Africa now contributes 23% of operating income and 14% of profit from operations, whilst southern Africa remains a dominant contributor with 74% of AfriNet's operating income and 86% of its operating profit.

During the year, the business was characterised by organic growth and an increased focus on retail, leveraging off developments in South Africa. This approach is yielding positive results, with double-digit growth in operating income and profit.

Geographically diversified income from AF International

	Operating income			Profit from operations		
	31 March 2016	Var. %	31 March 2015	**31 March 2016**	Var. %	31 March 2015
Total International (GBPm)	**90.6**	8	84.2	**13.7**	11	12.3
Total International (Rm)	**1 886**	26	1 495	**286**	31	219

The international business comprises the consulting actuarial business of Lane Clark & Peacock (LCP) with operations in the United Kingdom, Ireland and the Netherlands.

In 2016, the businesses continued to gain new clients, capitalising on the demand for employee benefit and actuarial consulting, investment consulting (including de-risking solutions) and general insurance actuarial consulting. Operating income and profit grew 8% and 11% in sterling, respectively, providing a rand hedge which benefited group results due to the 23% deterioration in the weighted average rand/sterling exchange rate over the year.

Controlling costs

Operating expenses

The basis of the group's operating expenses is the costs of its people, technology, premises and insurance. In 2016, these costs collectively increased by 12% to R4.2 billion, largely due to the effect of the weakening exchange rate on the international costs. Despite this, and pressure to deliver on strategy implementation, cost discipline in the South African businesses was well managed during the year.

Service and operational excellence

The fourth ambition of our strategic intent – Strive for excellence – articulates our goal of achieving efficiencies through service and operational excellence. To this end, the group has formed two additional operational clusters:

The operations and technology cluster (OPTEC)

This cluster's mandate is to hold accountability for the full operational and technology platform within Alexander Forbes. It includes:

- Managing a holistic digital strategy
- Managing all core operating systems
- Removing duplication and cutting out inefficiencies
- Driving a modernisation strategy to ensure core systems and technology remain relevant and 'future-proof'

The shared services cluster (Shared Services)

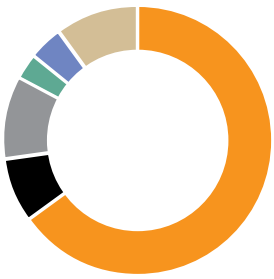
This cluster is mandated to improve operational efficiency related to back-office enablement. This covers both cost efficiency and optimisation, and includes:

- Re-engineering and automating organisational processes
- Reducing overhead costs
- Providing best-practice policies, controls and governance for all business management areas

Costs by segment

Rm	Operating expenses 31 March 2016	%	31 March 2015
Institutional cluster	**1 481**	3	1 444
Financial Services	**1 104**	4	1 066
Investment Solutions	**362**	(2)	368
AF Insurance	**15**	50	10
Retail cluster	**813**	7	761
Financial Services	**408**	6	384
Investment Solutions	**82**	5	78
AF Insurance	**323**	8	299
AfriNet	**272**	17	232
Total Africa	**2 566**	5	2 437
International	**1 600**	25	1 277
Total group	**4 166**	12	3 714

Africa costs



Costs by type

As with most businesses in South Africa, the current economic environment has forced the group to cut back on planned investments. The balance between cost discipline and enabling the group's strategic initiatives has been particularly challenging. Increasing regulatory requirements, particularly stemming from SAM, POPI, TCF and complaints management processes have contributed to cost increases.

Accounting for share-based payments

The group implemented a share-based long-term incentive (LTI) plan at the time of its 2014 listing. Prior to that date, management's LTIs were ownership-based under the private equity arrangements. The new LTIs include equity-settled share-based payments that are accounted for in the expenses of the company as required by International Financial Reporting Standards (IFRS 2).

The costs included in the expense base are calculated based on a number of factors, including the number of shares, vesting period, share price at the allocation date and actual performance to date against the performance criteria. The cost included in the group's 2016 results covering all incentives (including deferred transaction incentives from 2014) was R41 million (2015: R32 million). For more on Alexander Forbes's approach to incentivising employee performance, see 'Remuneration,' pages 75 to 80.

Maintaining investor confidence

The business continues to provide investors with positive organic growth in earnings and good cash conversion. For more detail on our propositon for investors, see 'Our investment case,' pages 28 and 29.

Normalised profit

The group's normalised results reflect the economic and legal substance of the group's performance and are presented to reflect the basis upon which management manages the group. The adjustments between the IFRS summary consolidated income statement and the normalised results are as follows:

- **Accounting for property lease** – The accounting treatment for long-term leases, particularly at the Sandton head office, continues to have a small positive impact on the operating profit growth rate while the absolute value is an expense of R30 million of the year ended 31 March 2016.
- **Capitalisation of intangible assets and the related amortisation** – Non-trading and capital items include the ongoing accounting amortisation of intangible assets amounting to R124 million for 2016 and R131 million in the prior financial year. The capitalisation of intangible assets and the related amortisation resulted from the required accounting treatment at the time of the private equity acquisition of the group under common control in 2007.
- **Accounting for Alexander Forbes shares held in policyholder investment portfolios** – In terms of IFRS as presently constituted, any Alexander Forbes shares acquired by underlying asset managers and held by the group's multi-manager investment subsidiary for policyholders (the shares) are required to be accounted for in Alexander Forbes's consolidated financial statements as treasury shares and results in the elimination of any fair value gains or losses made on the shares.
- **Investment income and taxation payable on behalf of policyholders** – The group's tax rate compared to profits before tax appears high as a result of taxation payable on behalf of policyholders being included in this amount (refer to the investment income discussion as well as note 8 in the full financial statements available online). The normalised results exclude the policyholder tax expense and the related investment income which directly off-set this tax expense.

Key risks

- **South African economic recovery**
- **Ongoing margin pressure**
- **Achieving operational efficiency**
- **Evolving regulatory environment**

Dividend

A dividend has been declared taking into account the group's current and projected regulatory capital position. The group's plans for increased capital expenditure will be funded from ongoing cash resources generated by operations. A dividend of 22 cents per share is payable to shareholders recorded on 19 July 2016.

The long-term dividend guidance for the group continues to be 2 to 1.5 times dividend cover.

Summary consolidated normalised results

For the year ended 31 March 2016

Rm	2016	Lease costs	Intan-gibles	Cell-captive result	Treasury shares	Policy holder tax	2016	%	2015
Continuing operations									
Operating income net of direct expenses	**5 376**						**5 376**	11	4 851
Operating expenses	**(4 166)**	**30**					**(4 136)**		(3 674)
Profit from operations before non-trading and capital items	**1 210**	**30**					**1 240**	5	1 177
Non-trading and capital items	**(137)**		**124**	**9**			**(4)**		6
Operating profit	**1 073**	**30**	**124**	**9**			**1 236**	4	1 183
Investment income	**294**					**(197)**	**97**		123
Finance costs	**(71)**						**(71)**		(119)
Reported profit/(loss) arising from accounting for policyholder investments in treasury shares	**59**				**(59)**		**–**		–
Share of profit of associates (net of income tax)	**4**						**4**		3
Profit before taxation	**1 359**	**30**	**124**	**9**	**(59)**	**(197)**	**1 266**	6	1 190
Income tax expense	**(468)**	**(8)**	**(35)**	**(2)**		**197**	**(316)**		(340)
Profit for the period from continuing operations	**891**	**22**	**89**	**7**	**(59)**	**–**	**950**	12	850
Attributable to:									
Equity holders	**746**	**22**	**89**	**7**	**(59)**	**–**	**805**	8	743
Non-controlling interest holders	**145**						**145**		107
	891	**22**	**89**	**7**	**(59)**	**–**	**950**	12	850
Headline earnings per share (cents)	**56.9**						**62.2**	5	59.4
Weighted average number of shares in issue (millions)	**1 282**						**1 299**		1 252

Looking ahead

The year has been challenging for Alexander Forbes's executive management team as the South African business environment and economic fundamentals have negatively affected key business drivers and worked against our efforts to show traction on our strategic goals.

The group's key focus will continue to align with our higher-purpose objectives set a number of years back: to create, grow and protect our clients' wealth. In doing so, we help our clients achieve peace of mind through securing their financial well-being.

We remain confident that our strategic intent is sound however; and our focus in the coming year will remain on driving top-line growth while optimising operational expenses and ensuring organisational integrity.

As such, we will aim to:

- Improve asset capture in the institutional core business by providing tailored product options suited to clients' needs; deepening our investment knowledge and enhancing investment performance; and by granting clients easier access to investment choices, including lower-cost investment portfolios
- Continue to access the institutional member base to provide appropriate holistic financial advice and relevant value-adding products to retail clients
- Use the expertise gained in South Africa to drive growth in the rest of the continent
- Drive modernisation in our technology environment including our digital interface with our clients
- Continue to challenge ourselves and find efficiencies in our operating environment

SOCIETY

Highlights

- The In-4-Life programme reached more than 6 600 beneficiaries and won the Sustainability Award at the 13th National Business Awards
- 17 asset managers assessed through Investment Solutions' Manager Assessment and Ranking System (MARS)
- Alexander Forbes maintained its level 2 B-BBEE for the fifth time since 2012
- Electricity and water now measured at all Alexander Forbes sites

Challenges

- Continuous changes in B-BBEE legislation impacts on our long-term transformation strategies
- Developing objective measurement indicators for the community-based organisations supported through In-4-Life

Our approach

To Alexander Forbes, our responsibility to society encompasses the broader spectrum of stakeholders whose lives are indirectly touched by our operations. In fulfilling our higher purpose, we are committed to safeguarding our communities, contributing meaningfully to transformation, promoting responsible investment and minimising our environmental impact. Each of these commitments are managed separately according to need and relevance.

Our performance

Investing responsibly

Alexander Forbes views responsible investing (RI) as an investment practice that integrates factors that may materially affect the sustainable performance of assets, including those of an environmental, social and governance (ESG) nature. We practise RI primarily through Investment Solutions, our asset management and investment administration business. RI is overseen by Investment Solutions' responsible investment committee, which is chaired by the company's chief investment officer and has senior representation from various areas.

The company's investment committee meets monthly and RI is a permanent agenda item. These meetings, together with other ad hoc meetings with the investment team, ensure RI remains a key focus within the investment process.

Investment Solutions is a signatory to the United Nations Principles for Responsible Investment (PRI) and endorses the Code for Responsible Investing in South Africa (CRISA).

Regulation 28 of the Pension Funds Act specifically states that prudent investing should incorporate the consideration of all factors that may materially affect the sustainable long-term performance of an asset. These include, but are not limited to, those of an environmental, social and governance nature. As stewards of our clients' capital, Investment Solutions has a role to play in safeguarding our clients' capital by ensuring that we, as well as the asset managers we select, consider and evaluate the risks and opportunities arising from the consideration of ESG factors.

The size of Investment Solutions' asset base makes us an influential client to South Africa's largest asset managers and we use this position to engage them on the subject. The manager research team researches, assesses and ranks local and global asset managers and through its Manager Assessment and Ranking System (MARS). The process scores factors such as people, process and philosophy to provide an overall assessment of the quality of an asset manager. ESG has been included as an explicit factor in this process. Investment Solutions does not exclude managers from the investment universe that score poorly on an ESG basis, but rather considers ESG as another factor to assess the quality of an asset manager. Ultimately, we are interested in asset managers' ability to translate ESG discussions into good investment decisions and in the year under review, we assessed 17 asset managers through MARS. While this assessment had an equity-centric approach, the next year's assessment will be expanded to include other asset classes.

We provide asset managers with detailed proxy voting guidelines in line with the requirements of King III, CRISA and PRI. Through our due-diligence process, we also consider aspects such as how they engage companies, the extent of their voting activity, as well as the systems they use to implement their strategies.

Stakeholder profile

Mark Lindheim, Investment Solutions chief investment officer

The company believes in achieving responsible and sustainable benchmark-beating returns (responsible alpha) by ensuring it, and the asset managers it selects, consider and evaluate the risks and opportunities arising from the consideration and incorporation of ESG factors.

We believe one way to evidence the quality of an asset manager is to assess its ability to consider, evaluate and address the softer aspects incorporated within an ESG lens.

We believe managers that consider sustainability issues when evaluating investment opportunities are more informed of the potential risks and opportunities related to the companies in which they invest in and are therefore better placed to deliver superior risk-adjusted returns and meet the needs of clients and society.

Actively implement transformation

Supporting South Africa's transformation agenda is an important aspect of our responsibility to society. This means that we proactively seek opportunities to empower previously disadvantaged communities by investing in impactful community developmental initiatives. Beyond compliance and 'the right thing to do,' our commitment to transformation is an important component of our ability to win business and attract the best talent.

Transformation is overseen by the group's social, ethics and transformation (SET) committee and is supported by each cluster's respective SET committee. It is a permanent item on the group executive committee's agenda and is included in senior management's performance scorecards.

Alexander Forbes is assessed against the Financial Sector Codes and achieved level two empowerment status in its latest assessment conducted in September.

Financial Sector Code Performance

	Target	2016	2015	2014
Ownership	14.00	**16.24**	14.16	15.16
Management control	8.00	**6.16**	5.50	6.87
Employment equity	15.00	**9.17**	8.32	8.32
Skills development	10.00	**9.00**	9.01	9.42
Preferential procurement	16.00	**15.05**	15.46	15.06
Empowerment financing	15.00	**Exempt**	Exempt	Exempt
Enterprise development	5.00	**15.00**	15.00	15.00*
Socio-economic development	3.00	**3.00**	3.00	3.00
Access to financial services	14.00	**12.73**	10.55	11.68
Overall score	100.00	**90.89**	87.01	88.96
Empowerment contributor level		**2**	2	2

Ownership

Based on the principle of continuing consequences, following our listing we retained an effective verified black ownership of 38.89%. One important consequence of our listing was that our empowerment equity partners, including Shanduka, the Staff Share Trust and the Alexander Forbes Community Trust, all realised value at the time. The Trust reinvested in

the business and is categorised as a broad-based scheme in terms of the B-BBEE legislation.

In April 2015, we announced an employee share ownership scheme (ESOP) which has transferred an effective 2.9% ownership in the group to employees in South Africa. The scheme favours black women employees who are the beneficiaries of 70% of proceeds paid by the ESOP. This is a continued commitment to economically empower black women in line with the B-BBEE scorecard. Thirty per cent of dividends will initially accrue to the trust, the balance being utilised to repay the notional vendor finance extended to the trust at an interest rate of 7%.

Management control

Management control measures diversity on the group board and executive committee. During the year, we received 6.16 out of 8 available points for this scorecard element, down slightly from 6.87 in the previous year. This was impacted by the resignation of former group chief executive Edward Kieswetter; the appointment of Vishnu Naicker, formerly group executive risk and compliance, to the role of MD of the group shared services and the appointment of Sugendhree Reddy to the role of MD of the retail cluster.

Employment equity

For our performance with regards to diversity and inclusion in the workplace, see People, page 41.

Skills development

Our skills development expenditure in 2016 was R34.3 million, of which approximately R23.1 million benefited black women and R36 300 benefited black disabled people (R24 500 black disabled women). We contribute to the fight against youth unemployment through our learnership and internship programmes, which expose participants to the financial industry while they gain work experience and mentorship.

For more on our efforts to develop our employees, see 'Ensuring continual development,' pages 40 and 41.

Preferential procurement

In 2016, our total measured procurement spend was R888 million, of which R111 million went to suppliers with at least 50% black ownership. More than R44 million went to businesses with at least 30% black women ownership. As a result, the group received 15.05 out of a possible 16 points for the scorecard element, down marginally from 15.46 in 2015.

During the year under review, we undertook an initiative to identify preferred suppliers through our recently centralised procurement function.

Enterprise development

Our approach to enterprise development is two-pronged. Our most significant contribution is in the form of our partnership with the Association of Savings and Investments South Africa (ASISA) which was concluded in March 2015. A total investment of R12 million was made to the ASISA Enterprise Development Fund to be recognised over a period of five years.

In addition, during the year we initiated a supplier development programme in which we identified promising BEE suppliers in our supply chain following due-diligence and needs analysis processes. These suppliers could, once the due diligence is complete, be provided with capital investment, equipment and training.

Last, we continue to allocate space in our headquarters to certain BEE suppliers. In 2016 this equated to approximately R2.2 million in recognised enterprise development support.

Socio-economic development

Our efforts with regards to socio-economic development are executed through our corporate social investment (CSI) programme.

Contributing meaningfully towards social protection

Alexander Forbes is motivated by its higher purpose – to help people attain peace of mind through securing their financial well-being, now and in the future. We achieve this primarily through the advice and financial products we provide, but we are proud to extend our impact beyond our clients to support the broader well-being of society.

Community development through corporate social investment

We manage our CSI through the Alexander Forbes Community Trust. The Trust comprises six trustees including the chairman, Dr Ali Bacher. The trustees meet at least twice a year to review activities of the Trust and report to the company's group social ethics and transformation committee.

Our flagship programme, In-4-Life, provides consistent and holistic support to orphans, vulnerable children and their families from early childhood development through to tertiary

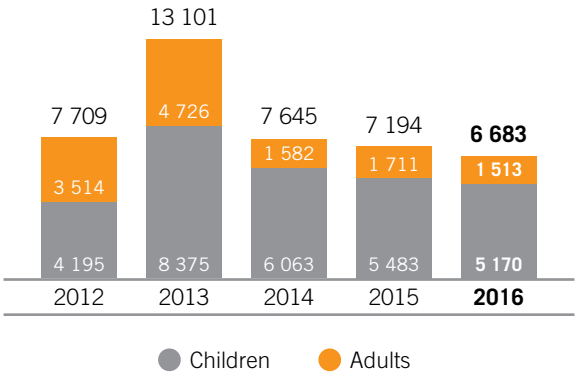
education. This includes assistance for school learners (by providing uniforms, stationery, meals and after-school care), tertiary scholarships and bursaries.

In 2016, 22 In-4-Life beneficiaries received tertiary bursaries. In addition to the financial support they receive from the company, bursars also benefit from mentoring and coaching with Alexander Forbes line managers and quarterly sessions addressing issues affecting youth. Furthermore, we launched the business partnership programme during the year, giving bursary recipients a partner in the company throughout their studies. The relationship carries through to an internship and often results in permanent employment. Our ambition is to create opportunities for individuals from disadvantaged communities to access the mainstream economy. The company has employed eight former bursars since 2010 and six are currently in the internship programme.

In-4-Life is administered by the Alexander Forbes Community Trust in partnership with non-profit organisations (NPOs) in nine communities across Gauteng, KwaZulu-Natal, the Eastern Cape and Western Cape. These partners report back to the trust on a quarterly basis through a web-based reporting system. In addition, trustees conduct two site visits per year to gauge the impact of the programme.

We are also committed to supporting our NPO partners. Through our annual capacity-building workshop, we help our

Alexander Forbes Community Trust beneficiaries*



* The number of beneficiaries fluctuates as community needs are addressed.

Stakeholder profile

Lindiwe Modau is In-4-Life

I was born in Johannesburg's Alexandra Township, and lost both my parents by 2004. When my grandmother passed away two years later, I was left without a guardian or an income.

I was fortunate to receive sponsorship by the King David School to help with school fees and other costs. I worked hard and, after preliminary exams, was the top commerce student with ten awards. When I heard of vacation posts offered by Alexander Forbes, I went for an interview and got the job. I showed my results to HR, and received assistance in securing a bursary from the company to study for a bachelors degree in business administration at CIDA City Campus.

In 2013 I started an internship with Alexander Forbes in the healthcare department. I was welcomed into an environment that not only cares about growth and development, but also stresses the impact of understanding our higher purpose. I was elected to the women's forum and was the youngest junior board member in 2015. Throughout my experience with the company I have been mentored by Hloni Mphahlele, who has been a great influence in my success. The Alexander Forbes Community Trust has made a significant impact on me through In-4-Life.

partners to develop strategies for important issues such as governance, funding, marketing and proposal-writing.

During the year, the group contributed R5.0 million to the Trust (2015: R4.6 million). This expenditure is spent in South Africa and equates to roughly 1.2% of net profit after tax for the group's South African companies. In addition to this direct funding, the Trust also holds a 0.3% equity stake in the group, translating into shares worth some R29.8 million. In 2016, the Trust received a total R1.2 million in dividends. The Trust's support reached approximately 6 700 people during the year, of whom 77% (5 170) were vulnerable children. The number of beneficiaries fluctuates as community needs are addressed.

We encourage Alexander Forbes employees to get involved in supporting community initiatives including In-4-Life and in 2016, four initiatives were implemented with employees participating in various charity activities including Mandela Day.

Building financial well-being throughout society

Providing holistic financial solutions to our clients requires that our current and potential clients have sufficient knowledge to make appropriate financial decisions. Our member education unit continues to hold education sessions at various institutional clients to address relevant financial topics with members. In 2016, the group travelled more than 40 000 kilometres to deliver 1 341 presentations, providing financial education services to over 22 000 individuals.

Over more than 80 years in business, Alexander Forbes has amassed substantial experience in the financial services sector, and we continue to use this institutional knowledge to positively impact the societies in which we operate. Senior managers at Alexander Forbes Financial Services regularly consult at various levels of government, not only on the financial wellness of their employees but on important matters of policy and best practice in asset administration and management.

Environmental stewardship

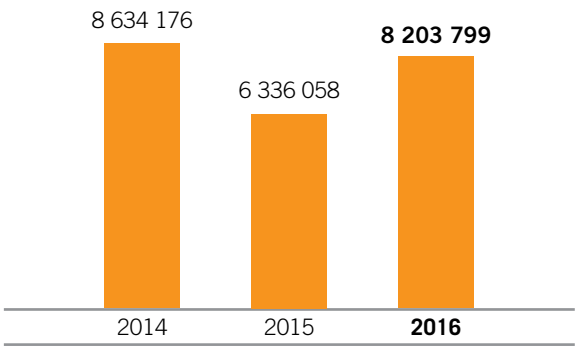
While our business has a limited environmental impact, we are committed to safeguarding natural resources as far as possible. Our greatest impacts lie in the electricity and water consumed in our buildings as well as the general office waste generated through the course of doing business.

Our head office in Sandton was carefully designed to reflect South Africa's abundant natural resources, and to respect and preserve these over the course of its use. The building incorporates the latest technologies and systems for incorporating ambient light and air to minimise the electricity used for lighting and cooling. Its four-star green star rating by the Green Building Council of South Africa was renewed during the year.

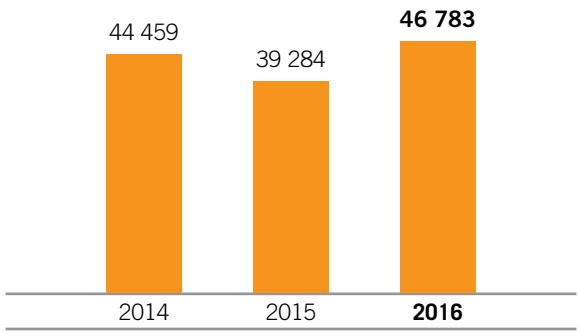
South Africa continues to face power shortages, and in 2016 we used approximately 66 700 litres of diesel to power our generators, up from 39 500 litres in 2015. In total, these generators ran for 61 hours – nearly twice the 32 hours they ran in 2015. While this energy is less efficient than that purchased from the grid, it is nevertheless an important business requirement in order to ensure business continuity during load shedding and other power outages.

Our data centre's energy efficiency profile is measured in terms of a power usage efficiency rating. In 2016, it remained at 1.6, well ahead of the industry norm of 3.0.

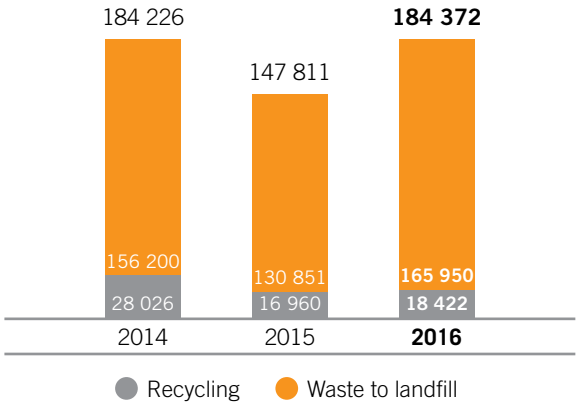
Electricity consumption at head office (kwh)



Municipal water consumption at head office (kL)



Waste generation at head office (Kg)



During the year, we improved our ability to measure our water and electricity consumption beyond our head office. We now include actual consumption figures for our larger sites, and estimated data for the offices in which we maintain a smaller presence. Going forward, we hope to include all South African sites in our environmental data.

Electricity consumption at our head office grew 29% from the previous year, reflecting factors including increased occupancy in 2016, impacted by the move of Investment Solutions into the Sandton building.

The severe droughts in South Africa reduced the water gathered from our grey water system during the year. As a result, our municipal water consumption increased 19% to 46 783 kl at our headquarters (2015: 39 284 kl).

Our head office remains the only site in which we have been able to implement a recycling and waste measurement programme. The total volume of recycled waste increased 9% to more than 18 400 kg (2015: 16 960 kg).

On 19 March, all Alexander Forbes offices participated in the global Earth Hour campaign by turning off their lights for one hour in support of a lower carbon future. Employees were also encouraged to participate with families and friends.

Looking ahead

In the coming year, we plan to establish baseline data for the group's South African water and electricity consumption beyond our head office. This will give us a sound base from which to consider plans to reduce our future consumption. While measurement limitations have precluded the group from quantifying its carbon footprint to date, we hope to be able to do so in the near future.

We are planning to implement a monitoring and evaluation framework to empower our community-based organisation partners with practical tools and methodologies to measure progress and optimise their interventions' impacts.

4

Governance

Fulfilling our higher purpose

At its core Alexander Forbes exists in order to fulfil its higher purpose: helping people attain peace of mind by securing their financial well-being, now and in the future. We do this by helping them to create, grow and protect their wealth through expert advice backed by leading financial products.

The transition to our new cluster structure has helped us to fulfil our higher purpose by more closely aligning our employees and businesses with the needs of our clients.

GOVERNING OUR BUSINESS

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 our operations are executed in accordance with these principles we have established a management system that includes a compliance framework, code of ethics, as well as policies and protocols to govern processes and operations.

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.

The board met six times during the period under review with an average attendance of 90%. For details see the full governance report, online.

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 individual and collective roles and responsibilities. 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.

Key focus areas in 2016

The board maintains an annual work plan in which it addresses regular items for the year and plans for additional specific matters to be attended to according to the schedule. This includes governance and committee reports, strategic reviews and detailed reports from the group chief executive and group chief financial officer.

In addition, the board:

- oversaw a BEE transaction establishing a trust and providing financial assistance in order for the trust to acquire 2.9% of the company's share capital for the benefit of employees and particularly black female employees;
- continued to review, update and adopt policies to strengthen the group's governance and compliance frameworks;
- appointed an additional independent director with due regard to the board's required skills, mix and demographics;
- recognised and discussed the shortfall in gender representation on the board;
- approved the integrated annual report, annual financial statements, interim report and dividend;
- conducted the annual JSE compliance review, the annual review of its terms of reference and work plan and the annual review of the group authorities matrix;
- reviewed the board committees' terms of reference;
- received regulatory briefings; and
- reviewed and approved the annual budget.

Evaluation

During the year the board and its committees performed self-evaluations in compliance with King III. These covered the company, its significant subsidiaries and sub-committees, and included the utilisation of the Governance Assessment Instrument during the year under review. The resulting reports were presented to the relevant boards and audit committees. 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 company's report in terms of King III can be found on its website.

Board composition

At the date of issue of this report, the company's board of directors consisted of nine members. Of these, five were independent directors, two non-executive directors and two executive directors.

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 are introduced to the group through a comprehensive induction programme. The directors have access to management whenever required.

With the resignation of the group chief executive on 8 February 2016, it was agreed that the group chief financial officer also assume the role of interim group chief executive while the process of identifying a suitable replacement is completed. The JSE provided a six-month dispensation exemption that allows the same person to fill these two positions. However, due to the demanding nature of the roles, the board agreed that it would be prudent for the chairman to provide greater support in the intervening period. Therefore, with effect from 8 February 2016, the non-executive chairman was re-designated as the executive chairman.

Full director biographies are available on our website.

Group company secretary

The company secretary is Ms Janice Eva Salvado (BCom, LLB). She has more than 19 years of experience in the company secretarial field and has served in her role with the group for the past 13 years. At a meeting of the board held on 10 June 2016 at which Ms Salvado recused herself, the board assessed Ms Salvado's competence, qualifications, experience, suitability and performance during the financial year, as well as her arm's length relationships. The board concluded that she was suitably qualified to continue to act as group company secretary.

Group board of directors

Independent directors

Mark Derrick Collier

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

Deenadayalen Konar

Appointed: 1 February 2008

Qualifications: BCom, PG Dip in Acc, CA(SA), MAS (Illinois, USA), Cert in Tax Law, DCom, CRMA

Committee responsibilities: Chairman of the audit committee

Busisiwe Jacqueline "Totsie" Memela-Khambula

Appointed: 1 July 2015

Qualifications: BA (Social Science); Masters in Public Administration

Committee responsibilities: Member of the social, ethics and transformation committee; member of the remuneration and nominations committees

Hilgard Pieter Meyer

Appointed: 9 June 2011

Qualifications: BCom, FASSA, AMP (Oxford)

Committee responsibilities: Chairman of the capital oversight committee; member of the remuneration and nominations committees

Raboijane Moses Kgosana

Appointed: 21 April 2015

Qualifications: BCompt, BCompt (Hons), CA(SA)

Committee responsibilities: Member of the audit committee; the group capital oversight committee; and the social, ethics and transformation committee

Non-executive directors

William Simon O'Regan

Appointed: 31 July 2014

Qualifications: BusSci (Hons), fellow of the Faculty of Actuaries (UK) and fellow of the Institute of Actuaries (Australia)

Committee responsibilities: Member of the remuneration and nominations committees

David John Anderson

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 group capital oversight committee

Executive directors

Matthews Sello Moloko
(executive chairman)

Appointed: 3 December 2007

Qualifications: BSc (Hons), PGCE, AMP (Wharton)

Committee responsibilities: Chairman of the social, ethics and transformation committee; member of the remuneration committee

Deon Marius Viljoen

(group chief executive (interim) and group chief financial officer)

Appointed: 3 September 2007

Qualifications: BCom (Hons), CA(SA)

Committee responsibilities: Member of the group capital oversight committee and invitee to all other sub-committees.

Directorate changes

- Mr E Chr Kieswetter resigned as group chief executive and director with effect from 8 February 2016.
- Mr B Petersen resigned as a member of the board with effect from 4 September 2015.
- Ms BJ Memela was appointed to the board with effect from 1 July 2015.
- Mr RM Kgosana joined the board on 21 April 2015.

Governance structures

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.

The board has five standing committees:

- Audit committee
- Nominations committee
- Remuneration committee
- Social, ethics and transformation committee
- Group 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.

Audit committee

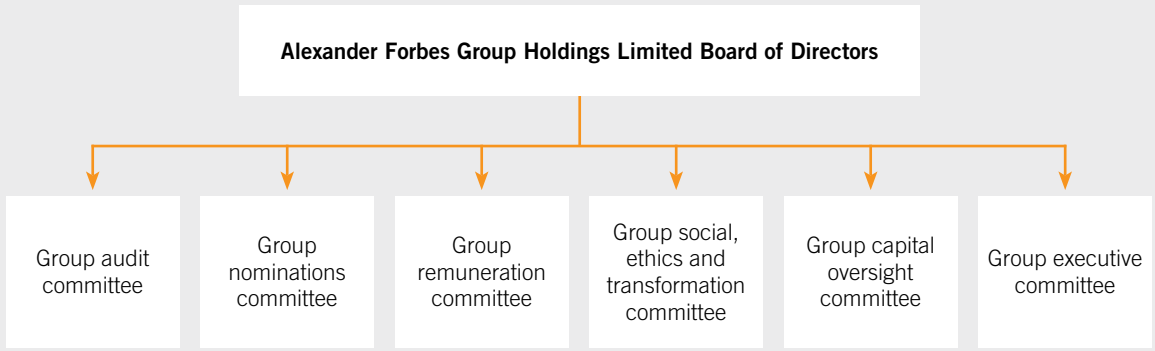
The audit committee comprises three independent directors, Dr D Konar (chairman), Mr M Collier and Mr RM Kgosana. At the annual general meeting of shareholders held on 30 July 2015, the shareholders reappointed the audit committee members, then comprising Dr D Konar (chairman), Mr M Collier and Mr B Petersen. However, on 4 September 2015, Mr B Petersen resigned as a director of the board and a member of the audit committee. It was resolved that Mr RM Kgosana replace Mr Petersen on the audit committee on the same date.

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.

Meetings are attended by 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.

The committee met four times during the period under review with an attendance of 100% for all meetings. For more detail, see the audit committee report, online.

Governance structure



Key focus areas in 2016

In addition to its regular annual activities in line with its terms of reference and statutory requirements, the committee oversaw the following aspects during the year under review:

- reviewed the application of the combined assurance model to provide a coordinated approach to all assurance activities; and
- 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.

The audit committee's full report is available online.

Nominations committee

The nominations committee is chaired by the board's lead independent director, Mr M Collier, with additional members comprising Mr H Meyer, Ms BJ Memela and Mr WS O'Regan. Ms Memela and Mr O'Regan were appointed as members with effect from 1 July 2015. Mr MS Moloko resigned from the committee on 8 February 2016.

During the year under review, the committee held four meetings as scheduled. Meeting attendance averaged 82%. For more detail, see the full governance report, online.

Key focus areas in 2016

In addition to its regular annual activities in line with its terms of reference and statutory requirements, the committee oversaw the following aspects during the year under review:

- oversaw the identification and procedure for the appointment of suitable directors to the board, taking into consideration fit and proper procedures and the requirements of the board's and committee's terms of reference.
- resignation and appointment of CEO.
- reviewed succession management.
- approved a policy on the procedure for the appointment of directors.
- considered the directors retiring by rotation at the 30 July 2015 AGM, in terms of their skills, expertise and contribution and agreed that the chairman reports to the board that a recommendation be made to shareholders that the directors be re-elected.

Remuneration committee

The remuneration committee is chaired by the board's lead independent director, Mr M Collier, with additional members being Mr H Meyer, Ms BJ Memela, Mr WE O'Regan and Mr MS Moloko.

During the year under review the remuneration committee held six meetings, with average attendance of 81%. For more detail, see the full governance report, online.

Ms Memela and Mr O'Regan were appointed as members of the remuneration committee with effect from 1 July 2015.

Key focus areas in 2016

In addition to its regular annual activities in line with its terms of reference and statutory requirements, the committee oversaw the following aspects during the year under review:

- reviewed the group's remuneration practices and philosophy, and reviewed and adopted a revised group remuneration policy and strategy;
- oversaw the adoption and rollout of a revised employee grading model;
- approved revised long-term incentive plan (LTIP) rules for referral to shareholders for approval in the listed environment;
- considered and approved the performance conditions and measures for the LTIP;
- approved the allocation framework for the second tranche allocations for the LTIP; and
- confirmed the methodology applied to the allocation of proceeds to the participants in the Isilulu Trust.

Social, ethics and transformation committee

In accordance with the Companies Act and the Companies Regulations the board took a decision in 2011 to incorporate a social and ethics committee into its existing transformation committee to form a newly constituted social, ethics and transformation committee. The committee is currently chaired by the chairman of the board, Mr MS Moloko, with additional membership comprising Mr DJ Anderson, Mr RM Kgosana and Ms BJ Memela. Ms Memela and Mr Kgosana were appointed as members of the committee with effect from 1 July 2015.

The group chief executive, group chief financial officer, group human resources officer, group chief risk officer, group transformation manager, and the business unit leaders are permanent invitees to committee meetings.

During the year under review the committee held four meetings, with meeting attendance averaging 81%. For more detail, see the full governance report, online.

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.

Key focus areas in 2016

The specific activities that the committee monitors, in line with 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 Co-operation and Development 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 discrimination and combating corruption, the group's contribution to developing the 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; and
- **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.

The committee's report, which describes how the committee has discharged its responsibilities in respect of the financial year ended 31 March 2016, is available online and will be presented to shareholders at the annual general meeting to be held on 26 August 2016.

Group capital oversight committee

The group capital oversight committee is chaired by an independent chairman, Mr H Meyer, with additional members being Messrs RM Kgosana and DM Viljoen.

The objective of the group capital oversight committee is to monitor and direct the capital and capital adequacy risk profile of the group.

During the year under review the committee held four meetings, with meeting attendance averaging 94%. For more detail, see the full governance report, online.

Focus areas in 2016

In addition to its regular annual activities in line with its terms of reference and annual work plan, the committee oversaw the following aspects during the year under review:

- reviewed solvency and liquidity assessments for the group and identified subsidiaries;
- considered dividend recommendations in terms of solvency and financial soundness;
- considered the group's capital structure and balance sheet management; and
- received Own Risk Solvency Assessment (ORSA) and consolidated supervision reports, staying abreast of FSB developments in this regard.

Executive committee

In 2016, the group executive committee met on a quarterly basis with a primary focus on reviewing the state of the business. Reports are received from the group chief executive and group chief financial officer at each meeting, as well as from each of the cluster heads. Should any other matter of group-wide importance require discussion, it may be added to the agenda by a member of the committee.

Changes in membership

- Mr S Price joined the committee in his capacity as group executive: operations, technology and systems on 1 May 2015.
- Ms S Reddy joined as managing director of Retail Holdings on 1 August 2015.
- Mr E Chr Kieswetter resigned as group chief executive on 8 February 2016.
- Mr D Viljoen, the group chief financial officer has, with effect from 8 February 2016, added the role of interim group chief executive to his portfolio and chairs the committee.

Executive committee

Deon Viljoen
(group chief executive (interim) and group chief financial officer)

Tenure with the company:
1 March 2003

Gari Dhombo
(managing director, AFI)

Tenure with the company:
1 November 2002

Peter Edwards
(managing director, financial services institutional)

Tenure with the company:
1 February 1996

Brad Eliot
(group executive, information technology)

Tenure with the company:
1 September 1998

Thabo Mashaba
(group chief human resources officer)

Tenure with the company:
1 April 2012

Derrick Msibi
(managing director, Investment Solutions)

Tenure with the company:
1 January 2009

Vishnu Naicker
(group chief risk officer)

Tenure with the company:
1 April 2008

Luendran Pillay
(managing director, AfriNet)

Tenure with the company:
1 May 2012

Steve Price
(group executive: operations, technology and systems)

Tenure with the company:
13 July 1999

Sugendhree Reddy
(managing director, retail)

Tenure with the company:
1 August 2015

Janice Salvado
(group company secretary)

Tenure with the company:
1 April 1999

Lynn Stevens
(group executive: brand, marketing and communications)

Tenure with the company:
1 August 2010

Grant Stobart
(managing director, AF International)

Tenure with the company:
15 December 2003

Shareholding information

	2016	
	Analysis of shareholders	Number of shares as a % of total
Beneficial shareholders holding 5% or more of the company's listed ordinary share capital		
Mercer Africa Limited	442 801 129	33.0
Government Employee Pension Fund (PIC)	114 456 908	8.5
Liberty Life Association of Africa Limited	82 320 426	6.1
	639 578 463	47.6
Investment management interests above 3% of the company's listed ordinary share capital		
STANLIB Asset Management Limited	114 093 483	8.5
Allan Gray Proprietary Limited	107 588 399	8.0
Public Investment Corporation Limited	100 618 328	7.5
Abax Investments Proprietary Limited	70 346 360	5.2
Neuberger Berman, LLC	57 736 793	4.3
GIC Private Limited	55 085 081	4.1
Kagiso Asset Management Proprietary Limited	40 465 359	3.0
	545 933 803	40.6

Shareholding spread at 31 March 2016

Size of holding	Number of shareholders	% of total	Number of shares	% of total
1 – 1 000	1 381	39.6	446 654	0.0
1 001 – 10 000	1 147	32.9	4 470 727	0.3
10 001 – 100 000	548	15.8	18 324 140	1.4
100 001 – 1 000 000	297	8.5	95 573 546	7.1
1 000 001 +	111	3.2	1 222 611 896	91.2
	3 484	100.0	1 341 426 963	100.0

Shareholder type at 31 March 2016

	Shareholders and percentage of issued share capital		
	Number of shareholders	Number of shares	% of total
Public	3 474	844 361 720	63.0
Non-public	10	497 065 243	37.0
Mercer Africa Limited	1	442 801 129	33.0
Own holding	1	152 734	0.0
Executive directors and officers	5	7 389 565	0.5
Trustees of employee share trusts	3	46 721 815	3.5
Total	3 484	1 341 426 963	100.0

	2015	
	Analysis of shareholders	Number of shares as a % of total
Beneficial shareholders holding 5% or more of the company's listed ordinary share capital		
Mercer Africa Limited	442 801 129	34.0
Government Employee Pension Fund (PIC)	113 308 792	8.7
Liberty Life Association of Africa Limited	78 287 396	6.0
	634 397 317	48.7
Investment management interests above 3% of the company's listed ordinary share capital		
STANLIB Asset Management	118 267 162	9.1
PIC	94 826 600	7.3
Allan Gray Investment Council	81 436 326	6.2
Abax Investments	69 754 671	5.4
Kagiso Asset Management Proprietary Limited	45 323 718	3.5
Neuberger Berman Management LLC	44 051 865	3.4
	453 660 342	34.9

Shareholding spread at 31 March 2015

Size of holding	Number of shareholders	% of total	Number of shares	% of total
1 – 1 000	1 158	28.53	449 422	0.04
1 001 – 10 000	1 691	41.66	6 899 128	0.53
10 001 – 100 000	827	20.37	26 183 371	2.01
100 001 – 1 000 000	274	6.75	90 666 885	6.96
1 000 001 +	109	2.69	1 178 157 457	90.46
	4 059	100.00	1 302 356 263	100.00

Shareholder type at 31 March 2015

	Shareholders and percentage of issued share capital		
	Number of shareholders	Number of shares	% of total
Public	4 048	851 701 372	65.40
Non-public	11	450 654 891	34.60
Mercer Africa Limited	1	442 801 129	34.00
Own holding	1	152 734	0.01
Executive Directors and Officers	7	7 531 324	0.58
Trustees of employee share trusts	2	169 704	0.01
Total	4 059	1 302 356 263	100.00

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 2.25	Non-executive directors' fees do not comprise both a base fee and an attendance fee per meeting.	This has been considered and rejected by the remuneration committee.

Governing IT

Alexander Forbes's IT governance strategy ensures that risk management is operationally entrenched and included in the performance scorecards of IT managers and senior employees.

IT is represented at a board level by the group IT director, who is a member of the group exco as well as the audit and risk committees. Furthermore, senior IT executives are included in working groups tasked with embedding regulatory requirements – such as POPI, SAM and TCF – throughout the organisation.

Our IT governance framework is based on a combination of local and international frameworks, including:

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

This ensures local relevance as well as alignment with best practice. The framework is supported by a series of policies and procedures that enable the group to ensure compliance with our framework's demanding standards. In 2016, Alexander Forbes continued its transition to COBIT 5, the latest iteration of the framework released by ISACA, an international IT governance association. This involved mapping our internal processes and addressing identified gaps in terms of the new framework. This approach has been approved by the audit committee and board.

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. No material control or governance deficiencies were identified during the year under review.

On a functional level, the various IT steering committees oversee the implementation of the IT governance framework; its work also includes monitoring and reporting on IT performance and service and project delivery. 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.

Complying with and adapting to the regulatory and legislative environment

The financial services sector is regulated in South Africa by the Financial Services Board (FSB), who enacts regulation in order to ensure fair and consistent standards. These cover financial products and services as well as customer interaction. As a responsible financial services company we comply with relevant regulation, as well as broader legislation that is relevant to the countries in which we operate.

The board and senior management has formally endorsed the establishment of the compliance function at a group level as well as within each entity. The function's primary role is to assist the board and management in running the organisation with integrity, ensuring that it complies with all relevant regulatory and best-practice requirements and is conducted in accordance with the highest ethical standards. The appointed compliance officer is responsible for the effective implementation of the function and for facilitating compliance throughout the business via awareness creation, independent monitoring, reporting and the provision of practical solutions or recommendations.

Our commitment to compliance extends beyond South Africa, and we remain abreast of local and international legislation regulating our business in the countries in which we operate.

The compliance team within Alexander Forbes is made up of a group compliance officer and group anti-money laundering (AML) officer who are responsible for co-ordinating, implementing and reporting on group-wide compliance policies, procedures and standards, as well as providing assurance to the group audit committee on the status of compliance and AML within the group. Each division has a head of compliance who is responsible for providing assurance to the relevant divisional boards on the status of compliance within their area of oversight.

For detail on the specific pieces of regulation and legislation impacting the group and our response, see 'Our operating context,' pages 14 to 19.

Conducting ethical business

Earning and preserving the trust of our key stakeholders is essential – not only to our viability as a business, but also to our fulfillment of our higher purpose. Conducting business ethically and protecting against fraud and corruption is an important component of this trust.

Any business that conducts financial transactions is inherently vulnerable to exploitative behaviour including attempts of fraud, corruption and conflicts of interest. Unfortunately, Alexander Forbes is no exception. Within the group our pension fund administration and short-term insurance businesses have the greatest exposure to fraud and corruption, and the bulk of these issues relate to the theft of assets, fictitious service benefits or insurance claims and falsified identities.

Alexander Forbes employees are guided by the group's Code of Ethics, which provides clear expectations for responsible conduct and practices. The code is accessible to all employees on the company's intranet. Our goal is for all employees to sign a commitment to the code through our internal e-learning platform. At year-end, 2 900 employees had done so, with the remaining individuals expected to sign in the coming year.

Our board social and ethics committee is ultimately accountable for the group's ethics programme, while implementation is overseen by the group chief risk officer. Alexander Forbes is committed to supporting ethical business in South Africa and is a member of the Ethics Institute of South Africa.

Our crime prevention strategy continues to be monitored and enforced by the internal audit function while an independently managed whistle-blower line enables concerned individuals to anonymously report conflicts of interest, fraud and corruption. In total, 29 allegations of fraud and/or corruption were reported, and all were investigated by the relevant businesses and the appropriate corrective measures taken. The total fraud exposure to the group was R2 004 838, of which an estimated R684 000 was prevented while incurred losses totalled R1 320 838. Due to the nature of these losses they were covered by the group's insurance policies.

During the year advancements in technology and data analytics helped to further strengthen our controls and systems, enabling the group to identify potential cases of fraud before they occur.

In accordance with the recommendations of King III the group conducted an ethics risk assessment during the year. This assessment also included the input of our suppliers and gauged the external perception of the group as an ethical corporate citizen. We revised the Code of Ethics in 2016, incorporating feedback from this assessment. In addition, we updated our group ethics policy to include additional reporting lines.

Finally, the group implemented a complaints management system for external stakeholders including suppliers and clients. Issues are solicited via various means, logged and sent to the relevant individual for handling.

RISK MANAGEMENT

Risk governance and management

At its most fundamental level, risk management at Alexander Forbes is about protecting our ability to create value, and ensuring we preserve that value for our stakeholders. In doing so, we pursue opportunities while minimising potential negative consequences. Sound risk management is therefore an important enabler of our strategic intent, enhancing our ability to perform against our stated objectives.

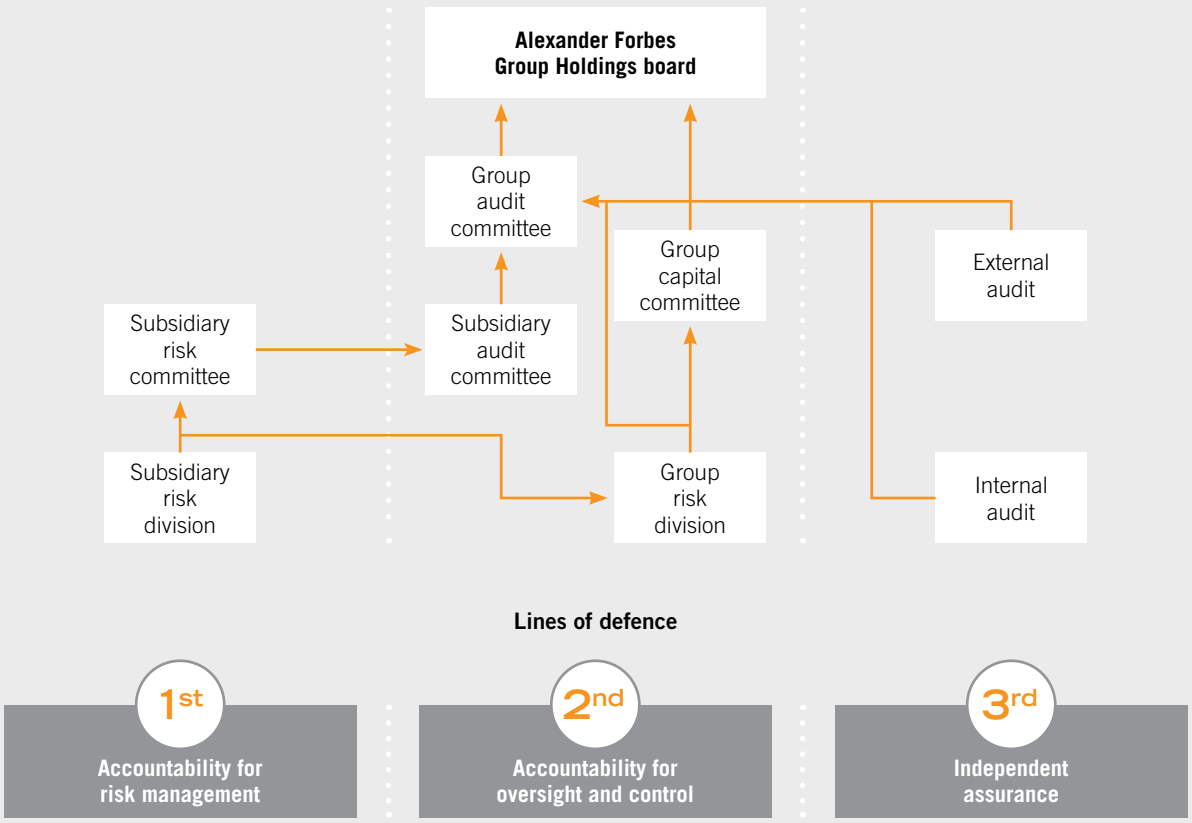
The board of directors holds ultimate accountability for risk management; however senior management is responsible for developing and implementing risk strategy. This includes acting as the custodian of policies and procedures for risk mitigation, and ensuring compliance. The individuals heading various business units, lines or subsidiaries are held accountable for the risks they take.

Risk management is built into decision-making structures and processes at both the operational and top management levels. Independent parties (those who do not approve or take risk) review decisions around risk mitigation strategies within the constraints of the group's risk appetite measures. These reviews include stress tests to key variables and systemic shocks. Contingency plans are in place for unexpected or worst-case scenarios.

The group manages risk along three lines of defence:

- **The first line of defence** is centred on day-to-day management's responsibility and accountability for managing risks. Management's role, through various operational committees, is to provide oversight including strategy implementation, performance measurement, risk management, company controls and governance processes.

COSO risk governance structure at Alexander Forbes



- **The second line of defence** comprises our formal enterprise risk management (ERM) framework, including our policies and minimum standards. Objective oversight provided by risk and independent audit committees, continuously challenges risk management in terms of its performance and reporting.
- **The third line of defence** comes from the oversight and assurance provided by an independent third party on the adequacy and effectiveness of risk management governance and internal control as established by the first and second lines of defence.

During the year under review, Alexander Forbes adopted a more defined risk management strategy including enhanced definitions of key risk indicators.

Furthermore, we refined our governance structures during the year, streamlining board and audit committee meetings as well as the information that informs them. The reports circulated to the board audit committee have been slimmed to approximately ten pages, highlighting only the most material issues and ensuring these are given the full attention of committee members.

During the year, the Financial Services Board (FSB) published board notice (BN) 158. The notice specifies certain governance arrangements related to risk management with requirements effective from 1 October 2015. As a result, a significant point of focus for the year was ensuring compliance by adjusting our policies and procedures while ensuring we do not compromise our existing risk management philosophy. Fortunately, these changes were relatively minor because we had anticipated and aligned with the recommendations in advance of BN 158's introduction.

Risk appetite

Alexander Forbes's risk appetite – the amount of risk we are willing to accept in pursuit of our objectives – defines parameters within which we can operate. Our risk appetite therefore serves a valuable reference point for important business decisions and setting strategies.

Our risk appetite has been broadly defined around four key risk measures, with thresholds and metrics agreed at a group level:

- **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.

During the year, these measures remained unchanged from previous years. However, we migrated to a new risk management system in order to improve the way the group tracks and reports on risk. The new system tracks a newly defined set of key risk indicators, flagging any material deviations and enabling us to identify and mitigate emerging risks more timeously. It also enables greater flexibility in setting tolerance thresholds according to changing circumstances and objectives.

Own risk and solvency assessment (ORSA)

During the year, the group and its insurance subsidiaries completed and submitted the mock ORSA as required by the FSB under SAM. The ORSA is defined as the processes and procedures employed to identify, assess, monitor, manage and report on the short- and long-term risks that the group is exposed to or may be be exposed to and a determination of the adequacy of capital funding to ensure that the overall solvency and funding needs are met at all times. The ORSA also provides a correlation between regulatory capital and economic capital.

The ORSA report included detailed commentary on the risk profile for group, the stress and scenario test results, capital projections, as well as commentary on the risk management system and strategy. Mock ORSA reports were produced for the Alexander Forbes Group, Investment Solutions, Alexander Forbes Insurance and Alexander Forbes Life.

The executive management, board sub-committees and boards at both group and subsidiary level were integral to the ORSA process and exercised robust reviews and challenged results which culminated in the final sign-off of the reports submitted to the FSB.

Key business risks

Alexander Forbes identifies and classifies its key risks according to a three-level taxonomy system. Key risks are identified and ranked by our group risk division in terms of our risk management strategy and in consultation with subsidiary and group management. The table overleaf summarises the actions undertaken during the year to mitigate our level one risks.

Level one risk	Actions taken during 2016	Plans for 2017
Business risk The risk that the company will generate inadequate profits	■ Completed enhancements of the group's stress-testing capabilities to identify significant events that could test its solvency levels. ■ Completed the revision of the group's key risk indicators that inform risk appetite measures and identify possible emerging risk.	■ Enhance project risk management as the group embarks on its digitisation programme. ■ Further refine the identification and analysis of emerging risks with greater emphasis on identifying risk agility and risk velocity.
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	■ The group further enhanced its: • Liquidity risk-tolerance model • Liquidity stress-testing model • Intra-day liquidity risk and collateral.	■ Enhance the group's counterparty risk management processes to enhance real-time monitoring of counterparties. ■ Review of credit risk policy, including: – revisions to counterparty limits in line with current country risk profile – revisions to group capital committee approval limits
Market risk Loss due to factors affecting the overall performance of financial markets	■ Completed the group's stress-testing framework in line with regulatory requirements issued by the FSB in 2015. ■ Revised and began to implement the group's market risk management policy. ■ Improved dynamic market risk reporting to capital oversight committee. ■ Completed further refinements to the relevant underwriting models and asset-liability matching models. ■ Significant progress made on the group's customer and risk-focused product development together with appropriate risk-based pricing. ■ Completed phase I of implementing a model to improve the group's system of understanding and monitoring the sensitivity of credit risk metrics and trends relative to various risk parameters.	■ Effective monitoring and understanding of the sensitivity of market risk metrics and trends relative to various risk parameters (completion of phase II).
Underwriting risk Loss on underwriting activity, whether from factors within or beyond our control	■ Reassessed and redefined reinsurance model guidelines. This remains a dynamic process. ■ Created dynamic repricing models in line with customer and market expectations. ■ Improved churn rate monitoring and intervention tools.	■ Continuously monitor and refresh pricing models in line with churn rates. ■ Review reinsurance arrangements and associated risk concentrations. ■ Review and enhance asset liability matching and investment portfolios.

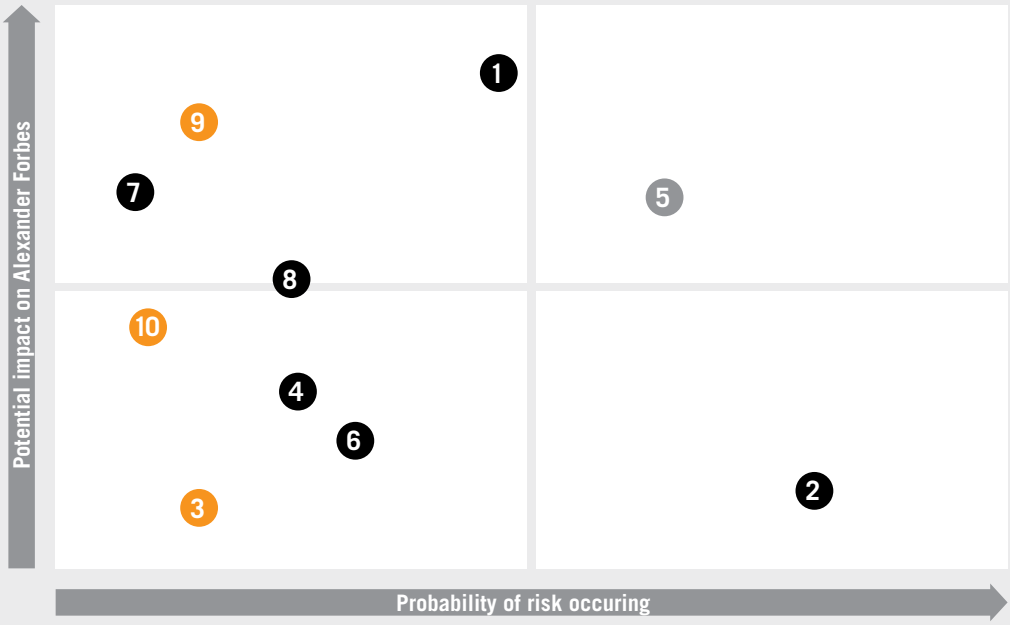
Level one risk	Actions taken during 2016	Plans for 2017
Strategic risk Loss arising from the pursuit of an unsuccessful business plan	■ Redesigned the group's risk management systems to track and report on strategic risks on a real-time basis. ■ Partial progress was made in developing a framework for using risk analytics to inform investment and strategic decisions. ■ Capacitation of the enterprise project management office to track and validate deliverables for strategic projects.	■ Greater interrogation of risk mitigation management. ■ Introduce a programme to integrate risk into the financial review and validation cycles across the organisation. ■ Further embed risk into the business planning cycle and introduce improved management tools and reporting for all key decision-makers.
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.	■ Improved task segregation, preventing any one individual from taking advantage of numerous aspects of a particular transaction, business process or practice by creating a separate division to take full acountability. ■ Identified risk and ERP systems to limit complexities in business processes by curtailing manual activities and the number of people and exceptions that arise during the implementation of business processes. ■ Reinforced organisational ethics by creating a strong ethical compass that can be strengthened by aligning personal values with the ideology of the organisation. ■ Commenced the implementation of combined assurance to 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 renewed its comprehensive professional indemnity programme with approximately R2 billion cover for each claim year.	■ Test and improve the group cyber security programme. ■ Continuously refine the management of conduct risk throughout the group. ■ Implement the group's refined AML risk-based programme in line with proposed future regulatory changes. ■ Periodic assessment of all facets of operational risks to gauge regulatory obligations, IT assets, skills, competencies, processes and business decisions. ■ Renew the group's comprehensive professional indemnity programme with approximately R2 billion cover for each claim year.

These key risks, actions and plans were interrogated, approved and monitored by the group audit committee.

Risks are continuously shifting and we must therefore remain vigilant to make sure we identify and mitigate emerging risks before they hinder our ability to meet our objectives. In 2016, cyber security was identified as the most significant emerging risk. As the group and its clients adopt an increasingly digitised approach to conducting business, this can result in exposure to malicious attacks. Fortunately, we have adopted robust preventative protections and, as a result, have not been significantly impacted by the risk.

Our top-ten level two risks for the year under review are mapped on the heat map below, illustrating the likelihood of their occurrence, the potential impact to the business and their time frame (short, medium and long term).

Key business risks



Our major next level 2 risk (which fall under the following level 1 risk categorisations)

1	Speed of technological change (business risk)
2	Impact of retirement reform on the group's business model (strategic risk)
3	Cyber threats including lack of data security (business risk)
4	Non-compliance with regulatory capital requirements (operational risk)
5	Economic slowdown (business risk)
6	Availability of key skills and resources and key man dependency (operational risk)
7	Regulatory non-compliance (operation risk)
8	Failure by counterparty's to meet obligations (credit risk)
9	Poor or perceived poor investment performance (business risk)
10	Failure to maintain and generate shareholder value (strategic risk)

Long-term Medium-term Short-term

REMUNERATION

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, incentivises the right behaviours and outputs, and is structured in such a way that the policy will not result in any unfair outcomes for customers.

Our approach is articulated and guided by our remuneration policy, which applies to Alexander Forbes Group Holdings Limited and all subsidiary operating entities. The policy is based on best practice and good governance principles, and is overseen by the group board of directors who delegates oversight to the remuneration committee. Operational implementation is the responsibility of the group executive committee and the human resources function.

All remuneration practices at Alexander Forbes must be hallmarked by:

- **Simplicity** (by being no more complex than is required to be fit for purpose)
- **Consistency**
- **Transparency** (a s appropriate at given hierarchical levels)
- **Predictability**
- **Certainty**

Alexander Forbes seeks to comply with the remuneration guidelines of King III to the fullest extent possible and is cognisant of the remuneration-related guidance provided by legislative and regulatory regimes in all jurisdictions in which it operates.

During the year, the remuneration committee reviewed the policy twice. A revamp was conducted in March in line with our annual processes. The second review was conducted in June and resulted in amendments to bring the policy into closer alignment with the group's strategic intent. It was also adjusted to reflect the group's transition to a 'levels of work' grading system.

Remuneration principles

Alexander Forbes is committed to the concept of total reward, which recognises that reward is multifaceted and comprised of financial and non-financial components.

Our policy is informed by nine principles:

- **Long-term interest:** Overall remuneration policy and practice must be in line with the group's business and risk strategy, profile, objectives, values, risk management practices, client interests, and long-term entity-wide interest and performance.
- **Risk management:** 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 that involve significant risk.
- **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 fixed and variable pay:** There is a balance between fixed and variable pay, with the fixed pay representing a sufficiently high portion of the total remuneration to prevent employees from becoming overly dependent on variable pay, unless in situations where the market dictates otherwise.
- **Treating Customers Fairly:** Performance scorecards and incentives are structured to reward employees at all levels without any unfair outcomes for customers. Customers' interests and company interests are treated with equal importance.
- **Defining performance:** Performance is based on 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 where required.
- **Legislative compliance:** The policy will be guided by legislative and regulatory regimes in all jurisdictions in which it operates.

- **Approvals and decision-making:** The remuneration committee has a mandate to approve all changes to the remuneration policy, including the long-term incentive scheme (LTI) and its rules, yearly bonus pot determination for the group and divisions, as well as the group exco members' individual awards (short-term incentives). The group chief executive has a mandate to approve remuneration and rewards for all executives reporting to the group exco members.

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.

All remuneration practices must directly and simultaneously achieve both short-term results and long-term sustainability, without achieving one at the cost of the other. Alexander Forbes doesn't support highly leveraged incentive schemes as they may result in excessive cost or risk to the company.

Guaranteed pay

Guaranteed pay reflects employees' role and position and is payable for undertaking expected day-to-day responsibilities. Alexander Forbes also provides standard market-related benefits. These include (but are not limited to) retirement funding, medical aid and other benefits including death, disability and funeral cover. The remuneration committee periodically scrutinises all benefits, including retirement funds, benefits in kind and other financial arrangements, to make sure they are justified, correctly valued and suitably disclosed.

Guaranteed pay is structured as a total cost-to-company (TCTC) package and is typically benchmarked against the 50th percentile of the financial services market to create the opportunity for exceptional performers to earn up to the 75th percentile in total through STIs. This is subject to the individual's performance, the group's performance and the available funds in the bonus pool. In 2016, the group changed its job evaluation system from the Alexander Forbes grading system to the 'levels of work' framework, in order to have a clearly-defined and commonly understood framework that promotes career progression and appropriate industry remuneration benchmarks.

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 and bonuses for the 2016 and 2015 financial years for the executive directors of the group board are detailed below. The bonus for the 2016 year reflects the amont accrued and approved by the remuneration committee for the year ended 31 March 2016 and paid in June 2016.

R'000	Salary	Bonus	Benefit and allowances	Retirement fund contributions	Total
Executive directors					
2016					
E Chr Kieswetter** (retiring group chief executive)	**5 153**	**–**	**166**	**540**	**5 859**
DM Viljoen* (interim group chief executive and group chief financial officer)	**3 608**	**5 200**	**121**	**583**	**9 512**
Total for the year	**15 626**	**12 000**	**474**	**2 207**	**30 307**
2015					
MS Moloko*** (chairman)	567	–	130	80	777
E Chr Kieswetter (group chief executive)	4 900	7 000	254	513	12 667
DM Viljoen (group chief financial officer)	3 318	5 276	174	535	9 303
Total for the year	15 639	20 936	789	2 163	39 527

* With effect from 8 February (i.e. two months of the financial year), Mr Viljoen took on a dual role as interim CEO.
** Mr Kieswetter stepped down from the board of directors on 8 February 2016 and will formally retire 31 March 2017.
*** Mr Moloko became non-executive chairman from 24 July 2014. Effective 8 February 2016, Mr Moloko was temporarily reinstated as executive chairman.

Short-term incentive

To support our pay-for-performance approach, STIs are linked to the performance management system outputs, which in turn align individual performance to our strategic intent.

Alexander Forbes's STI scheme aims to reward performance for meeting short-term organisational targets. This means that a direct link is established between performance management and rewards. Objectives and measures are therefore derived from the overall annual strategic objectives and cascaded through group, divisional and individual scorecards to ensure that everyone is working toward the same overarching objectives in their own relevant way. 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 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** – Level 1 to 3 employees are generally offered a 13th cheque equal to one month's pensionable salary while some employees from Level 3 to 5 are eligible to receive up to 200% of their on-target bonus as their incentive. This is moderated subject to availability of the overall pool.

- **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.

The STI allocations of all executive committee members are based on achievement of their personal performance objectives for the year. Reaching certain predetermined performance scores will indicate their potential awards. These are approved or moderated up or down by the remuneration committee as deemed necessary.

The Solvency Assessment and Management (SAM) system requires a substantial portion of variable pay (40% – 60%) to be subject to deferral. The long-term incentive plans incentivise management to consider the longer-term future of the company aligned to shareholder interest.

Long-term incentive plan

The LTIP is governed by rules as approved by the remuneration committee. The chairman and other non-executive directors are not eligible to receive long-term incentives geared to share price or corporate performance, as such incentives align their interests too closely with executives and may be seen to impair their objectivity.

The Alexander Forbes conditional share plan applies to executive directors, senior managers and other key executives and managers of the company. The incentives are offered over a period of three or more years and are designed to align performance with achieving the group's long-term objectives, act as a retention mechanism for senior executives, and drive a culture of continuous and sustained growth and improvement within Alexander Forbes.

To align shareholders' and executives' interests, the vesting of conditional shares 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 benchmarks.

Conditional shares are awarded on a sliding scale at a level that is appropriate relative to guaranteed pay. Awards with high potential value may only be linked to commensurately high levels of performance. Full awards require significant value creation.

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

'000 shares	Total 2016	Total 2015
E Chr Kieswetter (group chief executive until 8 February)	**844**	1 315
DM Viljoen (group chief financial officer and interim group chief executive effective 9 February)	**562**	881
Total for the year	**1 406**	2 196

The LTIP awards are determined following market benchmarks, as a function of the executive's cost to company (CTC). This is also moderated by the remuneration committee to reach a final award.

Employee share ownership includes the forfeitable share plan (FSP) and the employee share ownership plan (ESOP), and is designed to enhance the ownership of the company and support its employees' financial well-being.

Following the group's successful listing during the 2015 financial year, Alexander Forbes awarded 1 000 forfeitable shares to each employee through the FSP. These vest in three years and are conditional on the individuals' employment with the group at that time. In 2016, the group awarded a further 200 shares to each employee. The FSP holds approximately 0.2% of the group's issued share capital.

The ESOP means that South African employees hold approximately 2.9% of the group's issued share capital. Seventy per cent of distributions by the newly created ESOP will accrue to black women employees (82% to black employees).

Historical long-term incentive plans

During the period under private equity ownership, certain long-term incentives and share ownership plans were enacted for key individuals and senior employees of the group. All these historical schemes matured at exit of the private equity shareholders in 2014, with some deferral in certain instances.

The 2011 Executive Long-Term Incentive Plan, which was amended in June 2014, was constructed and designed as a restricted bonus incentive scheme that was 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 per cent of the awards made to eligible employees in terms of the plan vested upon listing on 24 July 2014 while the remaining 50% vested in January 2016, 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. These historical schemes are now fully settled and terminated.

Remuneration of non-executive directors

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

Our aim is to compensate our independent non-executive directors 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.

We periodically undertake benchmarking 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 will be subject to approval at the annual general meeting of shareholders as detailed in the notice of that meeting.

Rands	Group board	Subsidiary boards	Group audit committee	Subsidiary audit committee	Remuneration and nominations committees	Social, ethics and transformation committee
2016						
Chairperson	**1 773 450**	**274 110**	**479 686**	**274 110**	**205 576**	**102 797**
Member	**479 686**	**137 054**	**205 576**	**137 054**	**102 797**	**54 827**
2015						
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

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