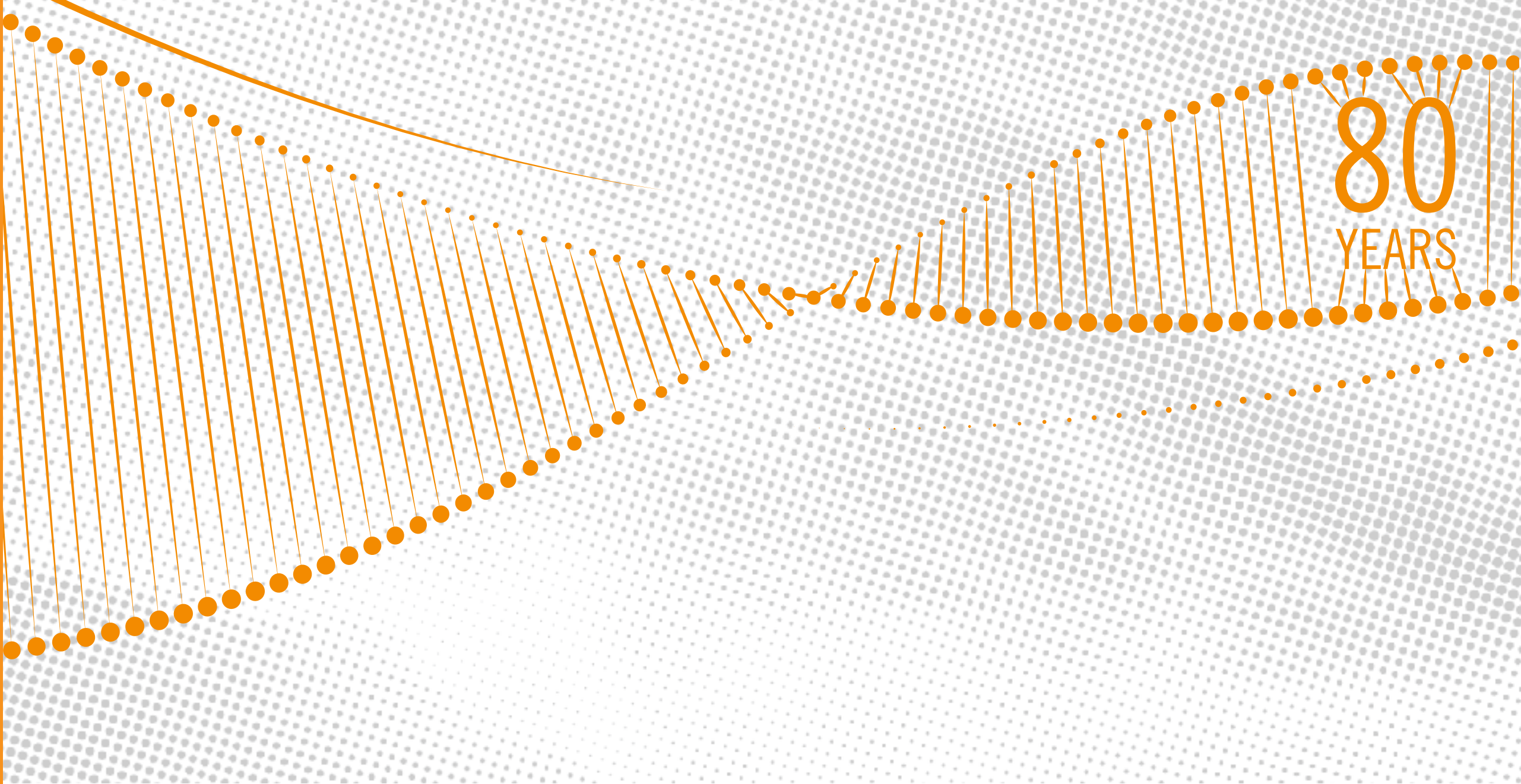




31 MARCH 2015

ALEXANDER FORBES GROUP HOLDINGS LIMITED
INTEGRATED ANNUAL REPORT

INTRODUCTION

THIS YEAR ALEXANDER FORBES TURNS 80

– A milestone in any person's life and
no less so in that of a Company

In 1935 a Lloyd's contract was arranged by a London-based insurance broker called Price Forbes for Johannesburg-based Emile Levy and Company Limited, in which Price Forbes then acquired an interest. By 1950, this interest had increased to 100%. And by the early 1980s, a combination of two primary shareholders – Price Forbes Sedgewick and Alexander & Alexander – came together in the form of Alexander Forbes Financial Services, following which that name was adopted by the Alexander Forbes group in 1999, which most recently (re)listed under that name on the JSE just last July.

The journey from 1935 has been eventful but it has always been characterised by one important thing – a desire to think outside the box, do things differently, to innovate and improve, to find ways to serve our clients better and, in doing so, enrich their lives. Many companies make claim to such innovation and thought leadership: few actually deliver on it.

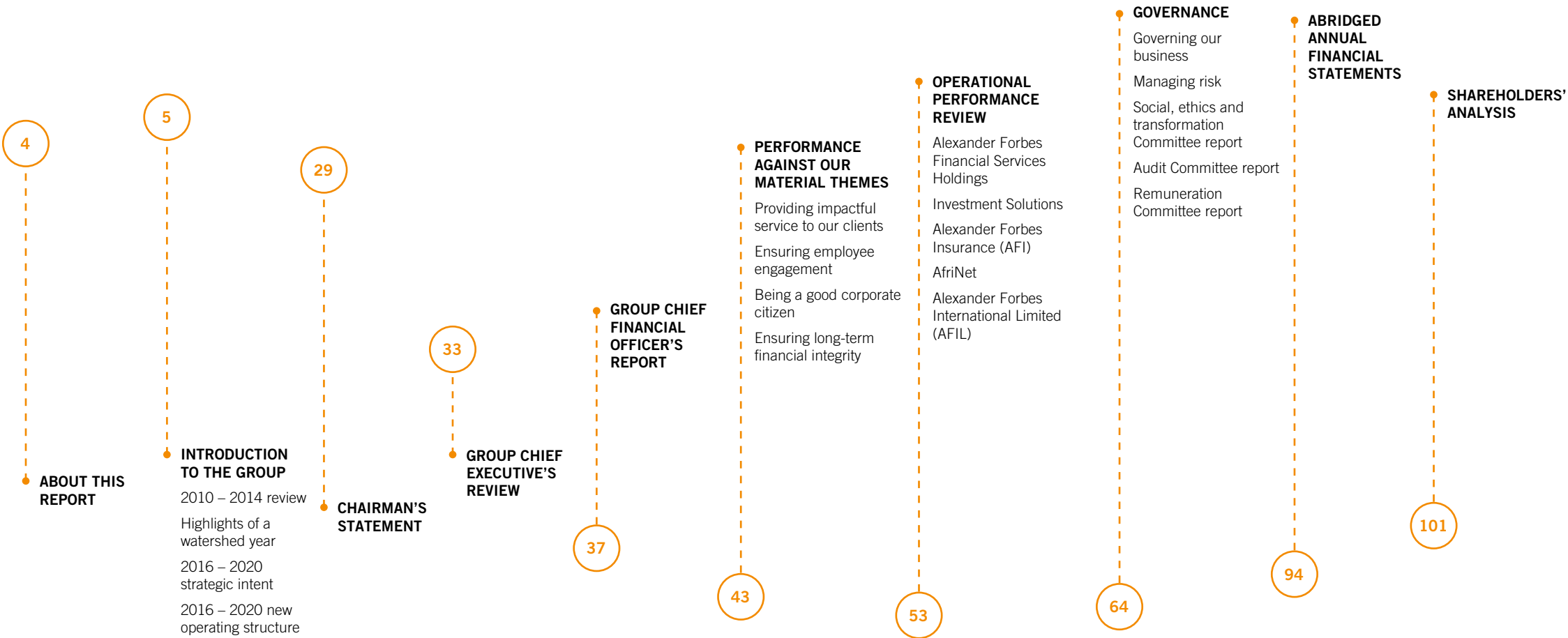
We believe this imprinted drive to innovate and serve – a kind of Alexander Forbes thought leadership DNA, if you will – has made Alexander Forbes the client-centred financial force it is today, serving institutional and individual clients, employing 4 111 colleagues, turning over R7.2 billion.

But what has brought it here? What has allowed Alexander Forbes to survive the challenges of those eight decades? It is simply this. At each critical point in our country's socio-economic history, the people at Price Forbes and Alexander Forbes stood back, paused and then made an innovative call on what needed to be done to take the company forward. In doing so, they created milestones that plot a path forward from the past to a future of great potential. And we believe this year's annual report should celebrate that path – that DNA.

Those milestones have included the creation of new financial products (such as cell-captive insurance) and new financial services platforms (such as multi-carrier life schemes). Other innovations include our new, state-of-the-art, sustainable home at 115 West Street. Another milestone was listing on the JSE to bolster our future strategies. There are many more examples of such intrepid and innovative forward thinking – milestones that we should commemorate.

That thought leadership DNA continues to this day. It is what ensures that our clients' lives are positively impacted by the service we provide... that their peace of mind and financial well-being is secured, now and into the future. That is what we do; it is what we have always done; and it is what we will continue to do to make our company great for another 80 years...

CONTENTS



4	ABOUT THIS REPORT	
5	INTRODUCTION TO THE GROUP 2010 – 2014 review Highlights of a watershed year 2016 – 2020 strategic intent 2016 – 2020 new operating structure	
29	CHAIRMAN'S STATEMENT	
33	GROUP CHIEF EXECUTIVE'S REVIEW	
37	GROUP CHIEF FINANCIAL OFFICER'S REPORT	
43	PERFORMANCE AGAINST OUR MATERIAL THEMES Providing impactful service to our clients Ensuring employee engagement Being a good corporate citizen Ensuring long-term financial integrity	
53	OPERATIONAL PERFORMANCE REVIEW Alexander Forbes Financial Services Holdings Investment Solutions Alexander Forbes Insurance (AFI) AfriNet Alexander Forbes International Limited (AFIL)	
64	GOVERNANCE Governing our business Managing risk Social, ethics and transformation Committee report Audit Committee report Remuneration Committee report	
94	ABRIDGED ANNUAL FINANCIAL STATEMENTS	
101	SHAREHOLDERS' ANALYSIS	

ABOUT THIS REPORT

OUR INTEGRATED REPORT

This integrated annual report – our fifth since we embarked on the integrated reporting journey in 2011 – intends to convey relevant information about our business to all stakeholders, primarily our providers of financial capital.

As we continue our integrated reporting journey, we aim to disclose further information about how our business creates financial and non-financial value and its ability to create such value, both in the present and future, is shaped and influenced by its external environment, relationships and its most key material themes.

SCOPE

This report covers the Alexander Forbes Group Holdings financial year from 1 April 2014 to 31 March 2015. Its contents pertain to the operations of Alexander Forbes Group Holdings Limited (AFGH), previously Alexander Forbes Equity Holdings Proprietary Limited (AFEH). During the reporting year, the group was listed on the Johannesburg Stock Exchange (JSE) as AFH. Our listing further strengthens our drive to increase transparency and the quality and reliability of our integrated reporting.

The figures contained in this report reflect the performance of the group's continuing operations. The UK-based Trustee Services business, which was discontinued in the prior year, was disposed of in the first quarter of the year reported. LCP Europe continues to be held in discontinuance and is expected to be disposed of in the 2015/16 financial year. In March 2015 the board of directors approved a management proposal to dispose of the Alexander Forbes Compensation Technologies business. For the purposes of financial reporting, the results of this business are now classified as discontinued operations until the date of its disposal.

This report includes the abridged financial statements for AFGH. The full financial statements are available online at www.alexanderforbes.co.za. Non-financial information additional to that contained in this printed report is

also available online. This information includes an explanation of our determination and prioritisation of our most material issues and their presentation as material themes against which we report.

At the time of publishing our preliminary results, we also made available a presentation which is used in our discussions with investors and analysts. The presentation material and a webcast of the presentation are available in our website.

REPORTING PRINCIPLES

The principles of the King Report on Governance for South Africa 2009 (King III) provide valuable direction for our operations and reporting thereof. This report has been compiled in accordance with the International 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 and the Companies Act of South Africa 2008.

FORWARD-LOOKING STATEMENTS

Certain statements and opinions expressed in this document may constitute forward-looking statements which involve known and unknown risks and other uncertainties. Stakeholders should not place undue reliance on these statements and opinions as risks and uncertainties may mean that actual results and outcomes differ materially from those expressed or implied in such forward-looking statements and opinions.

The company does not undertake to publicly update any revisions to these forward-looking statements or opinions to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events.

In particular, we communicate a high level five year ambition statement. These ambition statements inform our general planning framework and we use this as a reference target within the organisation and should in no way be viewed as a forecast.

ASSURANCE

This summarised report is extracted from audited information, but is not itself audited. The annual financial statements were audited by PricewaterhouseCoopers Inc., 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 for inspection at the company's registered office.

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

APPROVAL

Having reviewed the draft document, the board of directors and Audit Committee has mandated a sub-committee to review and approve for release the 2014/15 integrated annual report. Accordingly, the sub-committee has reviewed and approved this report based on management's assurance.

CONTACT US

We welcome and appreciate your feedback. Please email your comments to investorrelations@forbes.co.za.

We have recently appointed a dedicated investor relations manager Mrs. Marinda Dippenaar.

INTRODUCTION TO THE GROUP

HIGHER PURPOSE – WHY WE EXIST

Alexander Forbes defines its higher purpose and reason for existence as helping individuals attain peace of mind by securing their financial well-being now and in the future.

The 80-year-old group, which is listed on the Johannesburg Stock Exchange and headquartered in South Africa, employs 4 111 people in 12 countries, all of whom are dedicated to delivering outstanding employee benefits solutions and administrative services for institutional clients and to securing the financial well-being of individual clients.

Alexander Forbes Financial Services (AFFS) administers funds entrusted to it by institutions, which funds are, in turn, invested to secure the post-retirement prosperity of individual members.

At 31 March 2015, AFFS administered 328 standalone retirement funds and 1 144 corporate clients within the Alexander Forbes umbrella retirement fund. These funds combined amount to 1 018 044 members under administration and R382 billion in retirement savings in South Africa.

As well as ensuring the safe, efficient administration of clients' funds, AFFS derives income from giving expert consulting and actuarial advice, advising clients on healthcare issues and on how best to manage multi-manager pension funds. AFFS also advises individual clients on their financial well-being including financial planning, investment advice and offers individual and group life insurance products.

Investment Solutions is southern Africa's largest multi-manager, with R322 billion in funds under administration, of which Investment Solutions managed R265 billion at the end of the 2014/15 year. Retail (individual) clients account for 15% of the funds Investment Solutions manages.

Alexander Forbes Insurance offers short-term insurance cover to individuals and small and medium enterprises, and insurance administration services to corporates.

AfriNet offers institutional and retail services in six African countries outside of South Africa. Alexander Forbes International houses the group's 60% interest in the LCP actuarial consulting business, which provides pension, employee benefits and investment consulting to clients in the UK and, through affiliates, in four other countries.

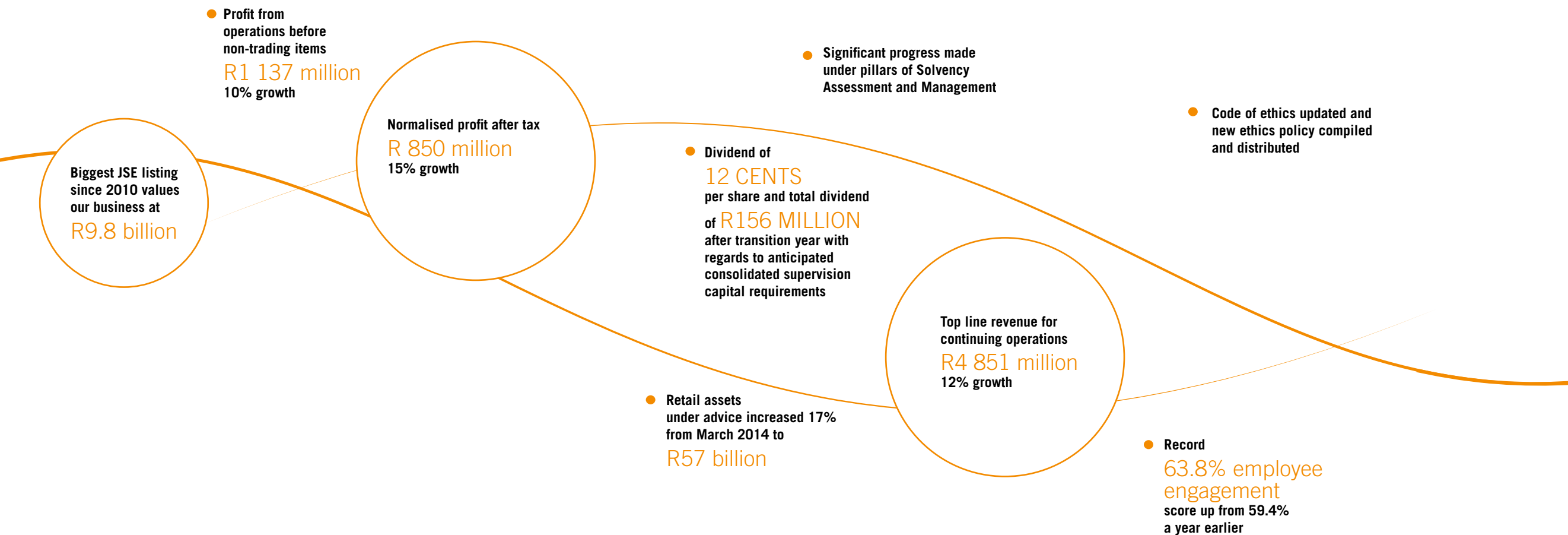
In line with the Group's Statement of Strategic Intent 2016 – 2020, it has, effective 1 April 2015, created a new reporting structure to reflect a more explicit institutional and individual client focus as well as supporting it to delivery its key strategic themes. These structures include:

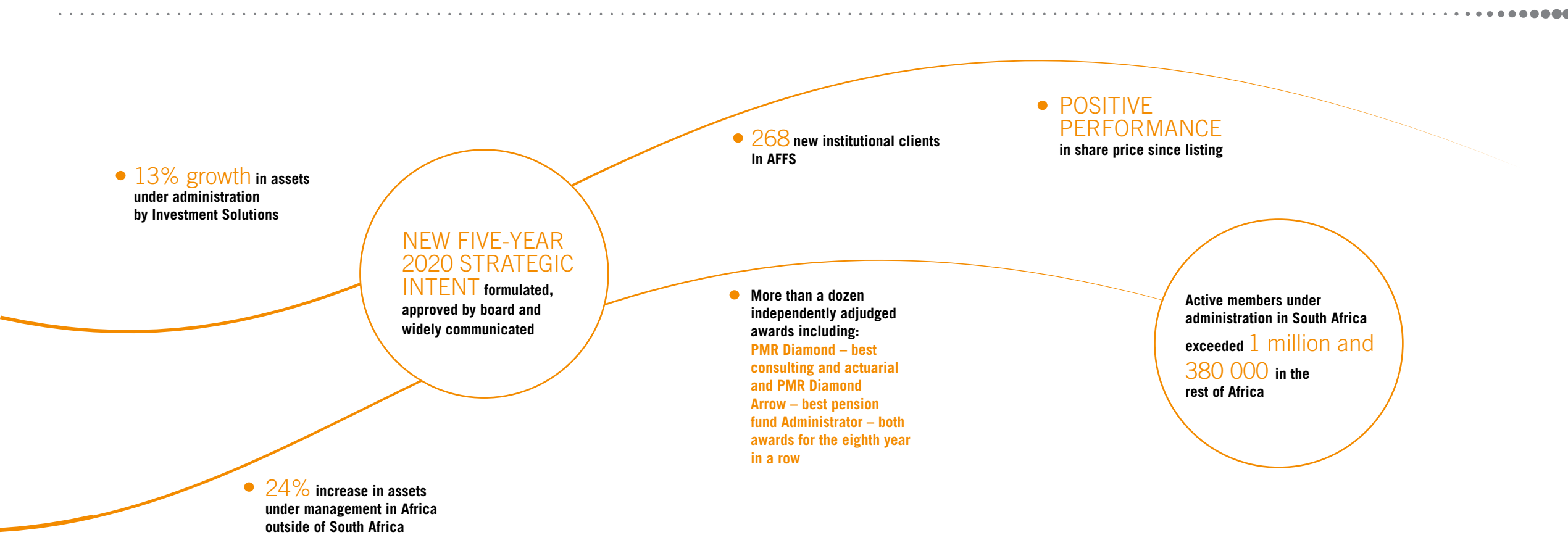
- A core, Institutional cluster (primarily the corporate businesses within AFFS and Investment Solutions)
- A Retail cluster (AFI and the retail businesses of AFFS and Investment Solutions)
- An Operations, Systems and Technology cluster that establishes a single point, group-wide accountability for operational excellence, technology enablement and efficiency
- A Shared Services cluster to improve the efficacy of group services
- The AfriNet and International businesses continue unchanged both in structure and strategy.

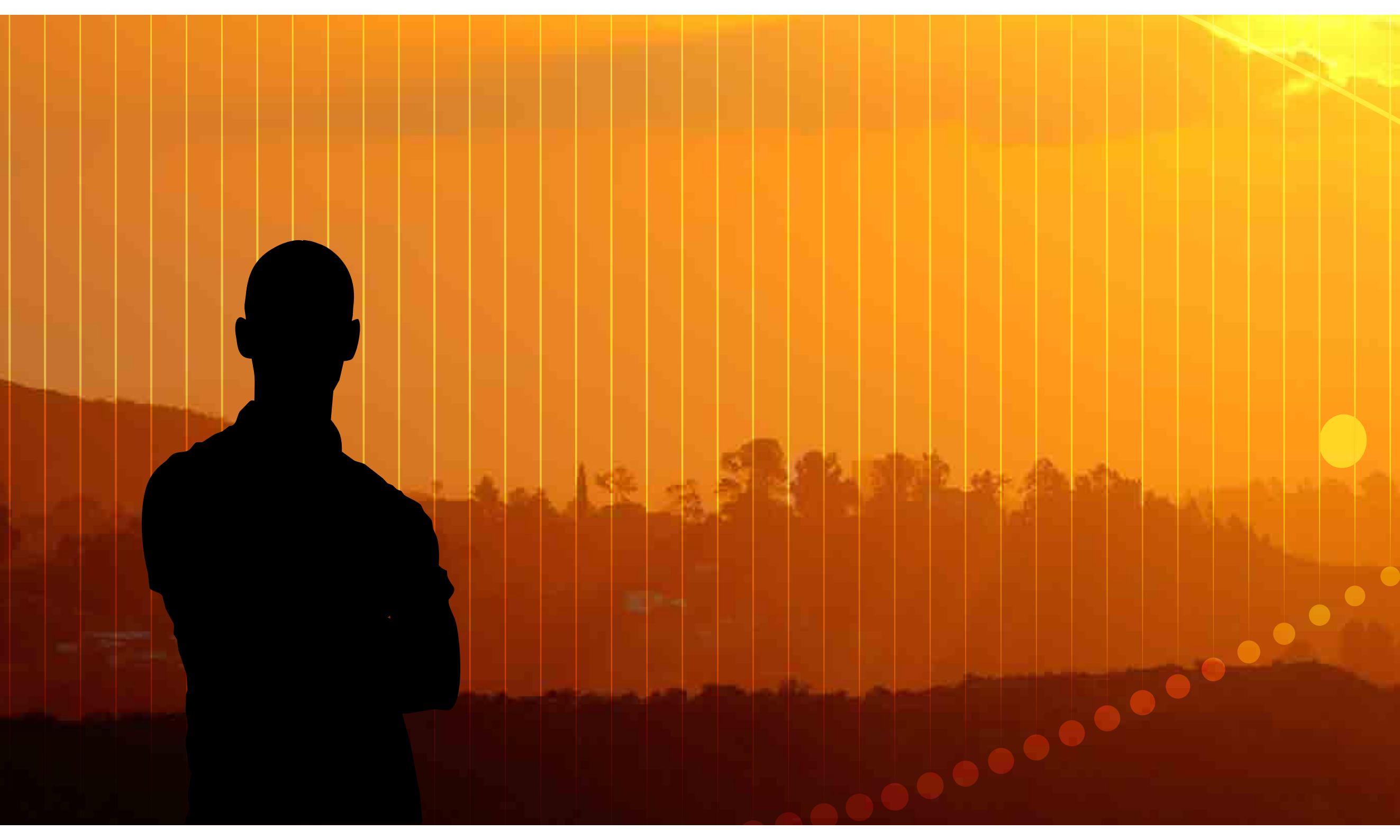
ALEXANDER FORBES'S KEY STRENGTHS

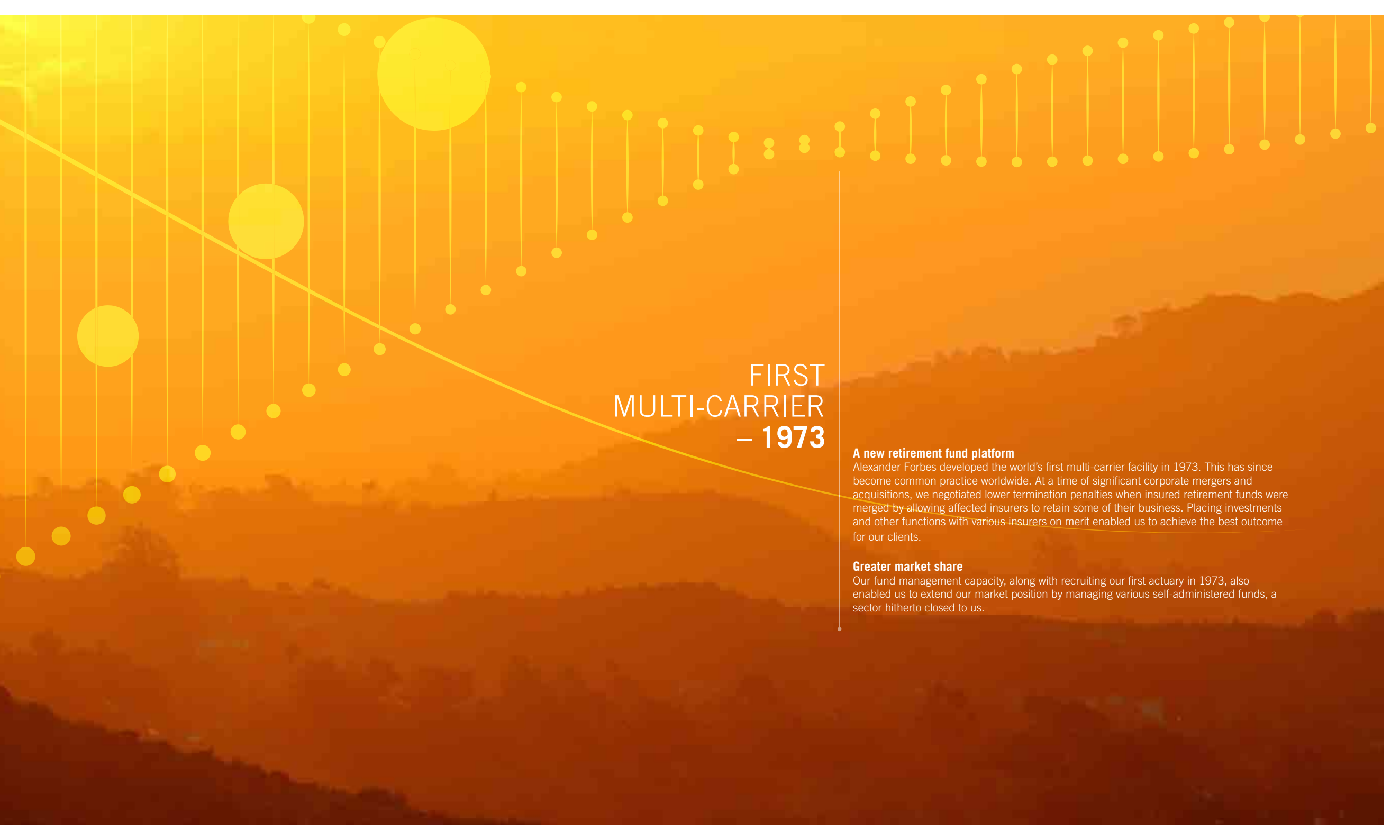
- Market leader in institutional employee benefits and multi-manager investments in South Africa and other sub-Saharan African countries
- Institutional integrity with a high-performance culture
- Well positioned to respond to changing industry and regulatory dynamics
- Successful track record of organically developing new businesses and creating shareholder value
- Holistic offering across the value chain
- Deep understanding of the retail (individual) member base
- Leading (and scalable) multi-management platform
- Long-standing institutional client relationships with high market shares
- Predictable revenue base and cash-generative model
- Capital-efficient business model
- Continuous investment into systems and core infrastructure
- Stable and experienced management team.

HIGHLIGHTS OF A WATERSHED YEAR







An abstract graphic featuring a series of yellow circles of varying sizes, some connected by thin vertical lines, and a diagonal line crossing the frame. The background is a warm orange gradient with a faint, dark silhouette of a mountain range at the bottom.

FIRST MULTI-CARRIER – 1973

A new retirement fund platform

Alexander Forbes developed the world's first multi-carrier facility in 1973. This has since become common practice worldwide. At a time of significant corporate mergers and acquisitions, we negotiated lower termination penalties when insured retirement funds were merged by allowing affected insurers to retain some of their business. Placing investments and other functions with various insurers on merit enabled us to achieve the best outcome for our clients.

Greater market share

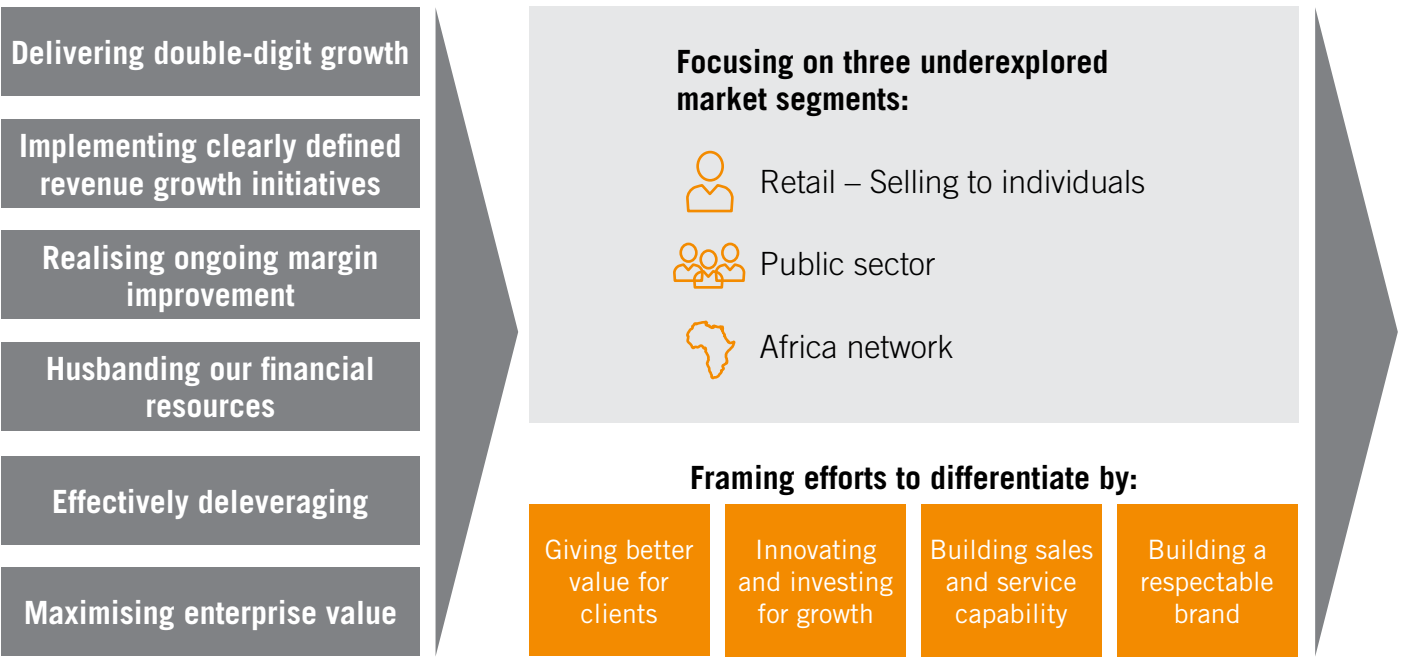
Our fund management capacity, along with recruiting our first actuary in 1973, also enabled us to extend our market position by managing various self-administered funds, a sector hitherto closed to us.

OUR PERFORMANCE

2010 – 2015
WHAT DID WE ACHIEVE?

The 2014/15 financial year marked the end of a historic five-year stage in Alexander Forbes’s journey as a Private Equity controlled entity. As we embark with confidence on our new five-year period as a publicly listed company, we look back – and measure – how we performed against our six stated strategic objectives from 2010 to 2015.

In 2010 we committed ourselves to six strategic themes:

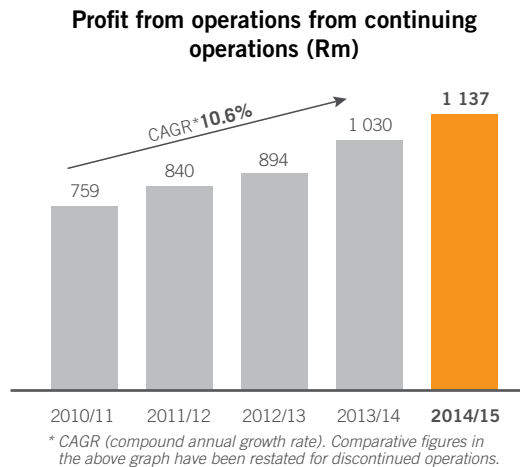
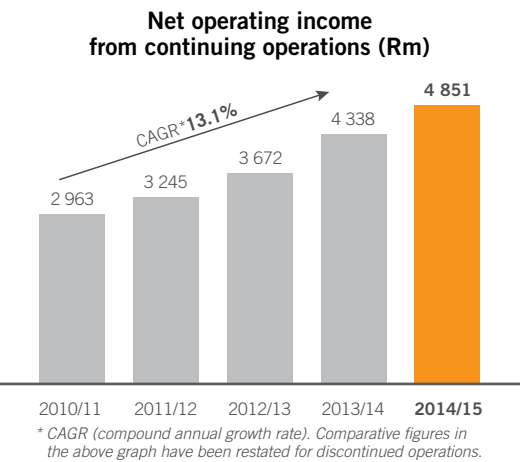


Between 2010 and 2015 we:



Achieved double-digit growth

Between 2010/11 and 2014/15 we grew group net operating income from continuing operations by **13.1% CAGR**



✓ Implemented clearly defined revenue growth initiatives

We explain how we performed on our strategy to grow three underexplored market segments on page 10 and 11 – **retail, the public sector and Africa outside of South Africa.**

✓ Realised ongoing margin improvement

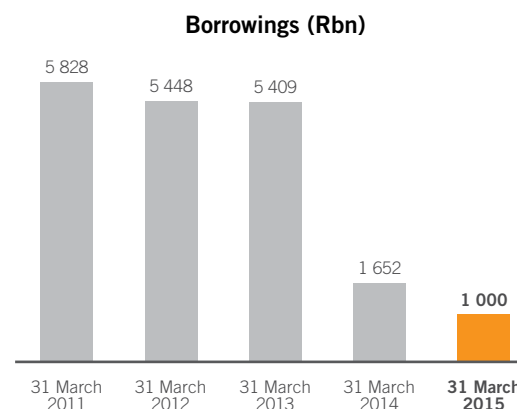
During the Private Equity control period of seven years we disposed of 35% of our revenue-earning assets – mainly lower-margin businesses which were non-core to our business activities – while continuing to grow income and maintain margins.

✓ Husbanding our financial resources

In the period between 2010 and 2015 we focused sharply on historical expenditure at a group and business level. In the process we directed resources towards those elements of our business that were **best equipped to create enhanced, sustainable value for clients, investors and employees.**

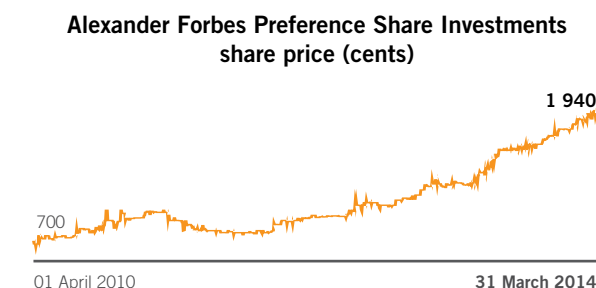
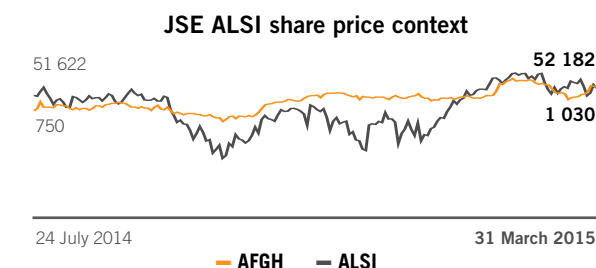
✓ Effectively deleverage

Since 2010, we have deleveraged our balance sheet by recapitalising, reconfiguring and reorganising the business. By substantially reducing our debt, we have created capacity for investment in innovation and growth and positioned the group well for the future regulatory capital requirements.



✓ Maximised enterprise value

Until our JSE listing in July 2014, the performance of the Alexander Forbes preference share could be used to approximate the value of the business. Since listing, shareholder value has increased based on the Alexander Forbes's share price.



OUR PERFORMANCE

Retail



Whereas the group’s various retail businesses traditionally functioned independently, between 2010 and 2015 we began to drive our retail growth strategy with greater focus. While retaining the specialised focus in each of the respective business lines, our retail strategy seeks to use our trusted adviser status to provide clients with a common, holistic client experience to help secure their financial well-being while, at the same time, leveraging the group’s full solution set to provide a more holistic value proposition to clients within our institutional member base.

The success of our retail focus is borne out by these key performance indicators:

	31 March 2015	31 March 2014	31 March 2013	31 March 2012
Net operating income (Rm)*	1 061	948	847	756
Number of FPC clients ('000)	44.1	41.0	38.4	36.0
Assets under advice (Rbn) Financial Planning Consultants (FPC)	56.9	48.5	40.3	32.7
Assets under administration (Rbn) AFICA*	43.3	37.9	32.5	26.6
Assets under management*	46.8	40.9	34.9	29.7
Gross written premium short-term insurance (Rm)	1 297	1 198	1 059	926

** Numbers presented for prior reporting years have been restated for reallocations made in the current year to ensure comparability.*

Public sector



Research – and our own experience – proves that the public sector holds considerable opportunity for us to grow our institutional and retail offering. During the period under review, the public sector division has increased efforts to communicate Alexander Forbes’s holistic value proposition to both new and existing institutional clients. The division identifies opportunities, builds the new business pipeline through opportunities that include tendering, and retains existing public sector clients.

Between 2011/12 and 2014/15 our public sector division performed as follows:

	31 March 2015	31 March 2014	31 March 2013	31 March 2012
Net operating income (Rm)	207	184	151	136
Public sector tender participation (%)	90	74	53	<20
Public sector new clients	38	42	15	–

AfriNet

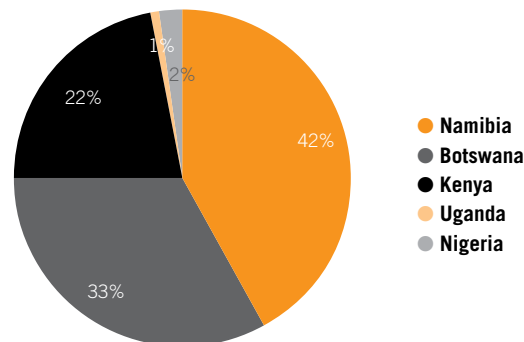


Across sub-Saharan Africa economies are expected to grow at medium to high rates over the medium to long term. Financial markets in most of these countries are still at an early stage of development which, coupled with pension and social security reform, represents a major opportunity for Alexander Forbes to bring its holistic value offering to new markets. In the rest of Africa, we leverage off our institutional experience and expertise while adapting to the unique commercial, social and regulatory environment in each country.

Our AfriNet operation has achieved significant success since 2011/12:

	31 March 2015	31 March 2014	31 March 2013	31 March 2012
Number of members under administration	381 592	351 796	322 128	257 253
Net operating income (Rm)	291	249	202	170

Operating income



Framing efforts to differentiate by:

BUILDING A RESPECTABLE BRAND

Between 2010 and 2015, we succeeded in innovating and investing for growth, building our sales and service capability and enhancing our brand.

BETTER SALES AND SERVICE CAPACITY

Client retention rates for Alexander Forbes Financial Services (AFFS) and Investment Solutions consistently averaged over

98%

INNOVATING AND INVESTING FOR GROWTH

Consistently growing our business between 2010 and 2015, we kept investing to make our business better and to improve our offering to clients.

GIVING BETTER VALUE FOR CLIENTS

Institutional clients valued the quality of our administration, advice, consulting, distribution and implementation services so highly that AFFS counted 70% of the JSE's top 100 companies among its clients; for Investment Solutions the figure was 40%. Year after year, almost

80% of our revenue is recurring.

OUR STRATEGIC INTENT

2016 – 2020 WHAT DO WE WANT TO ACHIEVE?

To ensure that we deliver against our strategy, we employ highly trained people to provide expert and innovative solutions which we deliver with simplicity. We strive to build long-term relationships with clients in the knowledge that we have to earn the value of trust to create a mutually enriching experience.

Alexander Forbes: strategic intent, 2016 to 2020



OUR
AMBITION
2016 to 2020

OUR 2016 – 2020 AMBITION – WHAT IT MEANS

In pursuing our ambition to build a great company with a R2 020 million profit from operations by 2020 we are guided by our **HIGHER PURPOSE**, which informs why we exist.

Our 2016 – 2020 ambition is about creating value for our key stakeholders. As explained in the introduction of this report, it should be noted that this ambition statement should not be viewed as a forecast in any way.

Clients



- We commit to **SERVE** our **CLIENTS** with positive impact and to secure their financial well-being

For the client this means:

See page 43 for more on our material theme, 'Providing impactful service to our clients'

Ownership	Clear timelines	Regular feedback	Suitable solution
I will be heard and my query dealt with	I will be told what will happen and by when	I will receive clear and regular feedback	The solution will be fit for purpose and provide value

Employees



- We seek to create an engaging environment in which all of our **EMPLOYEES** find personal and professional fulfilment

Through our employee engagement approach we strive to ensure that our employees can:

Use their talent to impact positively on people's lives	Do work that they enjoy	Know what success means for them and their team	Get regular and accurate feedback on their performance	Be fairly rewarded and developed
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See page 46 for more on our material theme, 'Creating an engaging employment environment'.

Society



- We aim to have a positive and lasting effect on **SOCIETY**

Through our creation of social value we strive to ensure that we:

Contribute meaningfully towards social protection	Actively practise transformation	Partner with under-privileged and vulnerable communities – for the long haul	Share skills and knowledge and build expertise
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See page 49 for more on our material theme, 'Being a good corporate citizen'.

Investors



- We commit to continually review how we grow our business to create sustainable value for **INVESTORS**

We achieve this by addressing:

Appropriate allocation of resources to realise our strategic intent	Providing services and products that are ethical and impactful	Effective risk management and governance	Being an exemplary corporate citizen and an exceptional employer
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See page 37 for more on our material theme, 'Ensuring long-term financial integrity'.

OUR STRATEGIC INTENT

OUR STRATEGIC INTENT

Our 2015 – 2020 ambition – what it means:

1 Grow our core with fanatical discipline Employee benefits Investment Ambition - 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) Actions - Create a joint Institutional cluster (AFFS and Investment Solutions) to optimally manage the value chain - Reposition the public sector division to report at Institutional cluster level - Campaign to improve client engagement - Develop a sales operating model and dashboard to have more focus and visibility on new business - Focused growth of world-class umbrella funds - Defend our market leadership while exploring new sources of growth	2&3 Leverage the core to grow and develop our complementary businesses Retail Public sector Africa beyond SA Motor and household insurance Life Ambition - Grow the Retail cluster's five-year operating profit by a CAGR of at least 15% pa - Grow AfriNet's five-year profit from operations by a CAGR of at least 20% pa Actions - Formalise the Retail cluster structure - Move towards a single distribution model – initially establishing a joint AFL/AF Life agency force - Institute a worksite campaign to encourage early engagement and financial planning with members in our fund's – to ensure their financial well-being - Expand our AfriNet footprint through acquisitions	4 Strive for excellence Service and operational excellence and technology enablement Ambition - Achieve at least 5% productivity improvement over five years Actions - Establish accountability within the group to drive operations, systems and technology through the Operational cluster - Establish the group Shared services cluster to optimise shared services - Drive strategic and enterprise programmes through an enterprise project management office - Invest in senior leadership - Launch far-reaching campaigns to improve client service - Continue employee engagement and performance management to drive productivity	5 Innovate Create internal capacity to disrupt ourselves through innovation Ambition - Ten betterment innovations and at least one 'disruptive' innovation over the medium term Actions - Step up our company-wide innovation campaign - Include betterment innovation targets in the divisional businesses' key performance indicators and allocate resources to achieve this - Set up a 'disruptive innovation' capacity within the group
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CREATING AND SUSTAINING VALUE

HOW WE CREATE VALUE

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

In pursuit of our higher purpose, the Alexander Forbes group of businesses provides a range of financial services. These include the administration of assets on behalf of institutional clients and the management of funds for such institutional clients as well as for individuals – in South Africa and the rest of Africa.

We provide actuarial services and consulting on employee benefits and investment solutions for institutional clients and the financial wellbeing of its individual clients. The main services provided by the Group include retirement funds and asset consulting, actuarial consulting, investment and administration services, employee risk benefits and healthcare consulting, multi-manager investment and platform solutions, individual financial advice and personal lines insurance.

Inputs:

Financial capital

- Market capitalisation R9.768 billion at listing on 24 July 2014
- Total borrowings R1 billion (-40%) as at 31 March 2015

Our JSE listing on 24 July 2014 was the largest initial public offer in South Africa since 2010. Between March 2011 and March 2015 our total debt reduced from R5.8 billion to just R1 billion through application of operational cash generation, application of disposal proceeds and conversion of debt to equity.

Human capital

- Employees 4 111 (+5%)

Our employees deliver the administration, asset management, short-term insurance and actuarial and consulting services that keep us in business. They utilise and grow the intellectual capital that is at the heart of our value offering to clients.

Social capital

- Institutional clients
- Individual customers
- Trustees
- Regulators
- Employers
- Trade unions
- Government
- Intermediaries
- Underwriters
- Suppliers
- Communities

Clients trust us to administer, manage and grow funds on their behalf while managing their risks. We advise clients on investments and administering funds, on healthcare, death and disability and other employee benefits. Various partners enable us to deliver our services within frameworks and to standards specified and enforced by regulators. As we create value for our shareholders and employees we also create value for suppliers, partners and communities.

Intellectual capital

In 80 years our group has built up a vast store of knowledge, insights and systems which it uses to create value for clients and investors. Our expertise and capability across the various areas in which we operate account for our reputation, brand strength and our ability to offer consistently superior, cost-effective services and expertise.

Outputs:

Financial capital

- Net operating income R4.9 billion (+12%)
- Normalised profit after tax R850 million (+15%)
- Dividends R156 million.

Human capital

- R27 million on training
- Employment equity improvement
- Salaries and benefits R2.6 billion
- 139 internal promotions.

Social capital

- Payments to suppliers R945 million
- CSI investment R4.6 million
- Taxes paid R524 million
- Preferential procurement R1.8 million
- Enterprise development spend R15.7 million.

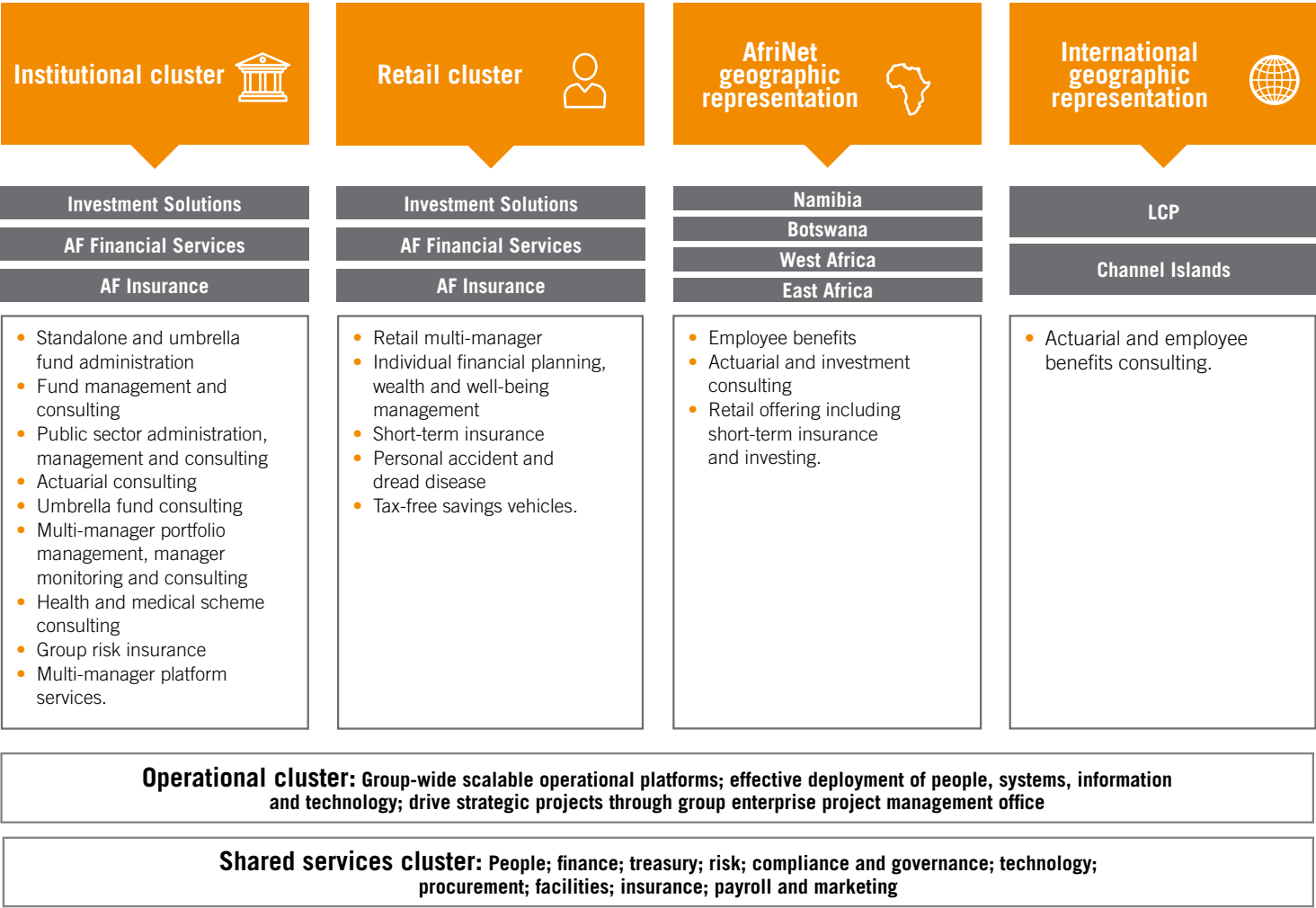
Our broader social outcomes:

- National wealth creation
- Savings for economic growth-enhancing investment
- 21 000 additional members benefiting from Alexander Forbes peace of mind.

Our broader socio-economic context (see page 49) presents us with particular opportunities as well as risks (see page 81) on which we bring our strategic intent to bear, engaging with various stakeholders (see page 90) while being guided by our material themes (see pages 48 to 51).

OUR NEW STRUCTURES

IN APRIL 2015, WE REORGANISED OUR GROUP INTO NEW CLUSTERS TO ALIGN WITH, AND BETTER EXECUTE, OUR STRATEGIC INTENT. WE WILL NOT SUBSTANTIALLY CHANGE WHAT WE DO BUT WE WILL CHANGE HOW WE DO IT. THE NEW CLUSTERS ARE:



OUR NEW STRUCTURES

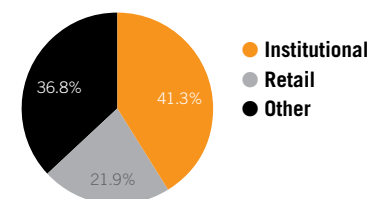
Our new operating structure pertains to our Africa businesses and flows from our 2016 – 2020 strategic intent.

This is how we report our 2014/15 and 2013/14 results under the operating structure prevailing between 2010/11 and the present:

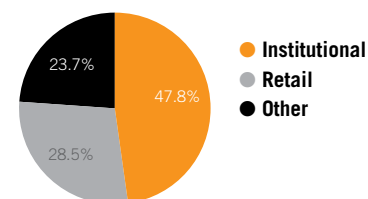
	Operating income			Operating profit		
	31 March 2015	%	31 March 2014	31 March 2015	%	31 March 2014
Financial Services (Rm) •	1 852	9	1700	386	2	377
Investment Solutions (Rm) •	806	12	717	407	13	360
AF Insurance (Rm) •	407	16	350	105	19	88
AfriNet (Rm) •	291	17	249	60	25	48
Total Africa	3 356	11	3 016	958	10	873

The operational reviews have been reported based on the traditional structure, see pages 53 to 62 for divisional reviews. As this structure largely follows the legal or statutory structure of the group, we will continue to provide this view as a supplementary segmental analysis.

Net operation income



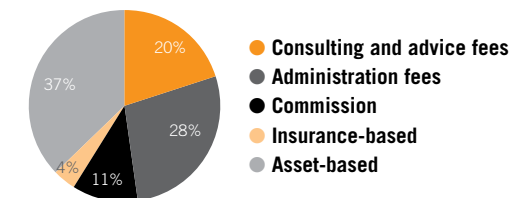
Profit from operations



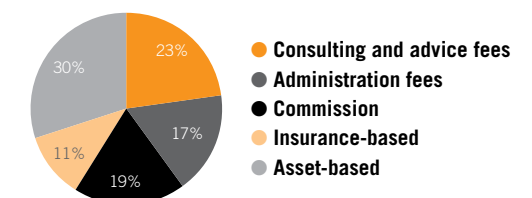
In future we will report in terms of our strategic view:

	Operating income			Operating profit		
	31 March 2015	%	31 March 2014	31 March 2015	%	31 March 2014
INSTITUTIONAL CLUSTER	2 004	10	1 819	563	12	503
Financial Services (Rm) •	1 311	8	1 211	208	6	196
Investment Solutions (Rm) •	680	12	605	353	14	311
AF Insurance (Rm) •	13	333	3	2	100	(4)
RETAIL CLUSTER	1 061	12	948	335	4	322
Financial Services (Rm) •	541	11	489	178	(2)	181
Investment Solutions (Rm) •	126	13	112	54	10	49
AF Insurance (Rm) •	394	14	347	103	12	92
AFRINET •	291	17	249	60	25	48
Total Africa	3 356	11	3 016	958	10	873

2014/15: Institutional revenue by type



2014/15: Retail revenue by type



OUR NEW STRUCTURES

2016 – 2020 OUR NEW STRUCTURES

In April 2015, we reorganised our group into new clusters to align with, and better execute, our strategic intent. We will not substantially change WHAT we do but we will change HOW we do it. The new clusters are:

Institutional cluster

In support of the first pillar of our strategic intent, 'Grow our core with fanatical discipline', the Institutional cluster's purpose will be to:

Better manage the value chain and synergies that exist between our employee benefits capabilities and offerings (Alexander Forbes Financial Services) and those of Investment Solutions and the public sector division; to improve sales and service and research capacities across the institutional offering.

INSTITUTIONAL OPPORTUNITIES AND STRENGTHS THAT OUR STRATEGIC INTENT ADDRESSES:

- Global trend towards integrating funds administration, distribution, consulting and implementation
- Wage and salary increases in our client base above consumer inflation rate
- Anticipated legal reforms to increase fund preservation
- Growing awareness of need for governance and risk management among trustees
- Small percentage of public sector funds under external asset management
- Corporate move from standalone to umbrella funds
- Increasing cost of regulatory compliance resulting in market consolidation
- Public sector liquidity requiring advice and administration

KEY PERFORMANCE INDICATORS

- Member records under administration
- Assets under administration and management
- Client retention and market share
- Investment performance

Retail cluster

To give effect to the second and third pillars of our strategic intent, 'Leverage the core to grow' and 'Develop our complementary businesses', the Retail cluster's purpose will be to:

Leverage our core to grow by creating, growing and preserving financial well-being for retail clients. To offer individuals a single distribution model for life and short-term services and in so doing to develop long-term mutually beneficial relationships with our retail clients.

RETAIL OPPORTUNITIES AND STRENGTHS THAT OUR STRATEGIC INTENT ADDRESSES:

- The move from defined benefit to defined contribution increases individuals' need for additional investment and expert advice
- Individuals' failure to meet net replacement ratio of growing concern to fund trustees
- Greater flow of funds to collective investment than to retirement funds
- Medical inflation heightens the need for detailed long-term post-retirement health planning
- Growth in black middle class accelerating demand for short-term insurance
- Growth in self/part-time/contract employment

KEY PERFORMANCE INDICATORS

- Retail assets under advice administration and management
- Gross written premium (short-term insurance and life)
- Number of clients

AfriNet geographic representation

AfriNet replicates the group's business model in Africa outside of South Africa. This involves offering both institutional and retail services including employee benefits, actuarial and investment consulting and retirement administration for corporate and public sector clients. AfriNet also operates Investment Solutions and AF Insurance business in Namibia.

SUB-SAHARAN OPPORTUNITIES AND GROUP STRENGTHS THAT OUR STRATEGIC INTENT ADDRESSES:

- Stronger economic growth in sub-Saharan Africa than in South Africa
- Rapid urbanisation and growing middle classes
- African retirement funding reform including mandatory contributions

KEY PERFORMANCE INDICATORS

- Retail assets under administration
- Gross written premium
- Members under administration

International geographic representation

Through Alexander Forbes International (AFIL) the group has a 60% ownership of the UK-based LCP consultancy which provides actuarial and consulting services in the UK and, through affiliates, elsewhere in Europe.

UK AND EUROPEAN OPPORTUNITIES AND STRENGTHS THAT OUR STRATEGIC INTENT ADDRESSES:

- Defined benefit schemes still significant in UK, requiring actuarial, investment and administration services
- UK legislation requires all defined benefit employers to fully fund liabilities, spurring demand for expert advice
- Auto-enrolment of all UK workers to be rolled out by 2017

KEY PERFORMANCE INDICATORS

- Actuarial and consulting income
- Retention of client and increase in market share in pensions administration

Support and group leadership

Achievement against pillars four and five of our strategic intent – 'Striving for excellence' and 'Innovate' will be the responsibility of all business units. But these will be supported by our new support and leadership structures which will be specifically tasked with achieving excellence, efficiency and effectiveness, strategic leadership and the fostering of a culture of innovation as well as outstanding strategic leadership and governance.

GROUP CORPORATE CENTRE

Purpose: To drive group strategy, capital raising and resource allocation; to oversee overall governance and compliance while executing responsibility for institutional and leadership development, stakeholder engagement, transformation and reputation management. Led by the group chief executive, the group corporate centre will oversee a new innovation hub which will aim to future-proof the business improving the culture of innovation and seed disruptive innovations.

GROUP OPERATIONS CLUSTER

Purpose: To drive operational excellence, technology enablement and efficiency throughout the group through a single point accountability.

GROUP SHARED SERVICES CLUSTER

Purpose: To enhance the efficiency and effectiveness of group support services including people; finance; treasury; risk; compliance and governance; technology; procurement; facilities; insurance; payroll and marketing.

OUR AWARDS AND RECOGNITION

In 2014/15, Alexander Forbes continued to garner awards and accolades for the excellence of our products and services, and the meaningful contributions we make to the business, lives and well-being of our stakeholders.

PMR diamond award best consulting and actuarial award
Eighth year in a row

PMR diamond award pension fund administrator
Eighth year in a row

Leader in corporate reporting in the financial services sector for the 2014 financial year
Investment Analysts Society

Corporate governance company of the year – Africa 2015
European emerging markets award

Finalist: The AF community trust – socio-economic development category
Annual Oliver empower awards

2014 CFI.co award for best corporate governance
South Africa 2014

Caveo performance fund
Voted best hedge fund of funds

Pensions consultancy of the year – LCP
Pensions Age awards 2015

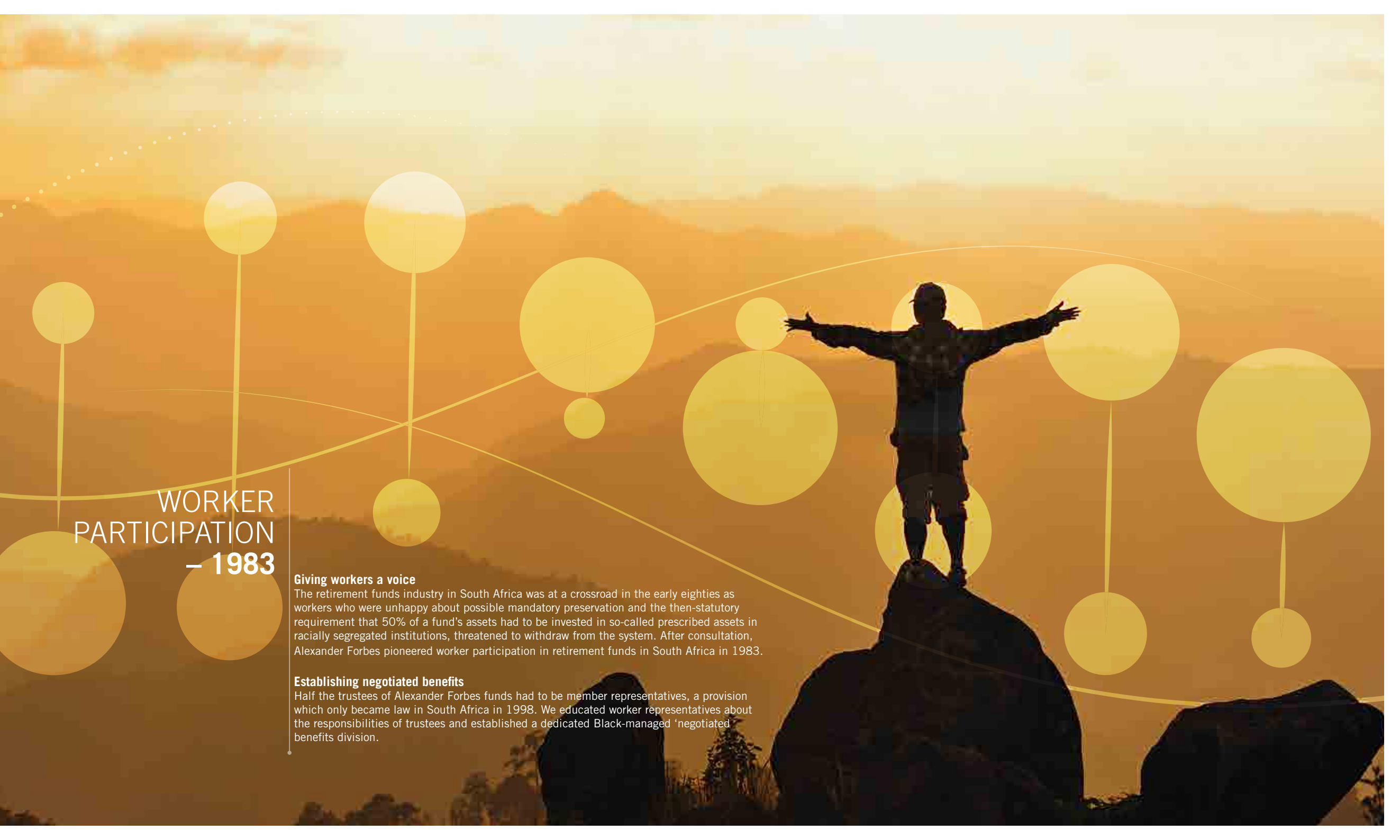
Pensions consultancy of the year – LCP
Irish pension awards 2014

DC consultancy of the year – LCP
Professional pensions UK pension awards 2014

Risk reduction adviser of the year – LCP
Professional pensions UK pension awards 2014

Game changer of the year – group chief executive Edward Kieswetter
ACQ global awards

Chief financial officer of the year – Deon Viljoen
CFO South Africa: 2015 CFO of the year



WORKER PARTICIPATION – 1983

Giving workers a voice

The retirement funds industry in South Africa was at a crossroad in the early eighties as workers who were unhappy about possible mandatory preservation and the then-statutory requirement that 50% of a fund's assets had to be invested in so-called prescribed assets in racially segregated institutions, threatened to withdraw from the system. After consultation, Alexander Forbes pioneered worker participation in retirement funds in South Africa in 1983.

Establishing negotiated benefits

Half the trustees of Alexander Forbes funds had to be member representatives, a provision which only became law in South Africa in 1998. We educated worker representatives about the responsibilities of trustees and established a dedicated Black-managed 'negotiated' benefits division.

OUR OPERATING CONTEXT

THE BROADER SOCIO-ECONOMIC ENVIRONMENT IN WHICH ALEXANDER FORBES OPERATES REMAINED CHALLENGING IN 2014/15

In Q1 2015 the South African economy grew by 1.3% on an annualised, adjusted basis and the formal non-agricultural labour market shed 115 000 jobs while business confidence indices also declined. In 2014 protracted industrial action, combined with a mixed global economic outlook, depressed commodity prices and power supply interruptions all weighed on growth as well as investor sentiment.

Negative real wage growth has a necessarily adverse effect on the employee benefits and investment savings sector and, between December 2013 and December 2014, the number of South Africans in formal employment reduced from just over 9 million to 8.989 million. More positively, however, at 7.6%, average salary and wage increases in 2014 comfortably exceeded consumer price inflation (4% to March 2015).

While inequality and unemployment remain deeply troubling and seemingly structural features of the South African economy, the situation and prospects of those South Africans in formal employment have continued to improve; in the decade since 2004, individuals in the upper 5 to 10 LSM segment grew from under 50% to three-quarters of the population. This trend had a

positive impact on the proportion of the population that is employable and that is likely to participate in savings and insurance. Also encouraging was the fact that in 2014 the number of credit-impaired individuals – at almost 10 million – began to show a slight reduction as lenders adopted more conservative credit policies in the wake of the African Bank crisis.

In 2005 it was authoritatively estimated that almost half of all employed South Africans had no retirement savings arrangements. Added to these numbers would be those individuals who were informally employed but also unable to access adequate income protections. The National Development Plan refers to this social security shortcoming as the ‘retirement savings and risk benefit gap’. The challenge remains as to how to close it – if mandatory contributions are not an option.

South Africans who do have access to structured retirement plans and investments have a high propensity not to preserve their accumulated benefits. This, combined with low participation in such savings mechanisms in the first instance, means that fewer than 10% of South Africans have sufficient funds to maintain their lifestyles after retirement. The policy reform that seeks to address needs to be driven with urgency and wider adoption.

RETIREMENT FUNDS

Faced with sluggish economic growth and flat job creation, the South African retirement fund industry has approached what, at least in the short term, appears to be a state of near maturity. But this appearance masks the reality of a dramatically changing industry.

In the shift from the defined benefit to defined contribution model in funding the most significant change has been the shift in focus from the fund to the individual member. Legislation relating to TCF (Treating Customers Fairly) particularly pertains here. Trustees now need to be far more accountable as to whether outcomes for these individual members adequately and appropriately address their needs.

It has also meant that members now carry the most significant risk of all: their financial planning risk. In the absence of mandatory preservation and annuitisation, this means it will now fall to employers and trustees to help members come to grips with their financial viability.

Competing in this changed environment means several things for the industry. It means that administrators must now be able to provide sophisticated solutions that allow trustees to drill down to member level outcomes. It demands that programmes improving financial capability and decision-making by employees will become an imperative.

At the same time, rising operating costs and increased governance and compliance obligations has meant that many employers have elected to shift their administration from standalone retirement funds to umbrella schemes. As a result, between 2005 and 2013, the number of registered retirement funds decreased by more than half, from 5 855 to 2 271.

While public sector employment has grown to the point that it represents a quarter of formal employment, informed consensus opinion is that the fiscus is today incapable of supporting further growth. The net result of

slowing employment and slower economic growth is that competition for retirement fund assets is at an all-time high, with the majority of new administration and management opportunities coming from funds seeking to switch their administrators and/or managers.

In those sub-Saharan countries in which Alexander Forbes today has an established presence, economic growth is a much more robust 4.5% and individual access to employee benefits including provision for retirement is gaining momentum. This is largely being achieved through legislative action which includes mandating formal employers to provide employee benefits.

MEDICAL SCHEMES

Similar consolidation to that experienced by the retirement fund industry has recently characterised the medical schemes sector where the number of such schemes declined from 144 in 2000 to 87 in 2013.

Medical inflation remains a critical factor for the industry, particularly as few employers continue to contribute to post-retirement medical costs. Of all the financial planning burdens an individual needs to shoulder post-retirement, this remains one of the most challenging.

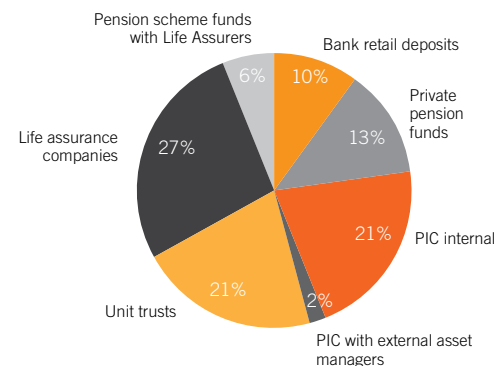
A Competition Commission investigation into private healthcare, which could have important implications for the pricing of healthcare in South Africa, commenced in 2014. Ultimately however, the future of the medical scheme industry will remain in question until deliberations on the final form of our national health insurance are completed.

MULTI-MANAGER 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 member. This has resulted in a shift away from insurance-based annuities to the kind of market-linked living annuities and savings vehicles provided by collective investment schemes. In the past decade the South African savings pool has grown ahead of GDP with a marked shift of assets from insurance companies to unit trusts. Investment Solutions has been a direct beneficiary of these shifting preferences; between 2011/12 and 2014/15 Investment Solutions' retail assets under management increased from R29.7 billion to R46.8 billion.

The South African Reserve Bank estimated the market for savings and investments at R5 trillion in June 2013. The challenge is how to develop investment solutions that can address hugely variable financial planning needs for these savings. In this respect, the multi-manager investment framework is ideally positioned to address rising demands.

The approximate breakdown of the savings and investment market is illustrated in the chart below:



Source: SA Reserve Bank Quarterly Bulletin Q3 2013

SHORT-TERM INSURANCE

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

The non-life 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 EMPLOYEE BENEFITS OPPORTUNITY

In 2013 Alexander Forbes launched the Benefits Barometer, an annual review of how effectively savings and financial well-being of South Africans was fairing. It pointed out the critical role that employee benefits played in South Africa in providing social protections for South Africans – at least for those South Africans who were employed.

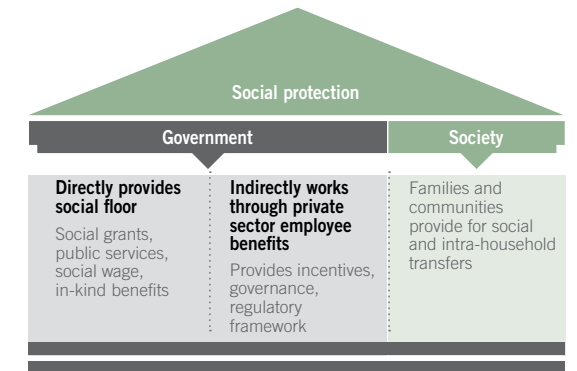
In South Africa, the provision of social protection is multi-faceted and complex, consisting of social grants and free or subsidised state-funded services as well as support and relationships between families and communities. For South Africans in formal employment, however, employee benefits are the primary source of social protection, a critically important part of the social safety net. This social protection for the formally employed underpins the performance of companies and of government, performance which grows the economy while reducing the burden on the tax base, which currently devotes an unsustainable share of resources to social grants.

FIXING A FRAGMENTED SYSTEM

But equally, it is pointed out that, as a whole, the provision of these benefits and protections was fragmented, with key stakeholders – employers, government, the financial services industry and, most importantly, members and their representatives – not working as effectively as possible to deliver the best possible outcomes.

Even at the best contribution levels, provisions hardly get the individual to an acceptable replacement ratio at retirement, implying that most employed individuals today, will be significantly worse off once retired. At the point of resignation, retrenchment or retirement, there is no mandatory default to preserve or annuitise past contributions, further eroding the long-term retirement fund prospect of individuals who often 'cash in' their pension provision to fund much needed current expenditure. In the final analysis our research suggests that the average employee is ill-equipped to make decisions that adequately balance her/his needs and risks over the period of her/his employment. The challenge for many individuals is also balancing current financial needs with providing for future income as well as balancing provision for income and adequate risk protection.

Here is where we need to embark on an expansive collaborative effort between all the stakeholders to ensure that members are indeed delivered the protections they require. More importantly, if we want employees to engage and value these protections, we need to help them address their entire financial journey, not just the end part.



The main pillars of social protection. Reference: Benefits Barometer.

OUR OPERATING CONTEXT *(continued)*



GROWING ROLE OF THE FINANCIAL SERVICES PROVIDER

Financial services companies such as Alexander Forbes are today shouldering a greater responsibility than ever before for the employee benefit outcomes that individuals and society need. With this greater responsibility comes greater opportunity – the opportunity to create real and lasting value.

Our commitment to SERVE our higher purpose requires us to step up our advocacy role and to catalyse a broader, more systematic dialogue.

Alexander Forbes has an 80-year track record, more than 4 000 skilled employees and 1.5 million individual customers who largely entrust their financial well-being to us. We believe that we have the know-how and the systems to help the key intermediaries (employers, trustees and unions, government, regulators and our own industry) to make a broken system work. That is why we invest so much in research and development (our intellectual capital) and in the skills and knowledge of our people (our human capital): so that we can contribute meaningfully towards achieving the real and rapid development of social value that the National Development Plan envisages.

(As much as we seek to create social value for South Africa, the value of our knowledge, insights and experience is increasingly being brought to bear on societies elsewhere in sub-Saharan Africa.)

We will make a difference by continuing to develop and refine our store of intellectual capital and then sharing that store freely with our fellow stakeholders – to work, together, to learn and to improve the core elements of the employee benefits framework: design, implementation and monitoring.

In designing benefits that work we will cooperate closely with employers and trustees to focus on the needs of real individuals, to design defaults that are the best they can be and that bridge the existing gaps between employer policies, legislation and insurance policies.

On implementation we will learn to communicate more effectively, investing the time and effort that it takes to understand individuals' unique circumstances and expectations and at the same time demystifying complex concepts and products so that individuals are empowered to invest wisely and pragmatically in their own financial journeys. But time and effort cost money and we must understand which costs create value – and which costs destroy value.

STRATEGIC INTENT ADDRESSING THE BIG OPPORTUNITY

Our Financial Well-being intervention (see page 55) aims to engage with other stakeholders to bridge the existing gaps in the employee benefits landscape and to begin to work towards a system that works for individuals, that gives them peace of mind.

Our 2016 – 2020 strategic intent (see pages 14 to 21) maps out how we as a business will strive to achieve our ambitions to secure clients' well-being, by constantly engaging with and empowering our people and by having a lasting and positive impact on society. By growing our social impact, by empowering individuals, trustees, management committees and employers, we are confident of growing our business, of creating sustainable value for our investors.

This is the great opportunity we as a business intend to action. This is the context in which we as Alexander Forbes creates value.

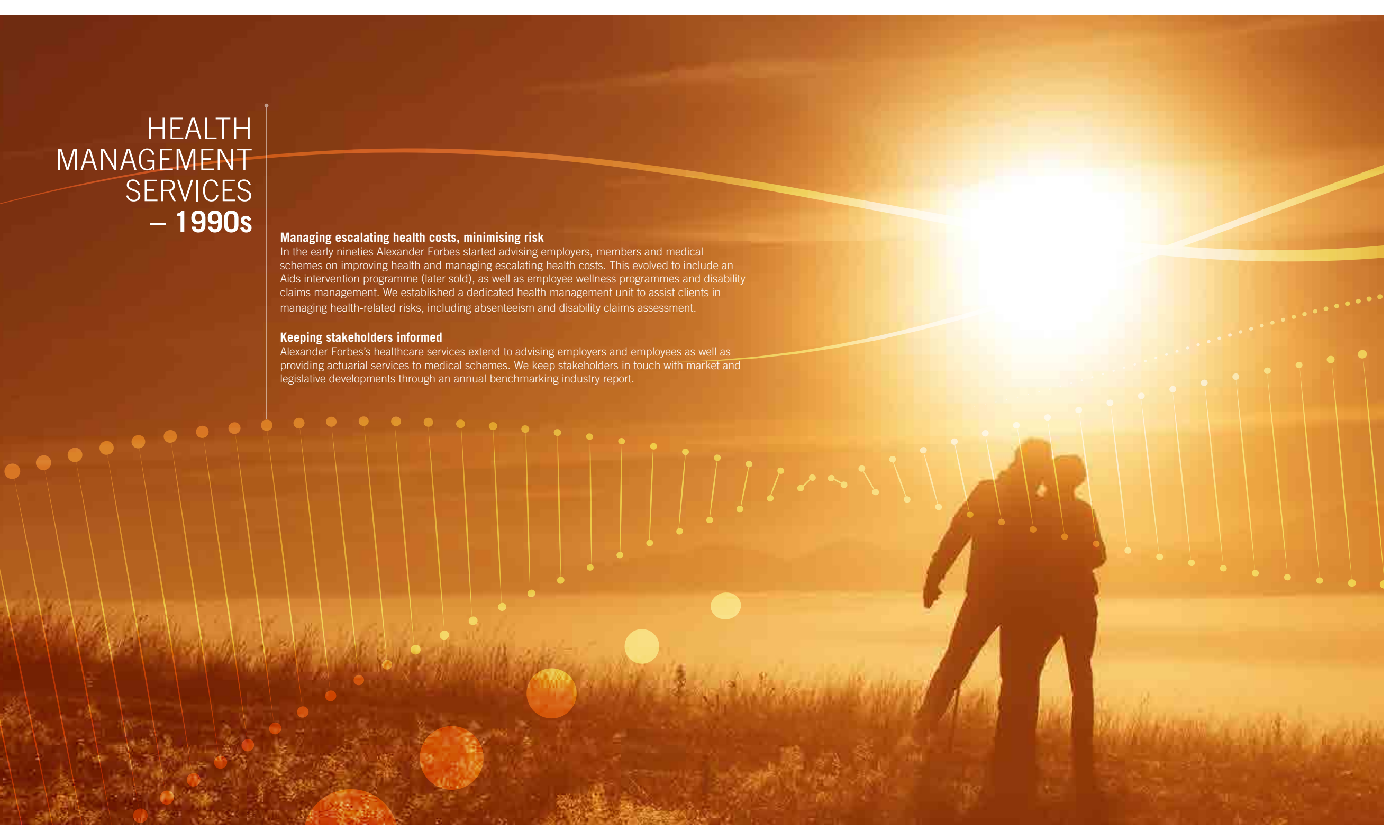
HEALTH MANAGEMENT SERVICES – 1990s

Managing escalating health costs, minimising risk

In the early nineties Alexander Forbes started advising employers, members and medical schemes on improving health and managing escalating health costs. This evolved to include an Aids intervention programme (later sold), as well as employee wellness programmes and disability claims management. We established a dedicated health management unit to assist clients in managing health-related risks, including absenteeism and disability claims assessment.

Keeping stakeholders informed

Alexander Forbes's healthcare services extend to advising employers and employees as well as providing actuarial services to medical schemes. We keep stakeholders in touch with market and legislative developments through an annual benchmarking industry report.





CHAIRMAN'S STATEMENT

ON 1 JULY 2014, IN ANTICIPATION OF OUR LISTING ON THE JSE ON 24 JULY 2014, WHEN OUR GROUP WOULD CEASE TO BELONG TO PRIVATE EQUITY OWNERS, I BECAME THE NON-EXECUTIVE CHAIRMAN OF ALEXANDER FORBES.

On 24 July 2014 the Alexander Forbes group ceased to belong to the private equity consortium and became, instead, a listed member of the JSE. The listing also resulted in Mercer McLelland making a strategic acquisition of 34 percent of the group. With our listing came great excitement at our Sandton head office, and at our offices from Cape Town to Nairobi and London. More importantly, our listing brought with it great opportunities: to sharpen our strategic direction, to reconfigure the group's capital structure and to create greater alignment with our employees.

We report here on our progress as a listed entity and of how we have grasped our new opportunities and executed our responsibilities. In particular we seek, in this report, to explain where we believe the Alexander Forbes journey will take us.

PROGRESSING INTEGRATED THINKING

An important part of our journey is towards greater integrated thinking in how we devise and execute our strategy. Despite not being a publicly listed company for the past seven years, this is our fifth integrated annual report and I trust you will agree that we have come a long way on this particular part of our journey.

Most integrated reports contain sections called, typically, 'Operating Context', sections in which the reporting entity attempts to explain the socioeconomic and market conditions under which it sells its products or services and how the external environment influences its business model and its creation of value. Our report is no different and on pages 24 to 26 you will find just such an Operating Context section. The difference is

that, this year, we set out to share, in greater detail than before, not only the conditions that make it possible for us to stay in business but the conditions that present us with great opportunities to create value – for our clients, our shareholders, our employees and, in a very real sense, for the societies in which we operate.

Our listing unlocked value for our private equity shareholders as well as for our empowerment shareholders who supported the group over several years while making it possible for us to create value for many other stakeholders. One such beneficiary is the Alexander Forbes Community Trust which will, in future, be able to use dividend proceeds to further its critical investment in deserving communities. Listing also made it possible for us to give our employees a stake in their company while sharply reducing our historically large interest expense will mean we are able to allocate more resources to growing our business.

BATTLING ECONOMIC HEADWINDS

It is no secret that the journey of democratic South Africa has recently encountered a number of potholes – poverty, inequality, discord and corruption. Power interruptions and labour upheavals have dented investor confidence and a country that is crying out for quality jobs to be created as quickly as possible is, instead, shedding employment.

South Africa's 'operating context' is also hardly without its own challenges: in China growth is slowing, Europe is battling to stave off the spectre of deflation and recovery in the US is still far from assured. We operate in an environment of many stresses and great uncertainty.

But all is not doom and gloom. While 2014 was, in many respects, a year of many challenges we anticipate at least a slightly improved economic performance in 2015.

Meanwhile many good men and women are working hard to fix the South African highway and to get this country up to speed again. Many of these good men and women are working hard to improve social protection – the safety net that underpins our economy and society. Employee benefits are a vital part of such social protection (as, increasingly, they are in those African markets outside of South Africa in which we operate).

MENDING THE SOCIAL PROTECTION SAFETY NET

One of the engines that South Africa must inevitably turn to propel it forward is the financial services sector – internationally respected for the quality of its service and systems and its accountability. And a vital cog in that engine is Alexander Forbes.

We subscribe wholeheartedly to the National Development Plan and we believe wholeheartedly that it is possible to create a better South Africa in which working communities and families raise their children in security and plenty. To create that wished-for future South Africa we need to make employee benefits work – not for fund managers, administrators and the multitude of intermediaries who are active in this space but for ordinary working South Africans. We need to ensure that their financial needs and those of their families are taken care of before and after retirement; that they have peace of mind, knowing they have made

CHAIRMAN'S STATEMENT *(continued)*

the right choices and investments based on advice that is right, not for people like them but for them specifically.

DELIVERING OUR MISSION

As a group our mission is about giving peace of mind to the more than a million South Africans who put their trust in us. (These South Africans plus, today, 380 000 individuals elsewhere in Africa.) If more than a million South Africans have peace of mind that their financial well-being is being well taken care of by capable, trustworthy professionals, the social value that will be created will be enormous.

Our Strategic Intent, which we explain on pages 14 to 21, is all about attending to an employee benefits system that urgently needs fixing, and about creating wealth and certainty for people in a new era in which the certainty of defined benefits has become the exception rather than the norm.

I am proud to be part of a company that is so acutely attuned not just to its opportunities but also to its responsibilities – towards clients, shareholders, employees and society. A very important part of how we respond to these responsibilities, to the creation of broader social as well as financial value, relates to the very considerable resources we invest in researching and understanding our sector and our social impact. Through initiatives such as Benefits Barometer, Ready Set Retire and Hot Topics, plus innumerable public platforms, we share this tremendous store of intellectual capital whenever and wherever the opportunity presents

itself. I'm proud to report that this year Alexander Forbes Financial Services, in particular, has achieved conspicuous success in disseminating its redoubtable thought leadership far and wide.

In addition to sharing thoughts and insights through the media and on public platforms, we engage, on a daily basis, with partners including government, regulators, institutional clients and trade unions – the good men and women who are as committed as we are to mending our country's social protection potholes.

REFORMING RETIREMENT

In fixing the system, retirement reform is today very much on the South African agenda. Our executives have been involved in discussions with regulators on consolidating pension and provident funds and retirement annuities into a single type of retirement fund with greater tax benefits for contributors. We welcome such moves as we believe they will be good for the employee benefits sector but, most importantly, for the individual members.

Similarly, we enthusiastically endorse proposals to enforce at least partial preservation on the withdrawal of retirement funding. Both of these endeavours will go a long way towards strengthening South Africa's social protection and giving real financial peace of mind to hundreds of thousands of employees. Alexander Forbes is ready, willing and, most importantly, well prepared to help overcome the many obstacles that stand between us and the achievement of a truly effective social protection system.

A theme running throughout this report is our commitment to always serve our customers to the best of our ability, and to do so honestly, openly and fairly, securing their financial well-being. Across all businesses we have engaged with the Financial Services Board's Treating Customers Fairly framework not in a spirit of compliance but one of enthusiasm and a belief that this framework will be good for our customers, our businesses and the whole financial services sector.

I am also pleased to report that we made very substantial progress in implementing the pillars of the Solvency Assessment and Management (SAM) framework and now believe that we will be fully ready for the implementation of this new regulatory regime on 1 January 2016.

CREATING FINANCIAL WELL-BEING

While we research and communicate at every opportunity, the Strategic Intent to which we commit ourselves is about engaging directly with beneficiaries, about putting words into practice and so fixing a broken system, one member at a time. In 2014/15 a great deal of thought, time, effort and financial resources went into preparing our group for the implementation of the Financial Well-being programme. In time, I have no doubt, Financial Well-being will come to be regarded as a watershed development not just for Alexander Forbes but for the financial services sector as a whole, such will be its profoundly positive impact.

Financial Well-being, while conceived and packaged by a leadership team that has been reinvigorated by our group's new status as a public company, will be carried

out by the 4 000 Alexander Forbes foot soldiers, our greatest assets. The board and I have noted with great satisfaction the heightened engagement the company now has with its employees and the overwhelmingly positive way in which our people have rolled up their sleeves in response to their new opportunities and responsibilities. It was therefore a source of great satisfaction that we could announce this year the creation of an employee share ownership plan (ESOP) which will give all employees but especially black women a 2.9% share in the business for which they work every day to create value.

EMPOWERMENT AND TRANSFORMATION

Our ESOP was about building up to meaningful empowerment – as well as about our broad-based black economic empowerment status. Our commitment to transformation remains and will only be strengthened in the new era of our JSE listing.

Although we continued to maintain our Level 2 contributor status, we acknowledge that we still have a great deal of work to do to transform our company. In particular, there are areas of employment equity that need to be addressed and much work needs to be done on developing and empowering black-owned suppliers so that they can become fellow travellers on the exciting journey which our new Strategic Intent maps out for us.

GOVERNANCE AND RISK MANAGEMENT

Alexander Forbes is changing and so is the retirement and investment landscape. A new direction, coupled with the reforms and changes facing our industry, mean considerable opportunities but also substantial risks.

At such times the quality of an organisation's leadership is of the utmost importance and I believe that our stakeholders should be assured that our group's leadership and governance are of the highest order.

At board level, subsequent to our listing, we underwent a partial changing of the guard with the appointment of three new non-executive directors while myself, two executives and four other independent directors and the senior executive leadership ensured, we believe, a considerable measure of continuity.

APPRECIATION

In welcoming Messrs O'Regan, Anderson and Kgosana to our board I commend my fellow directors for consistently displaying an energy that mirrors the zeal now evidenced throughout Alexander Forbes. In particular the board has acted decisively and with great application to strengthen our risk management policies, systems and procedures (as detailed on page 81). As such we embrace the new 2016 – 2020 Strategic Intent with resolve and the greatest confidence.

To our clients and fund members: thank you for your ongoing faith in our business. To our new shareholders I extend a heartfelt welcome and trust that they will enjoy a rewarding and, we hope, long association with Alexander Forbes. It is with great pleasure that we have declared our maiden cash dividend of 12 cents per ordinary share.

In closing I thank my fellow directors for their unflagging support and congratulate Group Chief Executive Edward Kieswetter, Chief Financial Officer Deon Viljoen and the entire executive team on a year of great achievement. Your hard work is noted and appreciated by the board of directors and by all with an interest in Alexander Forbes. Lastly, my thanks and congratulations go to all employees of our group for their engaged commitment to work, every day, to achieve our mission, to create value for all our stakeholders.



Sello Moloko
Chairman

Sandton
30 June 2015



GROUP CHIEF EXECUTIVE'S REVIEW

THE YEAR UNDER REVIEW WAS IN ALMOST ALL RESPECTS A TRULY MOMENTOUS ONE FOR ALEXANDER FORBES, OUR CLIENTS, OUR EMPLOYEES, SHAREHOLDERS AND THE SOCIETY IN WHICH WE OPERATE. WE RETURNED TO THE JSE A COMPANY WITH DEEP INSTITUTIONAL AND FINANCIAL INTEGRITY.

A WATERSHED YEAR

In July 2014, we successfully returned to the Johannesburg Stock Exchange after an absence of seven years, our listing valuing the business at almost R10 billion. The overwhelming support received from a wide range of investors, including our cornerstone shareholder, Mercer, was not only gratifying in the extreme, but the most significant vote of confidence in our company, its leadership and professional competence – the positive performance of our share since, as well as our maiden dividend payment has been a solid reward for the belief shown in our group.

Our 2014/15 results marked a watershed year in the group's transition from being a privately controlled company to one that is proudly listed on the JSE. These results reveal a focused core group of companies executing a clear strategic intent of delivering excellent financial services to growing markets in South Africa, the rest of Africa and the United Kingdom.

Top-line revenue from continuing operations in 2014/15 reflects an overall 12% growth; our various retail and public sector offerings growing their business by the same percentage and our institutional business increasing operating profit also by 12%, a most commendable performance given the many headwinds faced during the year. Elsewhere, our AfriNet division posted a 17% growth in net operating income and our International operation cemented and grew its position in a very competitive market. Our institutional core is sometimes considered by market commentators as 'mature' but it is noteworthy that this same core secured R9.9 billion in AUM and AUA in new business and 268 brand new clients.

INVESTING FOR GROWTH

We continued this year to husband our resources, our overall costs increasing by 12.3%. This was an order of increase which would have been substantially lower were it not for once-off costs and investments into our three growth strategies as well as the rising cost of staying in business (including compliance costs which this year rose by 35% and a four-year compound growth of over 30%). Other significant investments were made in our IT infrastructure; in modernising and significantly improving our systems and the value they create to underpin our growth. We have also fully absorbed the dissynergy effect of selling of large divisions as we refined our core group.

In addition, in response to client feedback, we invested in our AFICA platform. The investment into our platform for individual member administration has immediately borne fruit through higher retention and flows, growing by 17% in the past year. This state-of-the-art user-friendly platform that improves value to our individual clients. Also, we invested extensively in developing Alexander Forbes Life's retail skills and the team at FPC to upsell our new retail proposition. Regrettably, amounts invested in Alexander Forbes Compensation Technologies (AFCT) and in healthcare did not realise the anticipated increase in new business due to a change in a major client's business. The public sector generally failed to meet targets, new deals taking longer than anticipated to come to fruition and being of a smaller size than had previously been the case. Nevertheless, we remain optimistic that the public sector will be a substantial area of growth in future.

This was an unusual year, one which, in addition to conscious investment choices, was characterised by a significantly restructured balance sheet, costs relating to

the listing, the crystallisation of a seven-year management share trust as well as a new long-term incentive plan for key executives. The detailed CFO's report (pages 37 to 41) provides clarity on what factors should be considered to obtain, from our income statement, a more normalised view of our profits before and after tax. Notwithstanding these caveats, at R1 137 million, our profit from group operations was up 10% on the previous year, our overall financial performance reflecting a year of solid achievement.

GROWING SUSTAINABLY

In 2014/15, we posted solid financial results in an environment that was scarcely conducive for growth. Competition in our sector has increased sharply and our achievement in growing market share – among institutions, among individual investors, in short-term insurance and in the rest of Africa – should not be underestimated.

However, what particularly pleases me, even more than the top-line performance indicators, are the underlying numbers that point to the progress we continue to make – and which tell about the sustainability of our revenues. These achievements include: on retail: assets under advisement by FPC up by 17% to R56.3 billion; assets under administration up by 14% and assets under management up by 14.5%.

We achieved solid growth while retaining exceptional client loyalty, institutional client retention rates of almost 100% being of the utmost importance to our sustainability. And we succeeded in retaining the critical skills which create value for our investors and our clients, and for which there is, understandably, a very considerable demand.

GROUP CHIEF EXECUTIVE'S REVIEW *(continued)*

Our South African Institutional business passed the one-million-individual-member mark and ended the year on 1 021 000. Elsewhere in Africa, today we have almost 400 000 members. This was no mean achievement, achieved by not only doing what we do best but by doing it better.

In 2014/15, as we celebrated our new status as a publicly listed company, we marked the end of a remarkable five years of growth and achievement – and we set ourselves confidently on an even bolder new course towards building a great company by 2020.

KEEPING OUR PROMISES

Elsewhere in this report, we detail just how we have performed on the promises we made back in 2010. To briefly recap: in 2010 we promised to build on our proud, then 75-year, heritage by building a bigger, more valuable enterprise. The value placed on Alexander Forbes on 24 July 2014 and by subsequent market appreciation proves that we have achieved this objective.

We promised back in 2010 double-digit annual growth in net operating income from continuing operations. In 2014/15, we achieved net operating income of R4.9 billion – a compound annual growth rate of 10.4% since 2010 (This was despite us selling non-core businesses that, in 2010, had accounted for more than a third of our net revenue).

Thirdly, we undertook to carefully and judiciously husband our financial resources. We succeeded on this score as well. While we deleveraged (another of our

2010 promises), we relentlessly kept investing in our ability to create sustainable value for all of our stakeholders. At the same time as growing value for our private equity owners, we systematically allocated resources to enhance the skills and strengths of our people, our brand, our systems, our products and, most importantly, our clients.

Whereas 2014/15 has been described as a year in transition for Alexander Forbes, it has been anything but a 'gap year' for the group. A great deal of work was done, in a very short space of time, on preparing for our listing while at the same time we redoubled our efforts to entrench and accelerate our three growth strategies: retail, Africa beyond the Limpopo and the public sector.

We worked extremely hard to achieve growth in these key target markets just as we worked with fanatical discipline to safeguard and grow our core business – the institutional clients who trust us, day in and day out, to do our utmost for their individual members' peace of mind and to secure their financial well-being. This is the restated higher purpose to which we are committed and which will always remain a critical part of our new strategic intent.

CHALLENGING TIMES

The external environment which our industry requires if it is to achieve solid growth, consists of a positive equity market, a stable, expanding economic environment and a growing labour force. Not all these factors have worked in our favour in the past year, requiring unprecedented

resolve and innovative approaches to deliver on our double-digit growth commitment, without compromising our long-term vision to create a great company.

We (and our clients) have gained from the South African bull market which has trended for the past six years but, as the chairman makes clear in his message, other factors largely beyond our control have been less favourable. Specifically, the labour market has been flat and even contracting and the disposable income of the formally employed minority has been squeezed and drained on many fronts. That we have gained market share under such formidably challenging conditions speaks to the wisdom of the investments we keep making in our strengths, in our reputation and in our employees.

PROVIDING SERVICES WITH REAL IMPACT

As much as we created value for shareholders this year we kept our promises to our clients; in the second half of the year 71% of Investment Solutions' funds performed ahead of benchmark and our performance on assets under management was generally very satisfactory.

Most pleasingly, customer satisfaction rates continued to improve. Receiving prestigious accolades such as the PMR diamond arrow award for the best consulting and actuarial business and the highest rated pension fund administrator award, both for the eighth consecutive year, speaks to our commitment to being the very best at what we do best. Awards and customer service scores are important measures of our success – they tell us

how embedded is our culture of always treating the customer fairly and of consistently serving them with positive impact. I believe I can confidently say that in the year reviewed we further entrenched our SERVE culture across Alexander Forbes.

This year we invested large sums in improving our core offering to both institutional and retail customers, in developing and marketing exceptional new value propositions. We invested similarly large amounts of money, time and effort in improving our IT platforms and in a new employee value proposition. In the immediate future we intend working harder than ever to build our brand and to communicate our key strengths and the impact our services can have as well as deepening our investment into reaching our target markets with our extended value proposition and refreshed IT platforms.

A NEW STRATEGIC INTENT

After a year of sustained improvement and growth, in April 2015 we embarked on a new five-year strategic course, one that renews our commitment to our SERVE ethos and to our higher purpose. This new course will enable Alexander Forbes to exploit its tremendous potential and its many strengths, to become a truly great company by 2020. Our ambition statement is to be a company producing an annual operating profit of R2 020 million and one that creates value for each of its key stakeholder groups – clients, employees, society and investors.

The more we achieve well-being for our employees the better equipped they will be to achieve financial well-being for their clients and members. Well-being for

our clients, in turn, will translate into greater financial well-being for investors which, as we have seen this year, allows us to increase the positive contribution we make towards society. To give concrete expression to this ambition by early 2015 we had identified and trained 22 financial well-being consultants, a new breed of all-round experts whose work will support our quest to move beyond products to providing meaningful financial wellness. We also prepared to roll out an extensive well-being in the workplace programme, to make sure that our people enjoy the kind of financial peace of mind we seek to give our clients and members.

Our new five-year strategic intent (which we unpack on pages 14 to 21) is being implemented in an environment of exponential, unprecedented and often quite daunting change. In 2014/15, we laid the basis for a culture of high innovation where our aim is to seek ongoing opportunities for incremental improvement whilst future-proofing ourselves to leapfrog towards a more robust and competitive business model.

Our group-wide innovation campaign this past year yielded an extremely positive response. Some 573 ideas were submitted to our new innovation hub and 16 business cases received by divisional executive committees. By year end five innovations had been implemented and 12 robust business cases pitched at our first ever 'Innovation Den' held in May 2015. In the new year I intend spending a significant amount of time personally heading up our new drive to innovate, disrupt and to reinvent ourselves.

A NEW STRATEGICALLY ALIGNED STRUCTURE

We believe that structure follows strategy and so, following the board's endorsement of our new strategic intent in February 2015, we restructured our business along cluster lines to better support the realisation of our ambition to create a truly great company by 2020.

We have been in the fortunate position of retaining a highly skilled, experienced and stable leadership core which is, as I write, working to realise the new future of Alexander Forbes.

Our clusters (see pages 20 and 21) give expression to our strategic intent. They also speak to our key strengths and will translate into more optimal use of operations and resources which, traditionally, have been silo'd. This, we have no doubt, will mean better cost control – a more focused, more fit-for-purpose Alexander Forbes.

In driving our new strategic direction, we seek to exploit opportunities and to embrace a number of key challenges. These challenges include hiring, retaining and engaging excellent people and constantly enhancing our business model to give a client experience that is engaging, effortless, consistent, remarkable and rewarding.

We will work hard to maximise technology to remain agile and to be able to seamlessly manage an influx of new clients (particularly individuals) and seek higher levels of operational gearing. The quality of our leadership will be tested by the extent to which we bring fanatical discipline to bear on executing our strategic intent and engender productive paranoia that ensures we plan effectively for the future – all while practising empirical creativity to underpin our innovation and next-generation products, services and delivery models.

The rate of change continues to grow exponentially. Great companies will be those that approach disruption not as a threat but as a very real opportunity – an opportunity to constantly reinvent themselves through discipline and disruptive thinking. In 2015, Alexander Forbes is, I believe, such an organisation.

APPRECIATION

In closing I thank my executive teams and all employees – in South Africa, elsewhere in Africa and in Europe – for their extremely hard work in a most demanding year. I also extend my sincere appreciation to our chairman, Mr Sello Moloko and the board for their unstinting support in guiding our group so skilfully through the many challenges encountered and embraced.

We have in place a first-class executive team that is uniquely equipped to build a great company by 2020, to create positive impacts for all stakeholders while giving people peace of mind through securing their financial well-being, now and in the future.



Edward Kieswetter
Group chief executive

Sandton
30 June 2015



GROUP CHIEF FINANCIAL OFFICER'S REPORT

ENSURING LONG-TERM FINANCIAL INTEGRITY

Sound allocation and management of our financial resources ensures that we remain sustainable as a custodian of our clients' financial well-being, an employer and an investment for our shareholders.

FINANCIAL HIGHLIGHTS AND CHALLENGES

The financial year ended 31 March 2015 has been a year in transition, our listing on the JSE on 24 July 2014 marked the end of seven years of private equity control and the beginning of a new era as a publicly listed entity with a strong cornerstone investor. Despite this considerable corporate activity, the group grew in all its operating segments and continued to invest in people and processes. Today, Alexander Forbes provides a solid platform to respond to the changing needs of our clients, thereby ensuring our own growth and sustainability ambitions which we are confident of achieving.

In 2014/15, the group generated net operating income (NOI) of R4.9 billion and profit from continuing operations (PCO) of R1.1 billion as compared with R4.3 billion and R1.0 billion, respectively, in 2013/14. This shows healthy growth of 12% in NOI and 10% in PCO. In 2014/15, 63% of the group's NOI and 76% of PCO (excluding property lease) were derived from the South African operations; 6% of NOI and 5% of PCO from the sub-Saharan African (excluding South Africa) operations, and 31% of NOI and 19% of PCO from the non-African (primarily UK) business.

A review of the group's portfolio of businesses in support of its strategic focus has resulted in various corporate actions over the past number of years. The final material disposal of the Guardrisk business was concluded on 3 March 2014 and the board approved management's recommendation to dispose of the Alexander Forbes Compensation Technology business in March 2015. This business has therefore been recorded as discontinued in the current year's results. The businesses that were treated as discontinued operations at the end of the previous financial year were materially disposed of during the year under review, with the exception of LCP Belgium, which is expected to be disposed in the first quarter of the new financial year.

Five-year trend analysis of net operating income and operating profit from continuing operations

	2014/15	2013/14	2012/13	2011/12	2010/11
Net operating income of continuing operations (Rm)	4 851	4 338	3 672	3 245	2 963
Net revenue growth	12%	18%	13%	10%	–
Profit from continuing operations (Rm)	1 137	1 030	894	840	759
Operating profit growth	10%	15%	7%	11%	–
Operating margin (on net operating income)	23%	24%	24%	26%	25%

Performance of continuing operations

The group's results from continuing operations for the financial year ended 31 March 2015 continued to show solid growth.

GROSS REVENUE

Gross revenue from operations is a good measure of the size of the group's operations. The group's gross revenue from continuing operations, including insurance premium earned, increased from R6.6 billion in 2013/14 to R7.2 billion in the current year (9%).

NET OPERATING INCOME

Net operating income (NOI) consists of income earned net of direct expenses such as underlying asset manager fees paid by Investment Solutions and reinsurance premiums paid by the short-term and long-term insurers in the group. The group generates NOI primarily from two sources: commissions and fees for services rendered; and net underwriting profit from the risk-taking activities of the insurance operations.

We use NOI as the more appropriate measure of the income for financial analysis.

The group continued to show good growth in NOI across its continuing operations in 2014/15. Net operating income increased by R513 million, or 12%, from R4.3 billion in 2013/14 to R4.9 billion in 2014/15, primarily due to strong new business flows in the South African and AfriNet Financial Services businesses and Investment Solutions benefiting from good new business flows and strong equity market performance. The weakening rand exchange rate had a positive effect (2.4%) on revenue contribution from the International operations for the year.

The strategy to grow the group's retail operations continued to show good progress, with combined net operating income from retail clients increasing by 12%.

OPERATING EXPENSES

Operating expenses (excluding non-trading and capital items) of continuing operations increased by R406 million, or 12%, from R3.3 billion in 2013/14 to R3.7 billion in 2014/15, which includes the impact of the weaker rand when converting the expenses incurred in pound sterling to the reporting currency.

GROUP CHIEF FINANCIAL OFFICER'S REPORT *(continued)*

The group continues to balance disciplined cost management in the established business areas with investment and capacity building in the strategic growth areas. Apart from the impact on expenses resulting from the weaker exchange rate, the increase in operating expenses in 2014/15 was primarily due to further investment in the strategic growth areas of the group, including the appointment of further new business consultants in AFI and financial planners and advisers supporting the retail strategy.

In addition, the group has experienced a significant increase in regulatory compliance and related costs in preparation for, among others, the introduction of the Solvency Assessment and Management (SAM) regulatory regime, the Protection of Personal Information Act (POPI), Treating Customers Fairly (TCF), and various new developments in regulation and legislation. The recent disposals of businesses resulted in some shared services costs, previously absorbed by those businesses, having to be absorbed by the remaining continuing operations of the group.

Further, 2014/15 also reflects the impact resulting from the prescribed method used to account for operating leases. In terms of IFRS the annual contractual rent escalations, despite being market related, are required to be accounted for on a straight-line basis over the term of the lease. This increases the lease cost in the first half of the 12-year rental period and reduces the lease cost in the latter half of the rental period.

The impact on the current year amounted to R40 million (2014: R47 million) and is isolated in the segmental results from operations.

Segmental analysis of operating profit from continuing operations before non-trading items

	Net revenue			
	2014/15	2013/14	2012/13	2014 – 2015 Change
Africa (Rm)				
Alexander Forbes Financial Services SA	1 852	1 700	1 537	9%
Investment Solutions	806	717	635	12%
Alexander Forbes Insurance	407	350	307	16%
AfriNet	291	249	202	17%
International (Rm)	1 495	1 322	991	13%
Total continuing operations (Rm) excluding property lease	4 851	4 338	3 672	12%

The above results also include the impact of accounting for the new share-based long-term management incentive and remaining amortisation of deferred compensation of transaction incentives totalling R32 million (3% negative growth impact). In the prior year, these incentives were largely ownership based.

PROFIT FROM CONTINUING OPERATIONS

Profit from continuing operations increased by R107 million, or 10%, from R1 030 million in 2013/14 to R1 137 million in 2014/15.

INVESTMENT INCOME

Investment income includes income of R103 million (2014: R162 million) related to individual policyholder funds in Investment Solutions that are liable for fund-level taxes and for which an equal tax liability is raised. This income should theoretically be excluded when assessing the group's own investment income, which largely relates to return on assets backing

regulatory capital adequacy requirements. Excluding the policyholder income, the group's investment income amounts to R123 million for the year.

FINANCE COSTS

The significant changes to the group's capital structure which became effective on 31 March 2014, the last day of the previous financial year, are reflected in the income statement below the profit from operations. When comparing to the prior year, it should therefore be borne in mind that the comparative period includes interest paid on the previously highly leveraged capital structure. Finance costs for the period amount to R119 million compared to the R843 million of the previous year.

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' consolidated financial statements as treasury shares and the elimination of any fair value gains or losses made on the shares.

This accounting treatment results in fair value movements in respect of linked investment policy assets and liabilities that would normally be offset (and which, economically, should be offset) no longer being matched in the income statement. The resultant mismatch between the asset and liability movement does not reflect the economic substance of the transactions. The result of this mismatch is that an accounting expense or gain will be reported in Alexander Forbes' consolidated income statement, whereas no actual economic loss or gain will ever be realised by the group. The reported loss of R26 million arising from the accounting for policyholder investments as treasury shares for the reporting period since listing is separately disclosed on the face of the income statement.

PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS

After non-trading items, finance charges and the effect of the policyholder investments explained above, the group's profit before taxation from continuing operations of R866 million shows a significant increase from the R317 million of the previous financial year.

The effective 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), resulting in an after-tax profit of R505 million compared to a loss of R167 million in the previous year.

NORMALISED PROFIT FROM CONTINUING OPERATIONS

The profit after tax from continuing operations should be viewed in the context of:

- non-trading costs related to the transition from the private equity shareholding structure and listing of the group;
- the change in capital structure of the group on 31 March 2014 which impacts the comparison to prior year; and
- the requirements for accounting under IFRS for certain transactions which do not necessarily reflect the underlying economic substance of the transactions.

In order to facilitate proper comparison of results, we highlight various items to consider in analysing our results for the year. These normalisation items should be considered individually and collectively depending on the purpose of normalisation.

The adjustments are summarised as follows:

Non-trading items include:

- Transaction costs incurred during the current financial year amounting to R50 million. These costs were detailed in the pre-listing statement. Included in the prior year are transaction costs amounting to R60 million which relate to the capital restructure.
- Culmination of historical incentive costs in the current year amounting to R99 million. These costs were also detailed in the pre-listing statement and include the exit transaction incentive and 2011 executive long-term incentive plan.
- Management Share Trust payment agreement amounting to R58 million which resulted from the capital restructure in the previous year and the leveraged Management Trust shareholding. Details of the structure and payments are included in notes to the annual financial statements.

A normalised income statement for the group is shown below:

	Reported results	Non-trading cost					Accounting adjustments				Normalised results	Normalised results	Change
	Mar 2015	Listing costs	Incentive costs	Make good	Insurance cell	Lease	Intangibles	Treasury shares	Policyholder tax		Mar 2015	Mar 2014	
Operating income net of direct expenses	4 851										4 851	4 338	11.8%
Operating expenses	(3 714)					40					(3 674)	(3 261)	12.7%
Profit from operations before non-trading and capital items	1 137	–	–	–	–	40	–	–	–		1 177	1 077	9.3%
Non-trading and capital items	(355)	50	99	58	23		131				6	32	6.7%
Operating profit	782	50	99	58	23	40	131	–	–		1 183	1 109	
Investment income	226								(103)		123	71	
Finance costs	(119)										(119)	(143)	
Loss from policyholder investments as treasury shares	(26)							26			–	–	
Share of net loss of associates (net of income tax)	3										3	2	
Profit before taxation	866	50	99	58	23	40	131	26	(103)		1 190	1 039	14.5%
Income tax expense	(361)	–	(28)	–	(6)	(11)	(37)		103		(340)	(296)	
Profit/(loss) from continuing operations	505	50	71	58	17	29	94	26	–		850	743	14.4%

- Normalisation adjustment for the results of the professional indemnity cell recorded in the prior year and in the current year. This result will typically be highly variable from year to year as it reflects the result of developments and assessment of a number of claim years with open claims. However, expectation is that this result should trend to zero if measured over the medium to long term.

Accounting adjustments include:

- An adjustment for the IFRS accounting treatment for operating property leases. This adjustment is explained in the discussion of operating expenses

above and amounts to R40 million in the current year. (2014: R47 million).

- An adjustment of the accounting for individual policyholder funds in Investment Solutions that are liable for fund-level taxes and for which an equal tax liability is raised.
- The accounting for Alexander Forbes shares acquired by underlying asset managers and held by the group's multi-manager investment subsidiary for policyholders (the shares) as explained on page 36.
- The amortisation of intangible assets amounting to R131 million for the year is a result of the capitalisation of intangible assets and related

amortisation required at the time of the private equity acquisition of the group in 2007. The holding company that was established at the time remains in existence (and is now the listed entity), the amortisation will continue as long as it is required to amortise the remaining asset balance to zero. The useful lives of the various assets determined at the time of the exercise varied from eight to 20 years. The amortisation is a non-cash accounting item.

GROUP CHIEF FINANCIAL OFFICER'S REPORT *(continued)*

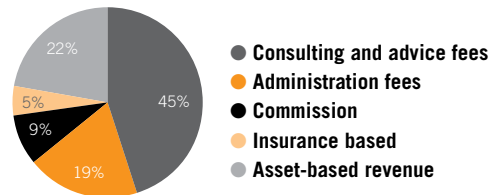
Change in capital structure adjustment includes:

- A pro forma adjustment to the comparative number for the historical interest expenses which was incurred under the private equity structure. The adjustment to prior year interest cost amounts to R700 million. The interest adjustment is calculated based on a term loan balance that would have been held during the year resulting in the actual closing term loan balance given the cash generated during the year.

QUALITY AND SUSTAINABILITY OF REVENUES AND PROFITS

The following charts demonstrate the stable nature of the group's net operating income based on the year ended 31 March 2015.

Net operating income by type



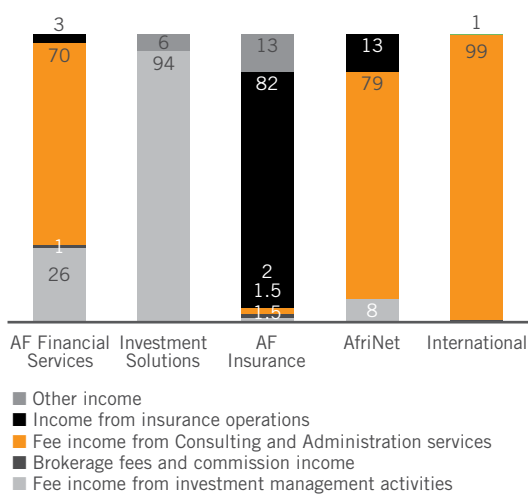
Approximately 77% of Alexander Forbes' revenue base is recurring or predictable in nature, with approximately 8% representing net underwriting profits in FY2015. The recurring fee income comprises asset-based income (approximately 34%), fee income from services rendered to clients, monthly administration (either on a fee per member or a percentage of salary contribution basis), consulting fees and commission income.

Other than the indirect exposure to equity markets, there is limited volatility in the group's revenues due to the relatively low proportion of one-off consulting fees, ad

hoc retirement fund administration services and underwriting income.

As a material proportion of the group's income is linked to pension contributions, we benefit from the macro-economic drivers affecting employment and wage inflation which have been low but positive in recent years.

Net operating income by business unit (%)



Alexander Forbes has limited working capital requirements with high cash flow generation and limited credit risk exposure in the business as a significant proportion of our income is collected from the retirement funds and investments it administers. Our exposure to debtors remains limited as investments into retirement funds and investment products are made only once funds are received from clients and payments to clients are made only once funds are received from redeemed investments.

Alexander Forbes' capital expenditure requirements, relating mainly to IT investments, are relatively stable and predictable, and have historically been in line with depreciation. The strategic investment in the retail market has increased the demand for greater technology solutions during the current year, an increase in capital expenditure that is likely to continue in the near future.

DISPOSALS

The group completed the sale of Guardrisk in March 2014 for R1.6 billion. In addition to the discontinuance of LCP Belgium reported in the previous year which is still in process, the board has approved a strategic decision to dispose of the Alexander Forbes Compensation Technologies business. The process of this disposal of the business is underway. As a result of this decision, the operating results of the division have been reclassified to discontinued operations and the carrying value of goodwill allocated to this cost-generating unit has been impaired.

FUNDING STRUCTURE

On 31 March 2014, the group completed a comprehensive capital restructure. The rationale for this restructuring was to:

- optimise and simplify our capital structure;
- ensure compliance with upcoming regulatory changes, most notably the proposed introduction of consolidated supervision;
- align the company's shareholder interests in the group capital structure; and
- facilitate the realisation of their investment by the company's shareholders in due course.

The restructure was aimed at redeeming substantially all remaining debt instruments and preference share instruments in the funding structure of the group and

replacing such outstanding amounts with ordinary equity. The unsecured single layer of term debt which was introduced at the time of the restructure was negotiated in the current year to include a revolving credit facility component. This facility is renewable annually for a 12-month period.

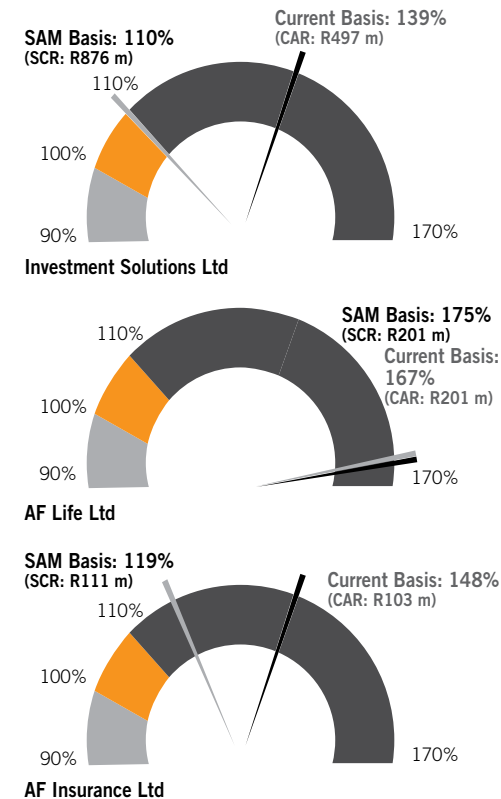
The capital restructure at the end of the previous year achieved exactly what was planned and positions the group well for compliance with regulatory capital requirements.

REGULATORY CAPITAL

Under the current FSB rules, a minimum level of solvency is required to be held within each insurance subsidiary to meet the regulatory capital adequacy requirements (CAR). For the long-term insurance subsidiaries, the CAR is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of actual future experience departing from the assumptions made in calculating the policyholder liabilities and against fluctuations in the value of assets.

The new SAM regime, which will be implemented on 1 January 2016, will impose more stringent regulatory requirements on both long-term and short-term insurers, requiring them to maintain adequate solvency capital based on risks faced on a day-to-day basis. This is likely to have a positive impact on Investment Solutions given that it assumes no insurance underwriting – provided that the business will be allowed by the regulator to use internal models for capital determination. Any such approval is only expected to become effective some time after the introduction of SAM.

The following CAR and cover ratios are maintained by our insurance entities:



Under the broader SAM framework, the group will also be subject to regulation by the FSB at the ultimate holding company level. The group deliberately positioned itself through the capital restructure to target regulatory compliant solvency at 31 March 2015. Despite regulatory changes through the year which increased the requirements, the current group surplus is estimated at approximately R100 million under the SAM standard formula basis.

The FSB has the right, after consultation with the insurer, to impose a capital add-on where the risks, including those posed by the non-regulated entities, are not adequately taken into account in the group capital adequacy or deduct the value of holdings in non-regulated entities from the capital resources of the insurance legal entities in the group. Consolidated supervision is likely to become effective in January 2016.

SHAREHOLDER PERFORMANCE MEASURES

Being a newly listed public group, management is keenly aware of shareholder performance measurements. The historical capital structure was not conducive to the standard measures, and as a result no historical trend is provided. However, trends all have a beginning and, as such the following performance measures are calculated:

	Mar 2015 Actual	Mar 2015 Normalised	Mar 2014 Actual	Mar 2014 Normalised	Change Normalised
Earnings per share (cents)	20.5	60.1	78	52.9	13.6%
Headline earnings per share (cents)	31.9	60.1	(52.5)	52.9	13.6%
Return on equity* (%)	4.7	13.8	10.9		
Total shareholder return (%)	37.3				
Return on capital employed (%)	17.2	17.9	14.0	14.9	20.1%

* This measure is distorted by the 2007 capitalisation of goodwill and intangible assets brought to account upon the acquisition of the group by Private Equity shareholders.

DIVIDENDS

A dividend has been declared taking into account the group's current and projected regulatory capital position. The group's strategy to build a significant retail business will demand additional capital investment; however, this is expected to be provided through ongoing earnings and cash generation of the group. A dividend of

12 cents per share is payable to shareholders recorded on 3 July, with the payment being made on 6 July 2015.

This dividend must be viewed in the context of the group's transition to the anticipated new regulatory capital requirements under SAM. The long term dividend guidance provided at the time of listing of 2 to 1.5 time dividend cover remains in place.

LOOKING AHEAD

The strategic repositioning and refocusing of the group is substantially complete. The group is now exceptionally well positioned to continue to strengthen its core businesses and related market positions even further and to drive its growth strategies with clear focus.

The group capital structure positions the group well to operate under a fast changing and more demanding regulatory environment and provides a simplified and more flexible financial position. The group will continue to manage the balance between allocating resources and capacity for long-term growth versus maintenance of short-term objectives.

We continue to make progress in achieving our short-term goals. The results, both financial and non-financial, confirm that our strategic choices are valid and, with greater focus and execution, will deliver shareholder value. Although we acknowledge the challenges that lie ahead, our bias for top-line growth, while optimising operational efficiencies and sustainable organisational integrity remains unchanged.

Deon Viljoen
Chief financial officer

Sandton
30 June 2015

BLACK ECONOMIC EMPOWERMENT – 1996

Empowering previously disadvantaged stakeholders

At group level, Alexander Forbes brought in Black Economic Empowerment (BEE) shareholders (namely Worldwide Africa, Malesela Holdings and Women's Investment) along with their representation on our board in 1996. This was well before the Financial Sector Code, which provides a framework and principles for the implementation of B-BBEE in the financial sector, came into effect in January 2004. These investors realised their respective holdings at a profit. In 2003, we brought in other B-BBEE shareholders in the form of Shanduka (which later profitably realised its investment), Community Trust and an Employee Trust.



PROVIDING IMPACTFUL SERVICE TO OUR CLIENTS

WE STRIVE TO
SERVE OUR
CLIENTS WITH
POSITIVE IMPACT
AND SECURE
THEIR FINANCIAL
WELL-BEING
NOW AND IN THE
FUTURE – what
this really means

DELIVERING PEACE OF MIND

Alexander Forbes is entrusted with the financial well-being of over 1 million retirement fund individuals. We strive to ensure that our products and services are of such a quality, relevance and impact that for these individuals our actions translate into peace of mind.

We provide a very wide range of products and services to an even greater diversity of clients – diverse in terms of age, income, race, gender, sector and type of employment, geography, needs and expectations. Historically, these products and services have been delivered to the individual through his or her representatives and have mostly been designed to meet the perceived needs of large groups of individuals.

These representatives have traditionally been Alexander Forbes's clients – the people who place pension and other collective assets with us for administration and management and from whom we also derive consulting and actuarial fees. While in the recent past we dealt mostly with institutions, today we also interact directly with many individuals and small business owners – our retail clients.

In the past, employers committed themselves to defined benefits, a commitment that has been largely replaced by defined contributions. Since defined contributions became the norm, asset managers' earnings have grown substantially but the ultimate beneficiary of the asset being administered and managed has faced a more uncertain future: in most cases, less financial well-being and less peace of mind. Our 2016 – 2020 strategic intent commits us to securing financial well-being for individual members – by delivering impactful services.

Award-winning, reliable administration

Alexander Forbes's institutional clients depend on us to perform administrative services on their behalf. We are market leaders in administration and consulting as our winning of various independently conferred awards attests (see page 22). More pertinently, the overwhelming majority of our institutional clients renew their business relationships with us each year (in 2014/15 the client retention of Alexander Forbes

Financial Services was 99% and Investment Solutions was 98%).

These awards and retention rates, coupled with our ability to regularly outperform our competitors in winning new business, speak to our independently acknowledged excellence in administering and consulting managing assets and giving institutions great advice.

Our group commitment to service excellence

For customers	Ownership	Clear timelines	Regular feedback	Suitable solution
	I will be heard and my query dealt with	I will be told what will happen and by when	I will receive clear and regular feedback	The solution will be fit for purpose and provide value
	↓	↓	↓	↓
For employees	I will answer my phone within three rings I will take ownership even if I can't resolve it myself	I will not let the sun set on a complaint I will respond within 24 hours I will give clear timelines and requirements to resolve the matter	I will manage expectations through regular feedback I will deliver on my promise I will hold my colleagues accountable	I will keep it simple If the solution does not suit the client, we will make it easy for her to have recourse

PROVIDING IMPACTFUL SERVICE TO OUR CLIENTS *(continued)*

Delighting the customer

In 2014, AFFS established a customer experience framework to help the business measure:

- Overall customer experience.
- Customer effort – how easy it is to do business with Alexander Forbes.
- Net promoter scores (how likely individuals were to recommend Alexander Forbes).

Secondary measures help to evaluate customer experience in terms of their expectation, ownership of a problem or issue and communication. Measuring customer experience will establish a baseline to ensure consistent measurement across the business in future.

AFFS employees were committed to improving customer service in 2014/15; one outcome was the development of a Service Charter which spells out a number of commitments.

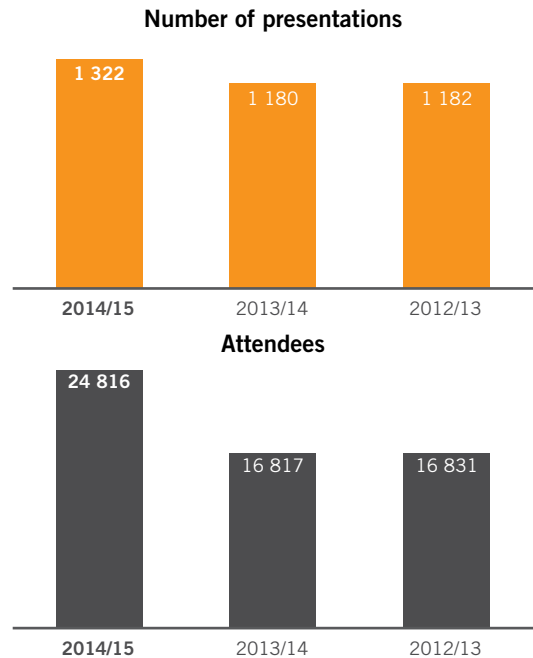
AFFS sets itself demanding service level targets. These are some of those targets and how the business performed against them in 2014/15:

- Answering 95% of all calls (actual: 87%).
- Resolving 80% of all call centre interactions on the first interaction (77%).
- Resolving 90% of all complaints within one working day (83%).

Our achievements on customer satisfaction, which have been repeated and improved upon over many years, are important measures of our service delivery, speaking to the quality of our day-to-day operations and administration. But they do not necessarily speak to the direct impact that our work, experience and insight have on the ordinary fund member or private client.

To achieve impactful service among contributing individuals, AFFS has deployed a member education unit which advises individual members on their retirement and health benefits. In 2014/15, this unit reached almost 50% more individuals than in the previous year.

MEMBER EDUCATION IN NUMBERS



Many of those who embrace their financial well-being and those approaching retirement age in particular have derived great benefit from these interactions. This contact between Alexander Forbes and members on the ground has mostly been of a limited extent and largely been undertaken in accordance with service level agreements.

Alexander Forbes is a leader in financial well-being research in South Africa – a capability with profound scope for application in markets from Namibia to Kenya where regulatory environments are fast developing to the point that hundreds of thousands of individuals can now access and benefit greatly from what we have to offer.

Our investments in knowledge gathering (and sharing) include:

- **Benefits Barometer:** a comprehensive industry-leading research publication on employee benefits matters in South Africa. The publication creates awareness among all stakeholders of the key issues affecting individuals and their financial well-being. It also promotes constructive dialogue to develop effective employee benefit systems covering healthcare, risk benefits, retirement benefits and financial education.
- **Life Gauge™:** a unique suite of analytical tools that help corporates and trustees to analyse the financial profile of their individual members and employees. Our consultants use these tools to create employee benefits strategies.
- **Hot Topics:** a series of thought-leadership forums that provide employers, trustees and HR directors with our latest insights on best practices emerging both globally and within South Africa. These forums address issues emerging around pension and healthcare reform, legislative and tax changes, and ideas emerging on how to better address member needs.

- **Member Watch™:** our extensive research database that captures the latest trends in employee benefit practices and member behaviours in South African retirement funds.
- **Half Way There in September 2014:** Investment Solutions published *Half Way There* in September 2014. Authored by Chris Hart and Glenn Silverman, the book considers various nations making up the BRICS economic alliance, focusing on economic factors driving economies as well as the influence of their unique socio-political landscapes. With almost 2 500 copies sold, it has become the leading business book on the subject matter.

THE TRUE STATE OF FINANCIAL WELL-BEING

Our research translates into a keen understanding of our members' employee benefits and impact on the individual. For some years it has been apparent that, despite our best efforts and those of their representatives, South African employees' financial well-being is far from being what it should be.

Tellingly, half of individuals changing jobs do not preserve their savings. And only 10% of South African fund members will retire with a net replacement ratio of 75% or better – where this all-important ratio represents their pre-retirement incomes net of benefits. And, long before they retire, only a third of those who own cars insure their vehicles while the gap between what is provided for, and what is needed, in terms of death and disability cover, was estimated at R23 trillion in 2013. In addition, most employees and self-employed individuals are unclear on their health costs and whether they are paying too much or too little.

PROVIDING IMPACTFUL SERVICE TO OUR CLIENTS *(continued)*

Clearly, the financial services sector of which we are a part, is failing to render a sufficiently impactful service to the majority of those individuals who are fortunate enough to be employed and have the means to control or at least contribute meaningfully towards their financial well-being.

We at Alexander Forbes have put financial well-being at the centre of what we do, instead of treating it as a desirable outcome.

SERVICES WITH REAL IMPACT

One of the four pillars of our 2016 – 2020 ambition is ‘to serve our clients with positive impact and secure their financial well-being’. Our strategic intent is informed by key Material Issues, one of which is ‘Providing impactful service to our clients’. This is about more than retaining our clients’ business or executing transactions without errors; it is about giving them and their loved ones peace of mind and financial security.

This year we noted an increase in interaction with individual clients through our call centres (in the case of AFFS 10% up on 2013/14) and self-service, online, capabilities which had been expanded in 2013/14. While the majority of these interactions were of a routine administrative nature, we began investing this year in empowering our clients to better inform their own financial well-being.

A major IT project begun in the second half of the year aimed to give our customers more easily accessible, user-friendly tools and information to make better financial planning decisions. The first practical deployment of this commitment was the successful launch of a web-based tax-free savings product in March 2015. The three-month project leading to the launch of this product was the result of a collaborative effort between various lines of business, Group IT, brand

and marketing, legal as well as risk and compliance areas.

Also in the second half of the year, we devoted considerable resources, across divisions, to the planned introduction of the Financial Well-being programme. Preparations for the introduction of this watershed development in our interaction with clients included:

- Creating and launching a website to support client interactions, queries and personal planning;
- Intensively training and accrediting the first 20 financial well-being consultants; and
- Piloting employee wellness engagement days.

Financial Well-being will represent a sea change in our treatment of customers and of how we provide them with holistic, impactful services that are pertinent and appropriate to their particular circumstances.

Financial Well-being will expose individuals to our multi-skilled wellness consultants as well as specialists. Interactions at employers’ premises will entail high-level needs analyses and plotting where individual investors are on our ‘create, grow, protect’ continuum. Financial Well-being journey ‘portfolios’ will address the specific

status, needs and aspirations of particular clients – instead of treating them as averages.

In 2015/16 we project that Financial Well-being in the workplace will be rolled out to 50 Institutional clients. Investments in staffing, training, marketing and logistics in what is considered a strategic undertaking will be made as the strategy is implemented. Benefits of financial well-being in the work place that support our strategic intent are expected to include:

- Enabling individual customers to better understand their financial options and better plan for their own financial well-being;
- Improving the client value proposition for those charged with fund governance; and
- Supporting our strategic intent of leveraging our core to grow by exposing tens of thousands of individuals to the full range of Alexander Forbes’s retail consulting, risk and investment solutions.

The primary risk attached to the substantial investment we are making in this initiative is that we fail to meaningfully engage individual customers in improving their financial well-being, and consequently fail to achieve key elements of our strategic intent.

Delivering on our promises

In our 2013/14 integrated annual report we promised to:	How we delivered on our promises:
• Integrate Treating Customers Fairly (TCF) into regular management reporting	• TCF features in management reporting at business unit, divisional and group level
• Map and analyse TCF risks	• TCF integrated into all divisional risk registers • At AFFS, over 2 000 employees passed TCF awareness assessments; all AFI and Investment Solutions employees underwent compulsory TCF awareness assessments

TCF – the journey continues

Treating Customers Fairly (TCF) is the Financial Services Board’s framework to regulate market conduct. Guided by six specific desired outcomes, the framework centres on embedding fairness in all aspects of customers’ experiences with their service providers.

In June 2015, Alexander Forbes’s Social, Ethics and Transformation Committee received detailed reports from the heads of SA Financial Services (AFFS), Investment Solutions and Alexander Forbes Insurance on just how embedded TCF was in their businesses.

Just one of these reports, that from AFFS (which was not prepared with external consumption in mind), included comments from MDs and business heads on their experiences of TCF to date. These comments included:

- ‘TCF is driving the culture of client centricity. Our approach to our procedure[s] and processes has changed as we now always consider our customers’ need and expectations;’ and
- ‘TCF benefits our division by highlighting various aspects of our business that may previously have gone unnoticed.’

In his report, AFFS CEO Peter Edwards noted that overall delivery and progress on TCF had progressed since September 2014 from amber to green. Whether a business unit is amber, green or red is determined by interrogating a large number of measures that are deemed appropriate to that business unit. The robustness and application of these measures themselves continue to be tested, as is the extent to which TCF is embedded, as Edwards put it in his report, in the ‘hearts and minds’ of employees.

Noting that a great deal of work still needed to be done, Edwards reported that AFFS had committed to closing 591 identified TCF gaps in 2015/16 and to keeping closed 491 gaps that had been closed in 2014/15.

Fifty documents and marketing material had been reviewed externally for plain language; 2 000 employees had passed TCF awareness assessments and another 2 000 had completed the first part of a complaints awareness assessment. In addition, a first annual TCF survey had been completed, a TCF policy drafted and TCF outcomes aligned to the AFFS risk register.

And still there was a great deal of work to be done...

ENSURING EMPLOYEE ENGAGEMENT

WE STRIVE
TO BUILD AN
ENVIRONMENT IN
WHICH EVERYONE
WHO WORKS
FOR ALEXANDER
FORBES FINDS
PERSONAL AND
PROFESSIONAL
FULFILMENT
SO THAT THEY
WILL BE FULLY
ENGAGED IN
ACHIEVING OUR
STRATEGIC INTENT

This section of our report details past and future performance on the issues that matter most to employees, those stakeholders who are most central to our creation of value, to achieving our higher purpose and to executing our strategic intent. These issues were identified and prioritised through extensive stakeholder engagement – by our employees themselves.

This year, our salaried employee body increased by 199 to 4 111 (2013/14: 3 912). Our African operations added 87 positions, in keeping with our strategy to aggressively grow our Africa business outside of South Africa.

As a result of feedback received from employees through our annual employee engagement survey, this year a comprehensive employee value proposition (EVP) was compiled and widely disseminated. This EVP describes management's compact with employees and defines the value that the company offers all salaried employees. Our EVP:

- Competitive market-related rewards and benefits.
- Employee share participation towards long-term wealth creation.
- Fulfilment of personal and professional aspirations.
- A great place to work with physical, emotional and financial well-being programmes.
- Preferential rates on motor, household and travel insurance and investment products.

PROVIDING CARE, SHOWING CONCERN

Our status as a listed company entailed considerable adjustment and a generally increased workload for most employees. However, employees responded positively to the group's new circumstances and status, a fact borne out by the results of our formal employee engagement processes. This year 71% of employees participated in our annual internal Gallup survey, up eight percentage points on 2013/14 while our employee engagement index rose from 59.4% to 63.8%.

Most encouragingly, 70.4% of our people considered themselves to be 'emotionally engaged' with the business (2013/14: 68.2%). The extent to which employees felt emotionally engaged with the business was further borne out – although only anecdotally – by the enthusiastic response to the group CEO's call to embrace innovation as well as by the number of nominations received for election to the junior board.

Survey results this year also showed that we made progress on improving perceptions of the work environment and overall job satisfaction. Employees were generally satisfied with their job definitions and interaction with their immediate managers. Employee well-being remained a key priority. The employee assistance programme, which is managed by third-party consultants, ICAS, includes a confidential hotline

offering psychological, emotional and financial support. In 2014/15, 867 employees used the hotline (2013/14: 602). In April 2015, we had 3 812 employees registered on the e-Care online system which provides health information and professional advisory services. Some 136 employees took part in group trauma interventions while 361 interactions involved employees seeking and receiving legal or financial advice.

In the new year, it is planned to direct greater resources towards the financial well-being of our employees – an essential intervention for a business that provides precisely such consulting and advice to third parties.

At year-end, around 70 employees had enrolled for the Charity Begins@Home initiative, raising some R220 000 which will be used to assist employees in need.

DEVELOPING OUR PEOPLES' SKILLS

In 2014/15 the group spent a total of R49 million on training as calculated in terms of the Financial Sector Code on B-BBEE (2013/14: R67 million).

The reduction in this amount is largely explained by the change to new service providers which, while these international institutions provide training interventions that are most appropriate to our requirements, they are not formally accredited with the relevant South African authorities.

ENSURING EMPLOYEE ENGAGEMENT *(continued)*

Particular initiatives launched this year included Crucial Conversations, a training session that facilitates discussions with people from all levels on how to deal with difficult or confrontational situations in the workplace, in which 116 employees participated; the Duke University leadership development programme with 21 participants; manager as coach (25 participants) and leadership discussion groups (60 participants). Skills Development spend on African, Indian and Coloured (AIC) employees as a percentage of the leviable amount was 4.66% against the Financial Sector Code's target of 3%.

TREATING OUR PEOPLE FAIRLY

Ensuring equity across the group extends beyond the (South African) legislated definition of employment equity; we are committed to treating all employees fairly and honestly. Discrimination on any basis is not tolerated.

The group's Social, Ethics and Transformation Committee (SET) is the ultimate custodian of our code of ethics which is regularly updated and widely communicated throughout the company. The code, along with our SERVE model, encourages all employees to always act ethically and to report cases of unethical or ethically questionable conduct. The committee monitors the group's transformation progress and B-BBEE performance on a quarterly basis.

Shortcomings in terms of remuneration levels in certain categories and areas of our business relative to peer companies were identified in 2013/14 and actions taken this year to ensure that we at least match market averages.

To empower and engage employees, upon our listing, all employees were allocated 1 000 shares each, an investment which we believe has enhanced the extent to which employees feel engaged with the success of the group. Subsequent to the year-end, we announced an employee share ownership plan (ESOP) in terms of which all employees, excluding beneficiaries of the long term incentive plan, will in SA own approximately 2.9% of our issued share capital. Seventy percent of distributions by the newly created ESOP will accrue to black women employees (82% to black employees).

We acknowledge and enthusiastically practise our commitment to formal employment equity. In terms of our five-year employment equity plan to 2017 submitted to the Department of Labour and compiled in alignment with the Financial Sector Code, we face particular challenges on the senior, middle management, women in senior management and people with disabilities measures.

Our commitment to taking affirmative measures to achieve a demographically representative workforce extends to our hiring policies. In the year reviewed hires were 84% AIC (54% African) and 59% AIC females.

RECOGNISING ACHIEVEMENT

Alexander Forbes has an established recognition programme called SuperSERVE. This programme aims to recognise employees for behaviours that support and realise the SERVE values and the Treating Customers Fairly (TCF) framework.

The programme is built on four tiers:

- Bronze:** Peer-to-peer level recognition, (6 994 awards in 2014/15)
- Silver:** Manager-to-team member on-the-spot rewards (1 570 awards in the year)
- Gold:** Quarterly award winners (154 awards to individuals and teams)
- Platinum:** Annual award winners (35 awards)

Two formal employee performance reviews are held each year. These are structured by the HR department to ensure that performance conversations are

constructive and conducive to ongoing career advancement.

The performance discussion also includes a personal development plan discussion per individual.

A significant human resources achievement was the fact that by year end 98% of all employees had individualised performance scorecards in place. This was achieved in the space of just two years, at the beginning of the year 89% of employees having such scorecards.

One area for improvement highlighted by employee engagement this year concerned people's sense of achievement. In the new year leaders at all levels will be expected to reward and encourage commitment and effort.

TRANSFORMATION

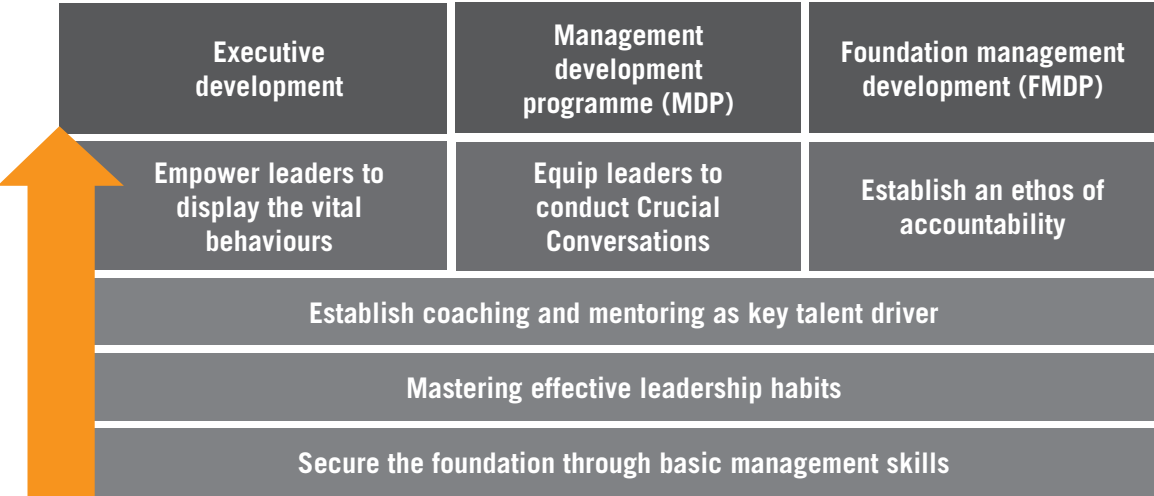
Performance in terms of the Employment Equity Act as per annual report to the Department of Labour

	March 2015 target	March 2015 target	March 2015 actual	March 2015 actual	Gap	2017 target
Black senior management	36%	90	30%	76	14	60%
Black senior management female	18%	45	14%	36	9	30%
Black middle management	52%	179	41%	142	37	75%
Black middle management female	26%	89	22%	76	13	37.50%
Black junior management	66%	375	62%	688	47	80%
Black junior management female	33%	368	36%	407	(39)	40%
Disability	3%	95	1%	30	65	3%

ENSURING EMPLOYEE ENGAGEMENT *(continued)*

LEADING BY EXAMPLE

To ensure a focused, practical approach to business transformation, the following leadership model was adopted this year:



Delivering on our promises

In our 2013/14 integrated annual report we promised to:	How we delivered on our promises:
Improve the quality of our hires	Employee turnover rate dropped from 11.9% to 9.6%
Accelerate the roll-out of leadership programmes for junior, middle and senior management	Various new courses were initiated, including those offered by Duke and Harvard universities
Streamline HR processes	At year-end 98% of employees had performance scorecards in place and a number of HR processes had been automated

OUTLOOK

HR priorities for 2015/16 are:

- Focusing on employee financial well-being through various programmes, including the Financial Well-being in the Workplace programme and the employee share ownership plan
- Accelerating transformation through our B-BBEE initiatives to achieve set targets
- Ensuring engagement through fairness, care and concern and a sense of achievement and to at least maintain our 63.8 engagement index and 65% of positively engaged employees.

Getting the youth on board

Every year more than 200 bright, eager young Alexander Forbes employees allow themselves to be nominated for the group's junior board.

By April, the 200 nominations had been reduced to a shortlist of 30, out of which only a handful will make it to the junior board. For those who get through the gruelling selection process, the reward is not just a prestigious seat on the board, reserved for under-35s, but the chance to influence the direction and culture of Alexander Forbes in ways that would normally not be possible in their day jobs.

The brainchild of Group CE Edward Kieswetter, the Alexander Forbes junior board came into being in 2012 to ensure that the voices of younger employees and, especially, their ideas, enthusiasm and fresh perspectives would be heard and felt throughout the company.

As well as providing the 'old guard' with perspectives on what Alexander Forbes's younger, future customers are thinking, the junior board works to future-proof the business by thinking out of the box, by innovating and attempting to deliberately disrupt traditional ways of thinking.

Michael Vryenhoek is a 26-year-old actuary working in SA Financial Services' Insurance Consulting division and is the current chairman of the Alexander Forbes junior board. He describes being on the board as a 'great opportunity to get involved in facets of the business you wouldn't usually be exposed to'. And for all of those involved in the board and in the selection process, he says, the experience is invaluable, both in terms of developing their own leadership skills and in helping to develop the organisation.

As well as contributing to innovation and legitimising the voice of the youth, the board involves itself in a number of projects, most of them originated during the selection process and carried out during the junior board's term of office. The junior board also runs a Talent Forum, which engages the youth through quarterly themed conversations incorporating relevant external speakers.

BEING A GOOD CORPORATE CITIZEN

WITH MORE
THAN A MILLION
INDIVIDUAL
CUSTOMERS,
ALEXANDER
FORBES IS
DEEPLY ROOTED
IN SOCIETY.
OUR WORK
CARRIES GREAT
RESPONSIBILITY
AND GREAT
OPPORTUNITY –
TO CREATE VALUE
AND TO MAKE A
DIFFERENCE.

Our group and all who work for and lead it are mindful of how we can contribute towards realising the more equal, more inclusive, more prosperous South Africa which the National Development Plan envisages the country achieving by 2030. We believe we can contribute meaningfully towards the achievement of the plan's objectives by helping to foster a growth and investment-enhancing savings culture, and to closing the retirement savings and risk benefit gaps. Having a lasting, positive, impact on society is a key ambition of our 2016 – 2020 strategic intent.

Many stakeholders have high expectations of us – of how we conduct ourselves and of our broader social impact. By consistently exceeding expectations, we earn the trust that is essential to our existence and to the achievement of our higher purpose. Not the least of society's expectations of Alexander Forbes is that it should actively and affirmatively embrace transformation.

PUTTING TRANSFORMATION INTO PRACTICE

Our commitment to transformation is deep rooted and extends beyond compliance with the broad-based black economic empowerment codes of good practice. It bears stating, however, that between 2007 and 2014 we progressed from being a level 5 contributor under the Financial Sector Code to a level 2 contributor and actively sought to transform all aspects of our business.

Driving execution against our transformation vision is ultimately the responsibility of the group's board and Social, Ethics and Transformation (SET) committee while all divisions have SET committees. Transformation is a permanent item on the group Executive Committee's agenda and is included in senior management's performance scorecards.

In 2014/15 our transformation performance, as measured against the Financial Sector Code, was largely unchanged from the previous year.

Financial Sector Code performance				
	Targets	2014/15	2013/14	2012/13
Ownership	14.00	14.16	15.16	14.68
Management and control	8.00	5.50	6.87	5.81
Employment equity	15.00	8.32	8.32	8.60
Skills development	10.00	9.01	9.42	8.90
Preferential procurement	16.00	15.46	15.06	14.00
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	10.55	11.68	exempt
Overall score	100.00	87.07	88.96	69.56 (out of 81) equivalent to 85.89 out of 100

Empowerment contribution level	2	2	2
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* Entities that are exempt from empowerment financing are required to report on enterprise development with a target of 15 points on the FSC scorecard.

Based on the principle of continuing consequences, following our listing we retained an effective, verified black ownership of 32.44%. (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 net effect of the private equity consortium's exit was that our level 2 status declined to level 3. To address this, in April 2015 we announced an employee share

ownership scheme (ESOP) which will transfer an effective 2.9% ownership in the group to employees.

The scheme favours black women employees who will be the beneficiaries of 70% of proceeds paid by the Alexander Forbes ESOP (Thirty percent 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%). The creation of the trust has restored our level 2 contributor status.

BEING A GOOD CORPORATE CITIZEN *(continued)*

On preferential procurement we improved our performance, from 15.0 (out of a target 16 points) to 15.46; our enterprise development score remained unchanged at 15.0 (Financial Sector Code businesses that are exempt from empowerment financing are measured on enterprise development, out of 15 points). For detail on our employment equity performance, see page 47.

Our key enterprise development contribution initiative for the period under review was an allocation of R12 million to a dedicated fund administered by the Association of Savings and Investments South Africa (Asisa). In addition, we allocated office space to seven black-owned group suppliers – worth R3.6 million recognised as enterprise development spend.

In the new year we plan to more actively invest in supplier development by identifying and growing emerging suppliers who will benefit from our ability to impart skills and mentor small and medium-sized enterprises while empowering them to develop services that are relevant, and complementary, to the core activities of our divisions.

BUILDING FINANCIAL WELL-BEING
THROUGHOUT SOCIETY

Empowering the more than a million individuals whose long-term financial wellness is largely entrusted to Alexander Forbes is what our higher purpose is all about and is one area in which we have considerable ability to positively impact the societies in which we operate. Equipping our members with information and skills to more actively manage their finances, investments and risks will be a key part of our strategic intent from 2015/16 (for more on this key element of our Strategic Intent, see pages 14 to 21).

In addition to empowering individual members, senior managers at Alexander Forbes Financial Services consult regularly 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. AfriNet executives provide similar advice, informed by extensive research and experience, in several of the territories in which that business operates.

ADDRESSING COMMUNITY NEED

We are proud of the targeted, effective contributions we as a group and as Alexander Forbes employees are able to make towards improving the lives and prospects of many of the most vulnerable South Africans. This year the group contributed R4.6 million (2013/14: R3.9 million) to the independently governed Alexander Forbes Community Trust which administers our flagship In-4-Life programme, bursaries, school support, capacity building and employee volunteering.

As well as direct funding from Alexander Forbes, with our listing the trust's 0.3% equity stake in the group translated into shares worth some R43 million. By October 2014 the trust (which is chaired by revered former cricket administrator Dr Ali Bacher) had accrued

R900 000 in interest, which funds, plus dividends, will be used, at the trust board's discretion, to further expand the organisation's social investment.

In-4-Life partners with community-based organisations in four provinces focused on orphans and vulnerable children. As its name implies, In-4-Life supports vulnerable children in nine disadvantaged communities, not sporadically but throughout their development. This support encompasses early childhood development, assistance for school learners (by providing uniforms, stationery, meals and after-school care), tertiary scholarships and bursaries (of which there were 22 beneficiaries this year.

ENTRENCING ETHICS ACROSS OUR
BUSINESS

The 'V' in our SERVE values – value of trust – underpins every one of our stakeholder relationships. The nature of our model for creating value dictates that unless the individuals with whom we interact have 100% trust in us we will be unable to achieve our higher purpose. And stakeholders will only place their trust in us if they

Alexander Forbes Community Trust beneficiaries				
	2014/15	2013/14	2012/13	2011/12
Orphans	1 123	1 143	1 830	926
Children with disabilities	133	127	118	96
Grade 12 learners	291	306	149	125
Memezelo Secondary School learners	600	600	538	527
Tertiary bursary recipients	22	19	20	19
Hlengimpilo Primary School learners	1 243	1 243	n/a	n/a
Other	3 974	4 201	5 720	2 502
Total number of all children	5 483	6 063	8 375	4 195
Employees	147	252	142	149
Adults	1 564	1 330	4 584	3 365
Total number of all adults	1 711	1 582	4 726	3 514
Total number of all beneficiaries	7 194	7 645	13 101	7 709

Andile's journey from Umkomaas to Sandton

Just five years ago Andile Buthelezi was writing her matric at Umkomaas Secondary School on the South Coast of KwaZulu-Natal, wondering what would one day become of her.

Little did she know, as she and her schoolmates did community service at a nearby orphanage run by the Mpilonhle Community Organisation one day, that fate was about to intervene in her life.

Mpilonhle is one of nine community-based organisations that is sponsored by the Alexander Forbes Community Trust and somebody at Mpilonhle obviously spotted the potential in this bright, energetic 18-year-old.

Growing up in a village outside Umkomaas with her grandmother and five aunts, Andile was always a star pupil – and she lived up to her teachers' expectations by earning three distinctions in matric. She received a bursary through the trust – enough to pay for her accommodation, books and meals while she studied towards a bachelor of business administration at the CIDA City Campus in Johannesburg.

There she kept excelling, gaining a total of nine of distinctions, along the way enrolling at the CIDA School of Investments obtaining no fewer than three SAIFM certificates.

As soon as she had graduated, in February 2014 Andile began an internship at Alexander Forbes Life in Sandton. Following her passion for compliance, Alexander Forbes helped Andile to get her JSE equities compliance officer certificate. Six months after joining Alexander Forbes she was working in the Investment Solutions compliance department – where the 24-year-old is still working to this day.

Andile loves her job which she likens to 'being like a policeman'. She also loves the fact that what she's doing is critically important – keeping Investment Solutions on the right side of regulation and, in the process, giving clients peace of mind.

'Because this is my first job I obviously don't have much experience of the world of work,' she says, 'but, compared to what my friends tell me, Alexander Forbes is a different, special place to work. I really like the fact that what we do is all about positively impacting people's lives and I feel like I'm part of a family even though, in Sandton, I'm so far from home.'

Already Andile is thinking about doing her honours degree in economics or asset management – 'to give me the bigger picture'. Investment Solutions MD Derrick Msibi might be encouraged to know that, in his compliance department, there is a young woman from Umkomaas who has her sights set, one day, on getting his job.

BEING A GOOD CORPORATE CITIZEN *(continued)*

believe they can rely on us to always act ethically. (See page 45 for our drive to entrench a culture of treating customers fairly across our organisation.)

The financial services sector is vulnerable to exploitative behaviour and to the economic crimes of fraud, corruption and conflicts of interest. Alexander Forbes addressed these risks in 2012/13 with the introduction of a crime prevention strategy, which provides a framework for deterring and responding to economic crime. Our crime prevention strategy continues to be monitored and enforced by the internal audit function while an independently managed whistle-blower line, for the anonymous reporting of conflicts of interest, fraud and corruption, is widely advertised.

This year, we conducted an extensive ethics climate survey which highlighted shortcomings in ethics training and a general lack of awareness about our ethics policy. In particular, the survey identified the need for our existing code of ethics to be revised. This was done with the subsequent adoption and publication of a separate code of ethics and ethics policy. The code of ethics spells out behaviours that are expected of all stakeholders – not only employees – whereas the policy relates chiefly to procedures that need to be followed to ensure ethical behaviour in all situations. See page 74.

The ethics policy emphasises avoiding particular behavioural risks, the ethical treatment of customers and greater detail on the ethics implications of our HR framework. In the new year, the code of ethics will be distributed to all employees for signing. Following the revision of our ethics policy, refresher training for all employees was being prepared while plans were being made to include more ethics elements in our induction training.

COMPLYING WITH LAWS AND REGULATION

Legislation and the regulation of the financial services industry are continuously evolving to ensure that all companies operate according to consistent and appropriate standards and that fairness governs their services and interactions with customers. For an explanation of our legislative and regulatory compliance obligations and performance, see our website www.alexanderforbes.co.za.

MITIGATING OUR ENVIRONMENTAL IMPACT

The nature of our business dictates that we have a limited environmental impact. However, our commitment to being a good corporate citizen dictates that we always act with due regard for the environment – an area in which we have achieved some considerable success.

Our Sandton head office is accredited by the Green Building Council of South Africa with a four-star green star rating, featuring a number of advanced environmental systems. The group IT function utilises ambient air cooling technology when appropriate to improve the data centre's energy efficiency. At year-end, the data centre's energy-efficiency profile, as measured in terms of a power usage efficiency rating, was 1.6 (against a norm of around 3.0).

In 2014/15, our diesel consumption rose by 458%. This was entirely due to increased generator use relating to the fact that we experienced 13 power outages as compared to four the previous year (32 hours in total against 6.5 hours). Various consumption indicators for our Sandton head office declined this year – largely because of lower head counts. At present, data reported on water, electricity and diesel consumed, waste and recycling relates to our head office. During the year, we began implementing procedures to capture such data for all properties.

OUTLOOK

In the new year, we intend to broaden our social impact, both in terms of organisations supported, and geographically. Our ESOP has been approved by shareholders and bedded down and we will re-engineer our enterprise and supplier development investments to maximise impact.

We look forward to reporting particular progress on our initiative to empower individual fund members in

managing their own financial wellness as we further entrench a culture of treating all customers ethically, a performance we anticipate will be reflected in our compliance with relevant laws and regulations.

The Alexander Forbes Community Trust will, it is envisaged, broaden its reach beyond the four provinces and nine projects which it currently impacts while adding beneficiaries to its bursary scheme.

Environmental data for Sandton head office		
	2014/15	2013/14
Electricity consumption (kWh)	8 620 382	8 634 176
Electricity spend (Rm)	7 910	6 783
Water consumption – municipal water (kℓ)	41 229	44 459
Water spend (Rm)	0.95	0.97
Recycling (kg)	16 960	28 026
Waste to landfill (kg)	131 450	181 050

In our 2013/14 integrated annual report we promised to:	How we delivered on our promises:
• Contribute towards the transformation of our company and industry	• R12 million enterprise development contribution to the Asisa SME fund
• Expand our bursary programme	• This year we awarded 22 bursaries (19 the year previously) and plan to expand this number in 2015/16
• Support more community-based organisations through In 4 Life	• One more community-based organisation received funding; trust dividend income will create greater capacity for broadening impact



TRUST & BENEFICIARY FUND SERVICES – 1990

Securing more than the financial well-being of minors

Alexander Forbes saw a need to support beneficiaries of deceased members of retirement funds and group life schemes who needed expert guidance to manage relatively large benefit payouts. Many beneficiaries needed protection against imprudent investing in a field to which they had little exposure. In 1990 we established the Alexander Forbes Trust & Beneficiary Fund Services division to look after the interests of minor dependants of deceased members.

Helping youngsters grow to their full potential

An added challenge is that many of the beneficiaries are orphans. This often calls for demanding individual and sensitive engagement. The members of the division see this as a calling, helping minors to grow to their full potential.

OPERATIONAL PERFORMANCE REVIEW

ALEXANDER FORBES FINANCIAL SERVICES

PERFORMANCE INDICATORS

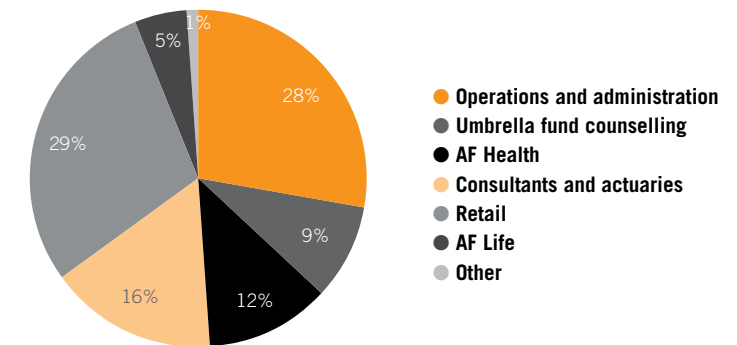
	2014/15	2013/14	2012/13	2014 – 2015 % change
Headcount (permanent employees)	1 897	1 789	1 666*	+6%
Employee turnover (%) (permanent employees)	11	12	13.5	–1%
Employee engagement rate (%)	62.3	59.7	57.1	+2.6%
Net operating income (Rm)	1 852	1 700	1 537	+9%
Recurring revenue (%)	94	94	93	–
Profit from operations (Rm)	386	377	336	+2%
Number of standalone retirement funds	328	331	343	–1%
Standalone retirement fund assets under administration (Rbn)	314.8	274.1	230.0	+15%
Number of umbrella corporate clients ⁽¹⁾	1 144	1 031	848	+11%
Total umbrella retirement fund assets under administration (Rbn) ⁽²⁾	66.8	57.2	45.6	+17%
Total number of active member records under administration	1 018 044	997 004	901 532	+2%
Number of active member records under administration – umbrella funds ⁽¹⁾	278 960	263 908	242 314	+6%
Number of healthcare corporate clients	523	513	484	+2%
Number of FPC retail clients	44 129	41 021	38 407	+8%
Corporate customer satisfaction index (out of 10)	8.2	8.4	8.3	–0.2%
Retail client satisfaction index (out of 10)	9.2	9.2	8.9	–
Retail assets under advisement (Rbn)	56.9	48.5	40.3	+17%
Insurance gross written premium (Rm)	374	417	394	–10%

* Restated

⁽¹⁾ Includes AFRF, Alexander Forbes CorePlan and AF Access

⁽²⁾ Includes AFRF, Alexander Forbes CorePlan, AF Access, Alexander Forbes Preservation Funds and Alexander Forbes Unclaimed Benefit Preservation Fund

Net operating income contribution



Highlights	Challenges
Strong performances by retail, consultants and actuaries, insurance consulting and AF Life (group risk) business units	Low growth in the SA economy impacted existing institutional client base with some employee reductions
Retail consultants exceeded a challenging new business target of R8 billion assets by R200 million	Performance on new business targets for institutional consulting and servicing teams fell short of expectations
Pleasing annualised new business wins by the dedicated institutional new business team	Timing of new business wins by the institutional new business team meant these had a lower-than-expected contribution in the year. Annualisation effect will, however, impact positively in the next year
Client retention remained at high levels with the administration services business recording 99% (2013/14: 97%) and the consulting businesses 98% (2013/14: 98%)	Insurance policy sales to retail clients for death and disability cover by AF Life retail below expectations
Good traction on a range of strategies within the retail business, research and development, and LISP (AFICA)	Performance on some key operations and administration metrics fell below targets
Employee engagement rate increased from 59.0% to 62.3%	Client gains within the public sector below expectations, notwithstanding 12% growth on institutional revenues from this sector
Tax-free savings account investment launched in March 2015	Retention and sourcing of key talent in a competitive environment

OPERATIONAL PERFORMANCE REVIEW *(continued)*

OVERVIEW

Alexander Forbes Financial Services (AFFS) returned a satisfactory performance in 2014/15, growing net operating income (NOI) by 9% to R1 852 million (2013/14: R1 700 million). Profit from operations rose 2% to R386 million. By year-end the key metric of active member records under administration exceeded the one million mark for the first time, standing at over 1 018 000, of whom three quarters were members of standalone funds.

Growth in profit from operations was muted by a conscious decision to invest in growth strategies, specifically in the retail part of our business where we strengthened our distribution capability and continued to make technology investments (some R8 million to date) in AFICA's linked investment service provider (LISP). We also experienced the second-round impact of a significant repricing exercise on AFICA to increase value to our clients. The impact of these investments amounted to more than R50 million over a two-year period, muting profit from operations in the current year by 4%. In addition, growth was impacted by concerted and targeted investment aimed at strengthening human capital in key areas of our business including AF Life and insurance consulting.

Retail growth investments have, however, yielded an additional R850 million of asset flows. As the profit performances of other divisions attest, AFFS's increased focus on the retail side of its core offering continues to translate into extremely pleasing financial results for the group as a whole.

Growth in expenses was 11% year on year, driven largely by employee and IT costs and, to a lesser extent, by a significant 41% rise in regulatory and compliance costs. Also contributing to the above-inflation increase in

expenses was the introduction of the long-term incentive plan within the group which reduced the year-on-year increase in profit from operations by 3%.

INSTITUTIONAL PERFORMANCE

Growth in institutional new business flows was 27% lower in value terms than the previous year although the number of appointments increased by 21% with 268 new clients being secured – a very commendable achievement given the contracting employment landscape in South Africa. The decrease in the value of new institutional business should be viewed in the context of the exceptional number of significant public sector appointments recorded in the previous year as well as the acquisition (also in 2013/14) of several new clients due to a key strategy change by a single large competitor.

This year our business continued to underpin the sustainability of core group earnings while investing in future growth. NOI from the administration of funds stood at R516 million, 8% up on the previous year, driven largely by inflation-related payroll increases, fee negotiations and new income.

The consultants and actuaries business met demanding targets, recording a 23% increase in operating profit from operations on the back of fee negotiations and new fee billing opportunities. Overall, our broader institutional consulting revenue increased by 6% year on year, a result that was negatively impacted by a significant health management solutions contract not realising anticipated benefits and below-inflation growth in our asset and beneficiary trust consulting units. The core health consulting unit returned a solid result but client retention remains a major focus in a very competitive environment. Excellent revenue growth was achieved by our insurance

consulting unit and the umbrella funds consulting unit also returned good revenue growth, although operating profits for this unit was impacted by increased expenses.

Particularly pleasing, our institutional client retention rates remain at high levels with the administration services business recording 99% (2013/14: 97%) and the consulting businesses a combined 98% (unchanged from 2013/14). We continue to focus on client service within all units and specifically measure key metrics within the administration unit, including our adoption of the principle that the “sun does not set on a client query”. We also continue to focus on improving administrative reliability in order to reduce any incidents giving rise to errors and omissions claims.

Assets in our institutional umbrella funds grew from R57.2 billion at year-end 2013/14 to R66.8 billion a year later. While an increase in the order of R9 billion and 17% in one year is commendable, this performance represented a slowdown relative to recent years and is receiving attention.

PUBLIC SECTOR

AFFS's public sector net operating income rose by 12.6% to more than R207 million (2013/14: R184 million restated from the previously reported R167 million). At 12.6%, revenue growth was lower than the previous year's 23%, but awards were mostly smaller than a year before. Positively, tender participation increased to 90% from 74% a year before.

AF Compensation Technologies (AFCT) experienced extremely challenging trading conditions with claims-processing efficiencies in particular not meeting expectations, while a significant contract failed to realise anticipated benefits. With the increased emphasis on a focused business model, the group decided that AFCT

was no longer a natural fit with the longer-term strategy and that AFCT should be disposed of.

RETAIL GROWTH

Our continued focus on the retail opportunity showed pleasing results, with retail assets under advisement growing by 17% to R56.9 billion in the year. Of this growth, R3.4 billion was due to market appreciation; new business assets written grew by 14%, or more than R8 billion. Importantly, financial planning consultants showed an increase in asset capture among members exiting AFFS-administered funds. The retail client base, to whom we provide advice and administration services, grew by 8%.

The performance of AF Life, our group and individual risk insurance operation, disappointed on retail risk, although the group risk business performed well. Despite a pleasing result from group risk, gross written premiums were impacted by a decision not to match a competitor quote on a significant client as we did not believe it made good business sense to do so. The client in question contributed to underwriting profits during the year but, at the competitor rates, we did not believe those profits would continue into the future. Retail weaknesses included a delay in redesigning products and distribution strategies, and execution on such products and strategies. These shortcomings were subsequently addressed and management anticipates a stronger overall contribution from AF Life in the new year.

Over the past two years all levels and functions within AFFS have greatly enhanced their understanding of the group's higher purpose – helping our individual members to attain financial peace of mind through our products and services. While we continued our work this year to ensure that all of our products, services and

people treated our individual and corporate members fairly at all times, we also strove to ensure that we communicated more clearly, in simpler terms and more easily with customers.

FINANCIAL WELL-BEING

Our membership education unit previously undertook individual member education that was aligned with execution against service level agreements. Our educators undertook 1 322 presentations at 282 of our institutional clients, presenting to 24 816 individual clients. The team drove 45 530 km to achieve this.

Also this year, ambitious service experience targets were set. These aimed to ensure that we improve our client response rate (in terms of the percentage of calls responded to each day; time taken to respond to each call; first call resolution percentage and client experience rating). A holistic service charter was developed and now forms the foundation of our client service commitment.

The most notable products released during the year were: the new AFRF investment menu including a passive default investment option; two new AF Access products for smaller employers; and the AF tax free savings account investment product (a goals-based retail investment product). The AF global retail investment product was enhanced and relaunched.

Although the AF Access new products are yet to gain traction, all other new products were well supported. In particular, since its launch the AF global retail portfolio has attracted in excess of 80% of offshore new business written by FPC. Since the revised menu was put in place, 75% of AFRF assets under management have been invested in our house view portfolios (an increase from 73% previously). The AF tax free savings account supports our drive to upgrade investment processes and online platforms in support of the wider retail objectives.

This year, we also launched our LifeGauge consulting model. LifeGauge is a newly developed digital platform that invites two-way interaction between trustees, employers and our consultants. LifeGauge visually represents various possible retirement futures for our fund members and allows clients and consultants to construct “what if” scenarios to better understand how the various financial levers that influence future outcomes can shape their employees’ futures.

Our Boitumelo (“Joy”) customer survey, consisting of over 200 face-to-face interviews with corporate clients, this year returned an 8.2 rating out of a possible 10 (2013/14: 8.4). Our retail member survey rating remained unchanged from the prior year at 9.2 (also out of a possible 10). These important measures were supplemented by an emailed survey to retirement funds and insurance consulting clients which revealed high

levels of client satisfaction with the quality of our advice and technical expertise, the efficiency and accuracy of our administration, and our thought leadership.

We similarly maintained a high level of engagement with employees, our employee engagement rate reaching 62.3%, from 59.7% in 2013/14.

AFFS’s modest increase in profit from operations, achieved on the back of a net operating income increase that was driven largely by increasing market share rather than any increase in the size of the overall market, illustrates both our key risks and our key opportunities. These relate to the ability of the South African economy to sustain employment-enhancing growth. When businesses are creating jobs to sustain their own growth, our market leadership and reputational strength invariably translate into significantly larger increases in revenue and profitability than was the case in the year reviewed.

OUTLOOK

All units within AFFS have been set challenging targets for 2015/16. These include targets relating to institutional and umbrella fund membership as well as retail assets under advisement. Underperforming units have been allocated appropriate resources to achieve suitably restated growth targets and will be expected to record much improved performance in 2015/16.

South Africa’s macro-economic performance will inevitably have a marked bearing on our ability to grow our employee benefits and retail asset management businesses. Industrial action and a worsening in investor sentiment remain key risks.

At a strategic level, AFFS will cooperate closely with leaders of Investment Solutions and AfriNet within the Institutional cluster, as well as liaising with those heading up the new Retail cluster, in both instances developing new products and synergies which are expected to be value accretive and enhance our members’ financial well-being.

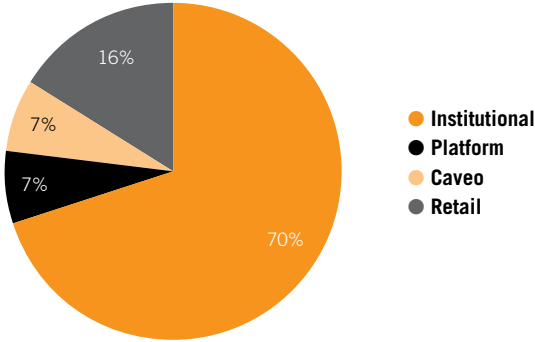
INVESTMENT SOLUTIONS

PERFORMANCE INDICATORS

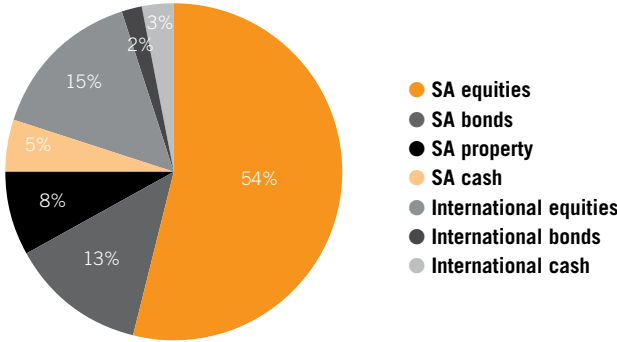
	2014/15	2013/14	2012/13	2014 – 2015 % change
Headcount	159	151	150	5.3
Employee turnover (%)	6	14	11	–7.6
Employee engagement rate (%)	68.1	68.5	67.3	–0.6
Net operating income (Rm)	802	712	634	12.6
Recurring revenue (%)	92	96	94	–4.0
Profit from operations (Rm)	496	438	390	13.3
Number of clients	2 148	2 114	2 020	1.6
AuA (Rbn)	321.5	284.8	237.9	12.9
AuM (Rbn)	264.9	256.0	215.9	3.5

Achievements	Challenges
- Profit from operations up 13% - Continuing growth in market share	- Volatile capital markets - High equity market levels increase risk of correction
- Assets under management and administration grew by 13% - R9.9 billion in new business	- Regulatory changes added to costs - Platform offering fell short of expectations
- Stable employee engagement - Pleasing client satisfaction survey feedback	- Active managers in equities struggled to match benchmark returns - Slower traction in IFA retail initiative
Well positioned for emerging regulatory environment	

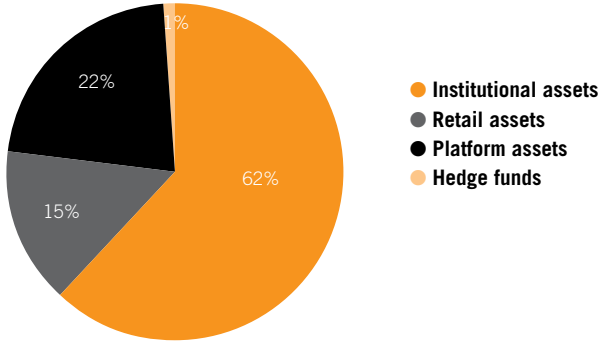
Net operating income contribution



Composition of assets



Asset type



PERFORMANCE

Investment Solutions recorded a pleasing result for the year, growing net operating income to R806 million (2013/14: R717 million) – a 12.8% increase on the previous year and slightly above the overall group percentage increase. Profit from operations was R404 million, 12.2% higher than the previous year's R360 million, again exceeding the growth in group profit from operations.

The business's performance was especially pleasing given the extremely volatile nature of capital markets and challenges, in particular, in equity performance experienced during the year, plus heightened competition for both the management and administration of institutional funds. Increased compliance requirements placed added pressure on resources and costs.

New business inflows slowed from the R14.5 billion achieved the previous year to R9.9 billion. As was the case in 2013/14, most of the new business opportunities presenting themselves related to clients seeking better performance from their incumbent multi-managers rather than from overall market growth. While our execution on securing prospects disappointed against recent performance, given our excellent retention rates, we continued to gain market share. At year-end Investment Solutions administered or managed about 20% of South African institutional retirement fund assets, up from 19% a year earlier. At 50% of the institutional multi-manager market, we are a player of considerable size with the strongest brand and a reputation that reflects our independently acknowledged

track record both in portfolio and administrative performance.

At 31 March 2015, assets under management and administration stood at R322 billion – 13% more than a year ago. This increase was derived from market appreciation (R31 billion), additional net outflows from existing clients (R5 billion) and new business (R9.9 billion). In spite of systemic net outflows, net client cash flow continued to be solidly positive, ending at R5.7 billion. In the third quarter, some R25 billion of assets, managed under a reinsurance contract on behalf of another insurer, were transferred to an administration-only arrangement. The net operating income loss relating to the new arrangement was R23 million.

On a three-year rolling basis, 71% of funds managed performed ahead of benchmark and 70% above the competitor-ranked median, a not altogether satisfactory result, but one which continued to underpin our overall long-term performance on securing the financial well-being of individual members.

RETAIL GROWTH

Retail revenues grew by 13% to R126 million, an achievement that we envisage accelerating following the introduction of a number of new unit trusts in the year. In the institutional multi-manager segment, which in 2014/15 accounted for 62% of net operating income, we restructured various portfolio offerings.

This year, our platform business (which gives intermediaries the ability to structure and manage their own portfolios using our infrastructure) added just

R2.5 billion in assets under management, well down on the R7 billion in additional assets recorded in 2013/14. This was chiefly related to intense competition on price in this segment. In the new year, management intends to concentrate considerable attention on re-establishing and marketing the platform segment's unique value proposition.

This year, we completed our development of an internal capital management model ahead of the anticipated introduction of the Solvency Assessment and Management (SAM) regime. Investment Solutions embraced the regulators' growing compliance agenda, believing that this will enhance transparency and the equitable treatment of customers. As our systems are aligned to anticipate and exceed the principles underlying this agenda, we do not rank compliance among our major risks. However, meeting such compliance requirements again added significantly to our operating costs.

Our strong emphasis on clear and consistent communication and administrative best practice meant that errors attached to just 0.02% of transactions while our customers are largely satisfied as per independent annual client satisfaction survey this year.

Similarly, this year our employee engagement remained stable at 68%. Employee turnover was largely unchanged, at 13% but was zero for the top30 critical roles, an achievement that has been repeated for each of the past three years. This is certainly a positive, but in the new year we intend focusing on career progression for those individuals who are ready to enter the skills sets deemed critical.

Our employee headcount was also very similar to the previous year's 152, a complement which we consider to be near the optimal size for our business.

OUTLOOK

While we succeeded in retaining the great bulk of both our institutional and retail clients, in the new year we intend focusing sharply on marketing and communicating the unique Investment Solutions value proposition – ethical and transparent long-term market-leading multi-manager performance and outstanding administrative capability. In particular, improving our new business win ratio to pre-2014/15 levels will be a key priority.

As a key part of the Alexander Forbes Institutional cluster we anticipate leveraging our capability and brand to grow our retail penetration both in South Africa and in the rest of the sub-continent by aggressively communicating the benefits of the multi-manager model to retail brokers while working to increase our exposure to umbrella fund managers.

The alternative investment segment of our business, particularly our Caveo joint venture, will be emphasised as particular engines of growth. We also intend focusing on international investors, presenting Investment Solutions as the preferred gateway to lucrative African investment opportunities.

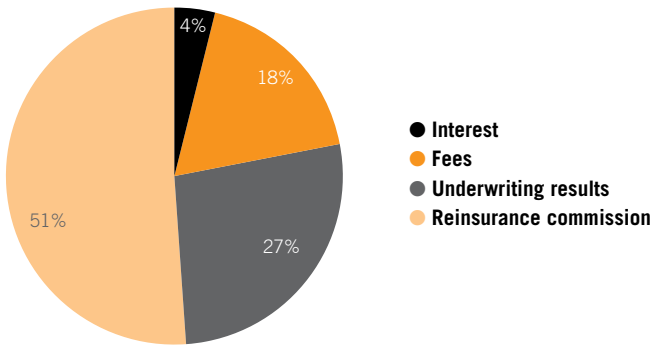
ALEXANDER FORBES INSURANCE (AFI)

PERFORMANCE INDICATORS

	2014/15	2013/14	2012/13	2014 – 2015 % change
Headcount	590	549	541	7.5
Employee turnover (%)	13	33	11	(60.6)
Employee engagement rate (%)	65	54	57	20.4
Net operating income (Rm)	407	350	307	16.3
Recurring revenue (%)	72	77	81	(6.5)
Profit from operations (Rm)	105	88	80	19.3
Number of policies (excluding accident and health policies)	78 144	76 269	73 614	2.5
Gross written premium (Rm)	1 341	1 224	1 066	9.6
Claims ratio (%)	67	74	70	(9.5)
Customer satisfaction index (%)	82	87	88	(5.7)

Highlights	Challenges
Profit from operations up 19%	Recruiting business insurance skills
Strong growth in business insurance – gross written premiums grew by 65%	Improving profitability on motor standalone business
Profit and lead conversion rates well ahead of industry averages	Embedding new IT platform into operations

Net operating income contribution



OVERVIEW

AFI generated net operating income of R407 million and operating profit of R104 million in 2014/15, representing 9% of both total group operating income and operating profit.

Own premium income increased to R1.3 billion with a further R215 million worth of premium being administered on behalf of partners. Net operating income grew by 16% and profit from operations by 19%, while client satisfaction averaged 82% and employee turnover reduced to 13%.

Total premium income for the year rose 10%, outstripping the overall industry average growth rate of 7% and representing a net gain in market share. Despite outperforming the market in terms of new policies written, the overall underwriting performance was considerably improved, reflecting the increasing quality of the book.

The average severity and frequency of motor, contents and buildings claims declined over the 12 months compared to the same period a year before. During the 2014/2015 underwriting year AFI experienced a single catastrophe (an event that entails an accumulation of claims with a value in excess of R4.5 million). The total exposure relating to this event was approximately R12 million – not as severe as the catastrophes experienced over the previous two years.

BUSINESS INSURANCE

Of particular note, AFI succeeded in growing gross premiums for business insurance 65% from R26 million in the previous year to R43 million. In only its third year of existence, the business insurance portfolio broke even and now contributes towards the profitability of AFI. In the fourth quarter alone, the value of business insurance premiums rose by 52%, a trend that continued post year end.

Business insurance is sourced from within the group, through own marketing initiatives and, increasingly, from existing retail customers who run their own businesses. Across both the retail and business insurance portfolios, brokers and other intermediaries, accounted for just 8% of new premium income. AFI views business insurance as an area of potential high growth and will continue to invest in distribution capacity while remaining mindful of the need to ensure that the portfolio remains profitable.

RETAIL PERFORMANCE

This year, the total number of retail motor and household policies rose to 76 812 (2013/14: 75 197). AFI continued its preference to underwrite combined portfolios (less than 15% of the policies insured by AFI are motor standalone). Combined policy churn improved by 10% year on year.

At year-end, initial signs around the strategy to access institutional membership were positive, with AFI writing new policies with annualised premium income of R10.2 million into this base.

Reflecting AFI's commitment to fair business practices, fewer than 1% of claims were repudiated. Our commitment to honouring our clients' trust was also borne out by the annual statistics released by the Ombudsman for Short-term Insurance. Only 179 claims (out of the 52 179 claims handled during the year) were referred to the Ombudsman for short-term insurance.

In 2014/15, employee count rose to 590 from 550 in the previous year, premium income per person nevertheless standing at a very satisfactory R2.6 million.

Retaining engaged and skilled employees was a key management focus during the year. This was particularly important in the area of business insurance, where there is a significant shortage of experienced consultants. In an industry that is known for high employee turnover, AFI succeeded in bringing down its staff turnover rate. This year the AFI employee engagement rate improved from 59% to 64.5%.

Within South Africa, six internal assessors were appointed – which had the effect of reducing claims processing costs and cementing client relationships.

A great deal of planning went into the launch, in March 2015, of the Easisure policy, a no-frills product designed to address perceptions around affordability – the main reason for clients not renewing their policies. An affordable scratch-and-dent policy was also launched in the year, to considerable success.

OUTLOOK

AFI's participation in the new retail platform holds considerable promise for increasing our exposure to the group's financial services customers. While AFI consultants quoted approximately R100 million worth of new business each month in 2014/15 (at a conversion rate of 30%), there is potential to improve even further on this exceptional performance.

The new Easisure and other products are expected to promote growth. The underwriting result is likely to improve as a critical mass is approached with claims ratios continuing to decline (motor and household standing at 71.2% in 2014/15 and 81% the previous year). Improving loss ratios on motor insurance will be a particular priority.

AFRINET

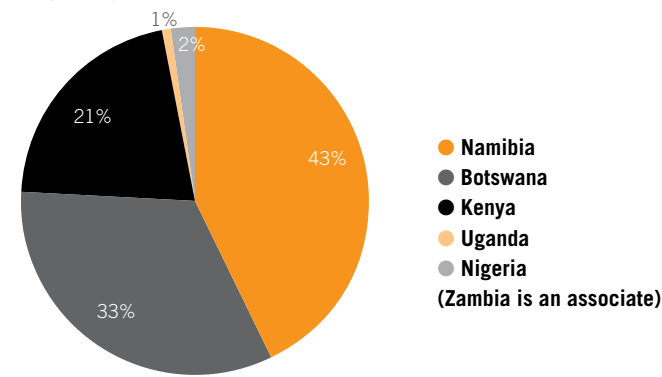
PERFORMANCE INDICATORS

	2014/15	2013/14	2012/13	2014 – 2015 % change
Headcount	373	334	312	12
Employee engagement rate	65	59	n/a	10
Customer satisfaction index (%)	82	n/a	n/a	–
Net operating income (Rm)	291	249	202	17
Recurring revenue (%)	85	72	71	18
Profit from operations (Rm)	60	48	36*	25
Gross written premium	212	166	136	28
Number of members under administration	381 592	351 796	322 128	8
Alexander Forbes Insurance Namibia number of policies	11 594	9 149	7 474	27
Investment Solutions Namibia assets under management (Rbn)	3.3	2.6	2.3	27

*Restated

Highlights	Challenges
• Doubled contribution to group net operating income and profit from operations over the past three years • Profit from operations increased by 25% • Success in establishing and building a retail business that contributed 13% to net operating income over the last three years	• Sourcing senior-level, locally based employees who are skilled in managing within the context of an increasingly regulated financial services environment • Rising costs associated with compliance, risk and governance • Delays in the promulgation of legislation (as our business model is primarily compulsion-based)

Net operating income contribution



OVERVIEW

Since 2011/2012, AfriNet has doubled its contribution to group net operating income and profit from operations.

In 2014/15 the division achieved net operating income growth of 17%, an increase from R249 million the previous year to R291 million. Operating profit rose from R48 million in 2013/14 to R60 million – a 25% rise. In four years, the business which delivers the group's suite of services in Africa outside of South Africa, has achieved a net income compound annual growth rate of 17%.

Perhaps most significantly, unlike its competitors, AfriNet has achieved this growth organically without, in any instance, resorting to costly acquisitions.

In support of the group's strategic intent of leveraging our core business to grow outside of South Africa, this year AfriNet's headcount grew by 10% or 34 positions. Despite the increase in personnel costs, overall margin improved from 19.4% in 2012/13 to 21%.

RETAIL GROWTH

Whereas, two years ago, AfriNet was a purely institution-focused business, this year retail represented 13% of total net operating income, a figure that is set to increase in 2015/16. The business's retail performance was achieved through retail pilots which leveraged the existing infrastructure and Alexander Forbes brand.

A key achievement of the year reported on was growing new capabilities to service the increasing demand in Namibia, Botswana, Kenya and other countries for those financial services in which the South African operations of Alexander Forbes is an acknowledged leader.

The business's achievements in various fields of operation are indicative of the extent to which the Alexander Forbes culture, values and operating models are being successfully and profitably replicated by nationals of these countries, and of the sustainability of the group's Africa strategic intent.

INVESTING IN PEOPLE

Over the past two years, 10% of all AfriNet employees underwent immersive training (mostly in retail products, systems and marketing) in Johannesburg. In 2014/15, management focused closely on aligning the AfriNet culture with that of the group. Employees responded positively this year to their greater inclusion in the affairs of the group and our employee engagement rate rose from 59% in 2013/14 to 64.5%.

As well as aligning employees with the Alexander Forbes employee value proposition, considerable success was achieved in replicating group governance and risk

management policies, procedures and standards in each of the AfriNet operations. This raises accountability and transparency within the group. Another area of achievement was in the application of Alexander Forbes's IT capability, which holds the promise of improving customer service while enhancing the brand.

Governance and brand value are of utmost importance in relatively small but potentially lucrative markets such as those in which legislated pension reform is fast taking root. In each of AfriNet's key markets the reform process is still in its nascent stages. The expected acceleration of this process will represent a very solid opportunity to grow value in those Anglophone countries in which the business has an established presence.

OUTLOOK

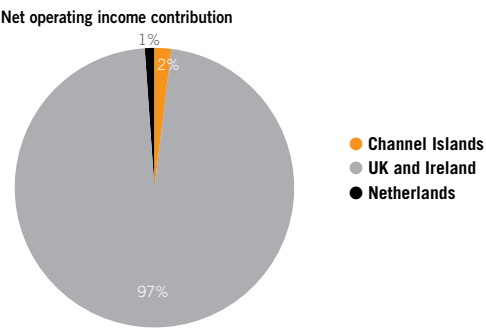
The pension reform wave is rapidly gathering pace in the relatively well-regulated countries in which AfriNet has an established and valued market presence and brand. As this wave gathers momentum, the business's prospects remain buoyant. Leveraging opportunities will continue to demand investment in skills development, recruitment, marketing, IT systems and infrastructure.

Product and offering diversification will be accelerated with our retail offering, in particular is expected to build on recent successes.

ALEXANDER FORBES INTERNATIONAL LIMITED (AFIL)

PERFORMANCE INDICATORS

	2014/15	2013/14	2012/13	2013 – 2014 % change
Headcount at continuing operations	601	565	533	6
Employee turnover (%)	8	10	10	(2)
Net operating income (Rm)	1 495	1 322	990	13
Recurring revenue (%)	79	80	78	(1)
Profit from operations (Rm)	219	204	141	7



OVERVIEW

Alexander Forbes International (AFIL) experienced a successful year, growing net operating income to £84.2 million, a 4% increase over the previous year's £80.8 million. The businesses continued to progress in a competitive market, growing through new business wins.

Sources of revenue were little changed from 2013/14 with pensions actuarial consulting and administration continuing to contribute just over 60% of income. The businesses remained focused on diversifying their income and generated good growth in investment consulting, general insurance consulting and business analytics, particularly energy. LCP continues to be regarded as a leading provider of pensions de-risking solutions and was lead adviser on 10 out of the 15 pension buy-in or buy-out transactions over £100 million in the UK, including the two largest pensioner buy-ins.

The businesses continue to invest in technology and LCP launched its ground-breaking pension analytics tool, *Visualise*, which has been adopted by 237 clients with assets totalling £86 billion as at April 2015. *LCP Horizon*, the DC scheme analytics portal which is an industry first in the way it enables DC scheme trustees and governance committees to analyse membership characteristics and target communications, was also launched during the year.

The full year property cost increase associated with LCP's move to new London premises during the previous year impacted profit from operations which, at £12.4 million, was marginally ahead of the previous year's result. Rand earnings (R219 million) represented a 7% growth on the previous year, underscoring AFIL's value to the group as a rand hedge.

In the previous year, AFIL disposed of its non-core, Trustee Services business (which had been discontinued in the 2013/14 year). LCP Belgium continues to be reported as a discontinued operation and the disposal of this business is progressing. Following this disposal, the streamlined business will consist of the interest in LCP in the United Kingdom, Ireland and the Netherlands and Alexander Forbes in the Channel Islands.

NON-FINANCIAL PERFORMANCE

This year, we increased capacity, adding a further 36, predominantly client-facing employees, and bringing total headcount to 601; 166 of whom are qualified actuaries (158 at year end 2013/14). Client retention

rates remained extremely high while a number of prestigious awards confirmed LCP's reputation for excellent actuarial and consulting work. These included: Professional Pensions 'Risk Reduction Adviser of the Year'; *Financial Times* Pension and Investment Provider Awards 'De-risking Consultant (buy-out, buy-in, longevity swaps)' and 'Investment Consultant'; and Pensions Age 'Pensions Consultancy of the Year'.

In line with the rest of the group, we are committed to being good corporate citizens. We offer our employees the opportunity to donate to good causes via payroll and also through our involvement with Naomi House and Richard House children's hospices, who are our nominated charities for our 2014.

OUTLOOK

The changes to annuitisation principles in the UK take effect in 2015 and the increased flexibility around pension options at and pre-retirement continue to supported demand for employee benefits consulting. While this has been positive for the businesses, over the longer term, the risk exists that these policy changes could translate into lower demand for consulting services.

The marginally improved economic growth prospects for the UK and elsewhere in Europe will continue to have a bearing on our business's short-term prospects. In the absence of significant market growth and with no prospect for overall fee increases, incremental gains in market share will continue to underpin our success.

CHALLENGING THE NORM

Investing in research and product development

Alexander Forbes has had an established legal services unit, experts in retirement fund legislation, since the early 1970s. However, the changing retirement funds landscape as well as developments in technology, have led to increased investment in our Research and Product Development division. Besides assessing changing client needs, the division has also developed tools like the Alexander Forbes Pensions Index to help fund members understand how much they need for a comfortable retirement.

Research as an employee benefits tool

The Alexander Forbes Research Institute serves a vital role in monitoring market developments and in challenging thinking in a changing environment. Every year the institute produces a comprehensive employee benefits thought leadership publication to help employers and the industry ensure the financial well-being of employees.



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

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

OUR BOARD OF DIRECTORS

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

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

BOARD CHARTER

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

BOARD COMMITTEES

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

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

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

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

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

GOVERNANCE



** The group retail subcommittee was disbanded on 4 September 2014 and replaced by a management committee.*

BOARD COMPOSITION

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

The board is considered to be effective in size and composition, with an appropriate balance between executive, non-executive and independent directors, thereby enabling objective decisions and internal processes. The directors have access to management whenever required. The board’s composition changed upon the company’s listing on the JSE on 24 July 2014 with the private equity shareholders’ exit. At the date of this report being issued, the company’s board of directors consisted of 10 members. Of these, five were

independent directors, three non-executive directors and two executive directors. While an executive director at the start of the financial year, 1 April 2014, the chairman of the board became a non-executive director on 1 July 2014. A lead independent director has been appointed during the transitional period. The biographies listed in this report reflect the directorship at the time of publishing.

GOVERNANCE *(continued)*

NON-EXECUTIVE DIRECTORS

Matthews Sello Moloko *(non-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 and Nominations Committees.

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

William Simon O'Regan

Appointed: 31 July 2014

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

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

David John Anderson

Appointed: 10 October 2014

Qualifications: Dip All, Dip SM, FASFA, FAIM, ANZIIF (fellow) CIP, AAMI CPM, MAICD

Committee responsibilities: member of the Social, Ethics and Transformation Committee; member of the Capital Oversight Committee

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

INDEPENDENT DIRECTORS

Mark Derrick Collier

Appointed: 1 August 2011

Qualifications: HND/BA Business Studies, Dip M, M Inst

Committee responsibilities: lead independent director, chairman of the Remuneration and Nominations Committees; member of the Audit Committee

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

Deenadayalen Konar

Appointed: 1 February 2008

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

Committee responsibilities: chairman of the Audit Committee

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

Hilgard Pieter Meyer

Appointed: 9 June 2011

Qualifications: BCom, FASSA, AMP (Oxford)

Committee responsibilities: chairman of the Capital Oversight Committee; member of the Remuneration and Nominations Committees

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

Barend Petersen

Appointed: 10 June 2011

Qualifications: BCompt (Hons), CA(SA)

Committee responsibilities: member of the Audit Committee

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

Rabojane Moses Kgosana

Appointed: 21 April 2015

Qualifications: BAccSc, BSc (Hons), CA(SA)

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

EXECUTIVE DIRECTORS

Edward Christian Kieswetter (group chief executive)

Appointed: 4 January 2010

Qualifications: NHd (electrical engineering), HdE (engineering education), BEd (mathematics and science), MEd (cognitive development), executive MBA (strategy and transformation), MCom (Tax) cum laude

Committee responsibilities: member of the Social, Ethics and Transformation Committee; member of the Capital Oversight Committee

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

Deon Marius Viljoen (group chief financial officer)

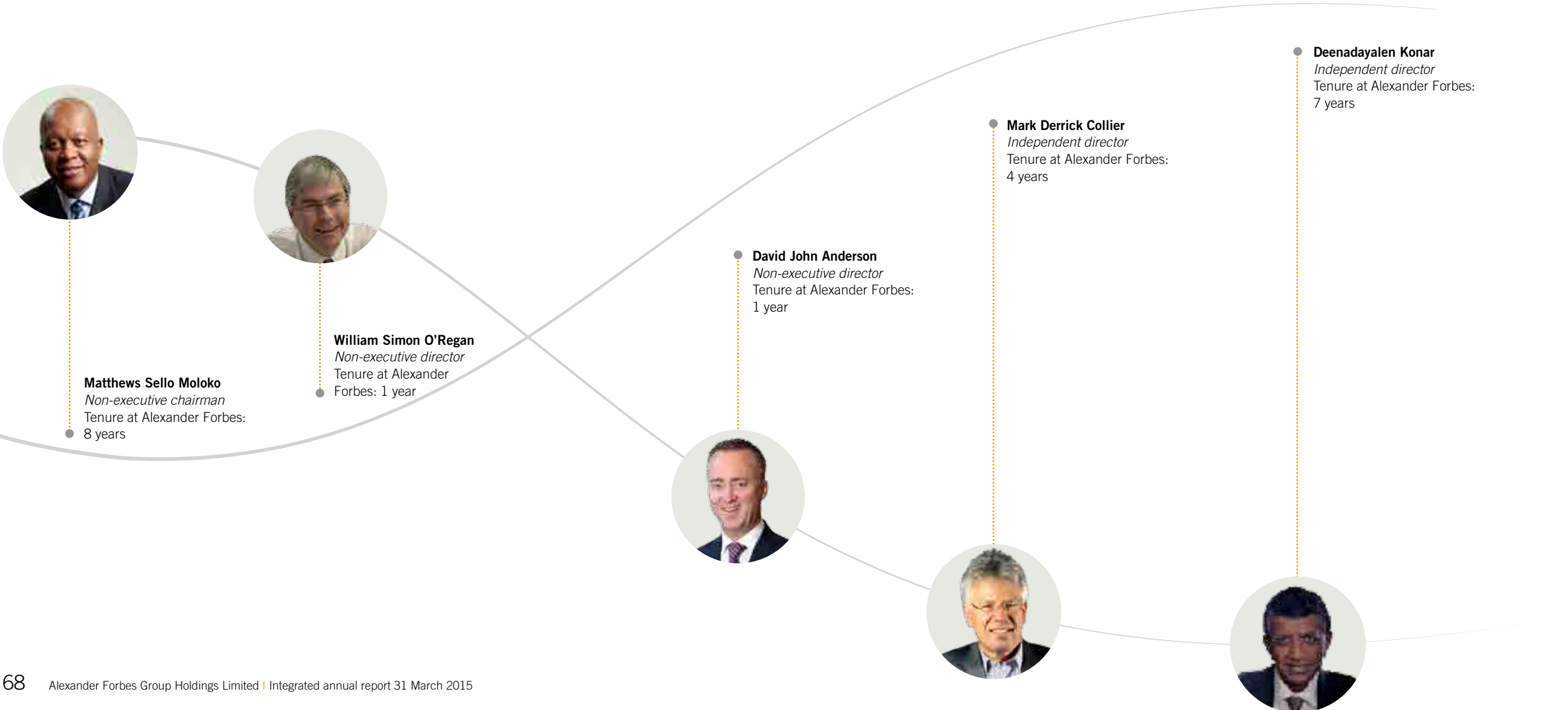
Appointed: 3 September 2007

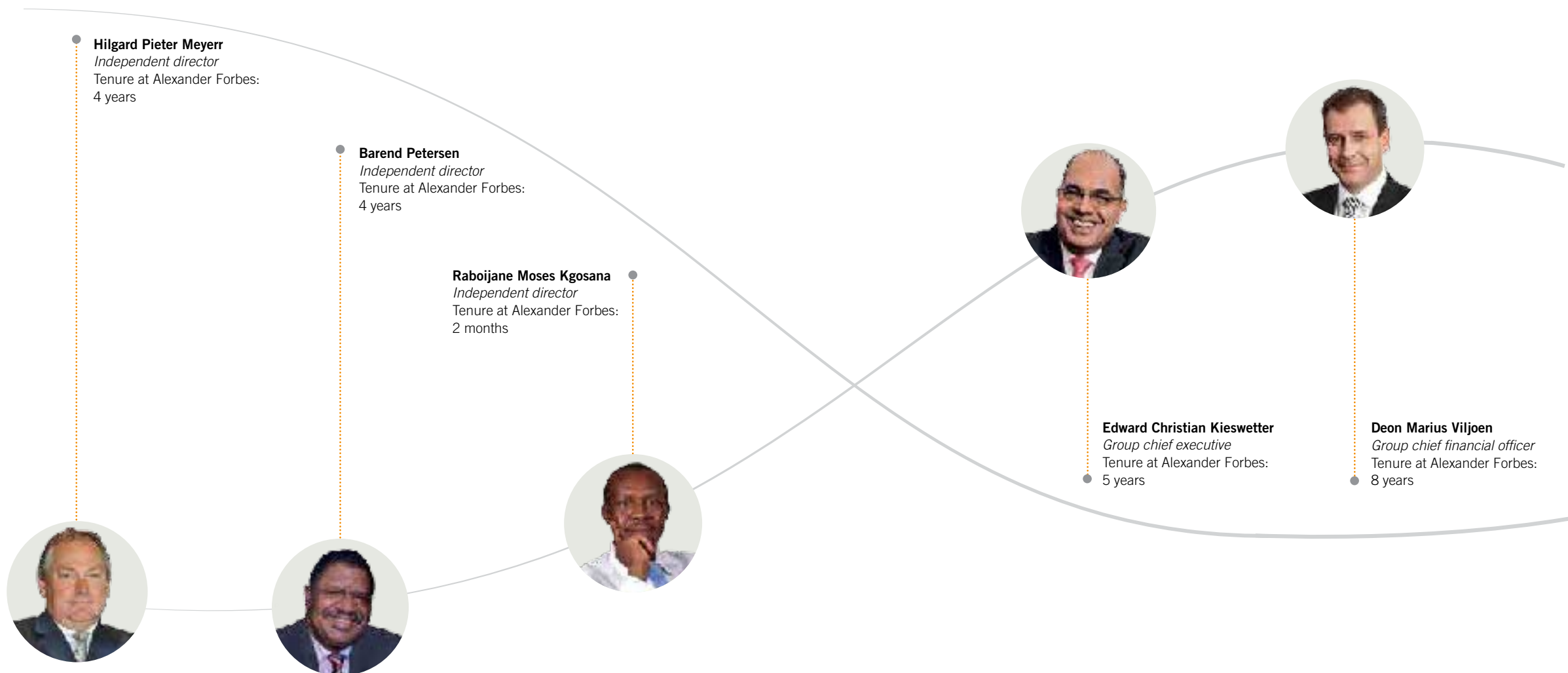
Qualifications: BCom (Hons), CA(SA)

Committee responsibilities: member of the Capital Oversight Committee

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

BOARD OF DIRECTORS





GOVERNANCE *(continued)*

DIRECTORATE CHANGES

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

Directorate changes post-year end

Mr RM Kgosana joined the board on 21 April 2015.

Attendance

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

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

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

PROGRESS MADE IN 2014/15

During the year the board:

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

Post year-end

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

Evaluation

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

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

COMPANY SECRETARY

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

OUR BOARD COMMITTEES

RESPONSIBILITIES OF OUR BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

Meeting attendance

Committee member	Meeting dates			
	3 Jun 2014	3 Sept 2014	26 Nov 2014	10 Mar 2015
D Konar (chairman)	✓	✓	✓	✓
M Collier	✓	✓	✓	✓
B Petersen	✗	✓	✓	✓

✓ – Indicates in attendance
✗ – Indicates apologies

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

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

ACTIVITIES DURING 2014/15

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

- Reviewed the competence, qualifications, performance, appropriateness, expertise and experience of the group chief financial officer and confirmed his suitability in terms of the listings requirements
- Ensured application of the combined assurance model to provide a coordinated approach to all assurance activities
- Reviewed the annual integrated report and interim reports and results announcements related thereto
- Considered and approved going concern, liquidity and goodwill impairment assessments and matters associated therewith
- Responsible for overseeing internal audit including its objectives, resources and the coverage of its plans, reviewed co-ordination with the external audit function and other assurance providers, considered the results of internal audit work performed and the adequacy of management corrective action taken in response to significant internal audit findings
- Responsible for overseeing the external audit process and work, nominating the external auditors' appointment, agreeing the scope of audit and related matters and considered the external auditors' independence
- Received feedback on proceedings at subsidiary audit committee meetings

- Ensured that normal risk management and assessment processes were in place, reviewed the company's significant accounting and financial risks, and steps being taken to mitigate these
- Received regulatory reports and considered the solvency and capital position of the group

- Received and considered tax status reports
- Considered governance and reviewed regular IT governance reports.

The Audit Committee's report appears on page 79.

NOMINATIONS COMMITTEE

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

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

Meeting attendance

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

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

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

PERFORMANCE DURING 2014/15

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

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

REMUNERATION COMMITTEE

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

During the year under review the Remuneration Committee held eight meetings, with meeting attendance reflected in the table below:

Meeting attendance

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

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

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

PERFORMANCE DURING 2014/15

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

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

OUR BOARD COMMITTEES (continued)

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT

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

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

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

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

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

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

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

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

Meeting attendance

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

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

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

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

RESPONSIBILITIES

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

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

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

PERFORMANCE DURING 2014/15

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

Ethics

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

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

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

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

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

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

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

Labour

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

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

Health and safety

The group continues with its endeavours to improve its health and safety practices and regular reports are reviewed by the committee on the status of occupational health and safety. Particular focus has been given to the safe evacuation of employee in crisis situations. There

was ongoing training and awareness-raising of employees around health and safety requirements; and our crisis management plan and evacuation procedures were reviewed.

Socio-economic development

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

Sustainability

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

Additional matters

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

Conclusion

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



Sello Moloko
Chairman

Sandton
30 June 2015

GROUP CAPITAL OVERSIGHT COMMITTEE

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

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

The committee convened its first meeting on 26 November 2014.

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

✓ – Indicates in attendance
✗ – Indicates apologies

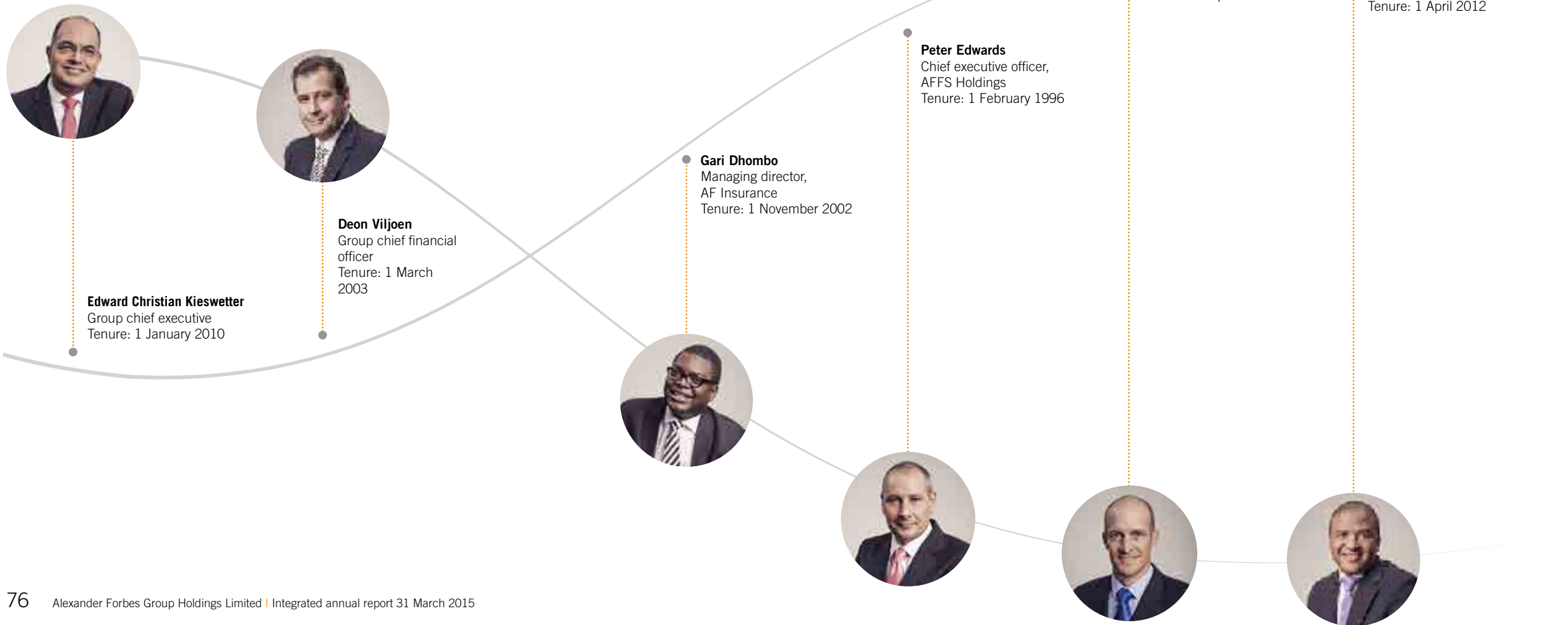
Progress made in 2014/15

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

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

OUR EXECUTIVE COMMITTEE

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



Subsequent to the year ended 31 March 2015, a decision was taken that the group executive team would in future meet on a quarterly basis with a primary focus on reviewing the state of the business. In addition to

reports being received from the group chief executive and group chief financial officer, reports are received from the following cluster executive committees (excocs):

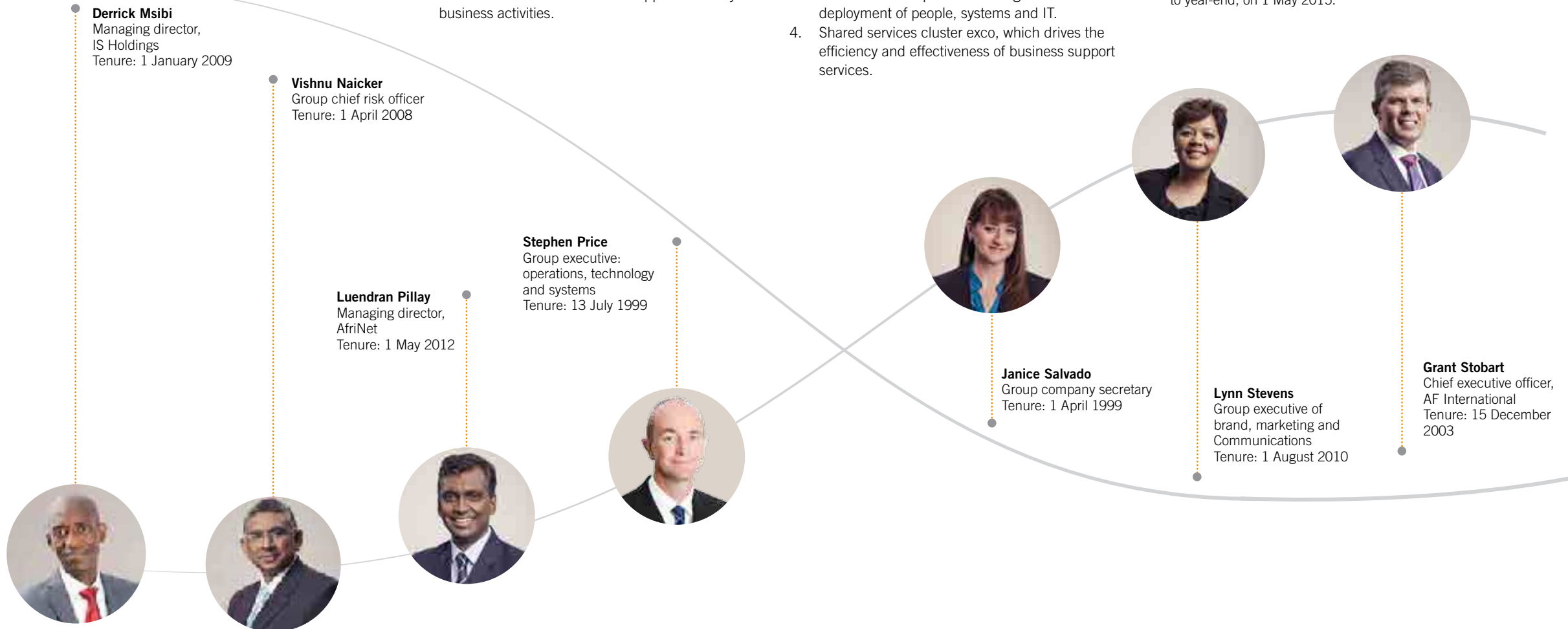
1. Institutional cluster exco whose objectives include the achievement of stronger client-centricity and the enhancement of the cluster approach to key business activities.

2. Retail cluster exco, responsible for driving the retail growth strategy.
3. Operations cluster exco, which directs a group-wide drive towards a scalable operational platform to improve process efficiency, delivery effectiveness and customer experience through the effective deployment of people, systems and IT.
4. Shared services cluster exco, which drives the efficiency and effectiveness of business support services.

CHANGES IN MEMBERSHIP

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

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



KING III GOVERNANCE

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

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

GOVERNING IT

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

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

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

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

The framework is supported by a series of policies and procedures that enable the group to ensure compliance with our framework's demanding standards. At year end

considerable progress had been made towards aligning our framework with COBIT 5, the latest iteration of the framework released by ISACA, an international IT governance association.

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

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

AUDIT COMMITTEE REPORT

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

TERMS OF REFERENCE

The Audit Committee has adopted formal terms of reference which are reviewed and updated as necessary on an annual basis (or more frequently if required) by both the Audit Committee and the board. The committee has conducted its affairs in accordance with its terms of reference and has discharged its responsibilities contained therein. A copy of the Audit Committee's current terms of reference is available on the company's website www.alexanderforbes.co.za.

COMPOSITION AND FUNCTION

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

ROLES AND RESPONSIBILITIES

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

THE INTEGRATED ANNUAL REPORT

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

FINANCIAL STATEMENTS AND ACCOUNTING PRACTICES

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

EXTERNAL AUDITOR APPOINTMENT AND INDEPENDENCE

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

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

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

INTERNAL CONTROLS

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

WHISTLE BLOWING

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

COMBINED ASSURANCE

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

AUDIT COMMITTEE REPORT *(continued)*

GOING CONCERN

The Audit Committee has reviewed a documented assessment, including key assumptions prepared by management, of the going concern status of the group and has made a recommendation to the board in accordance therewith. The board's statement on the going concern status of the group, as supported by the Audit Committee, appears in the directors' responsibility for financial reporting is stated on page 3 of the annual financial statements.

GOVERNANCE OF RISK

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

INTERNAL AUDIT

The Audit Committee is responsible for ensuring that the group's internal audit function is independent and has the necessary resources, standing and authority within the group to enable it to perform its duties. Furthermore, the Audit Committee oversees cooperation between the internal and external auditors, and serves as a link between the board of directors and these functions. The Audit Committee approved the internal audit charter and the internal audit function's annual audit plan during the year under review.

The internal audit function reports to the relevant divisional audit committees with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the group's operations. The head of group internal audit is responsible for regularly reporting the findings of the internal audit work against the agreed internal audit plan to the Audit Committee. The head of group internal audit has direct access to the group Audit Committee, primarily through its chairman. During the year, the committee met with the external auditors and with the head of group internal audit without management being present.

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

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

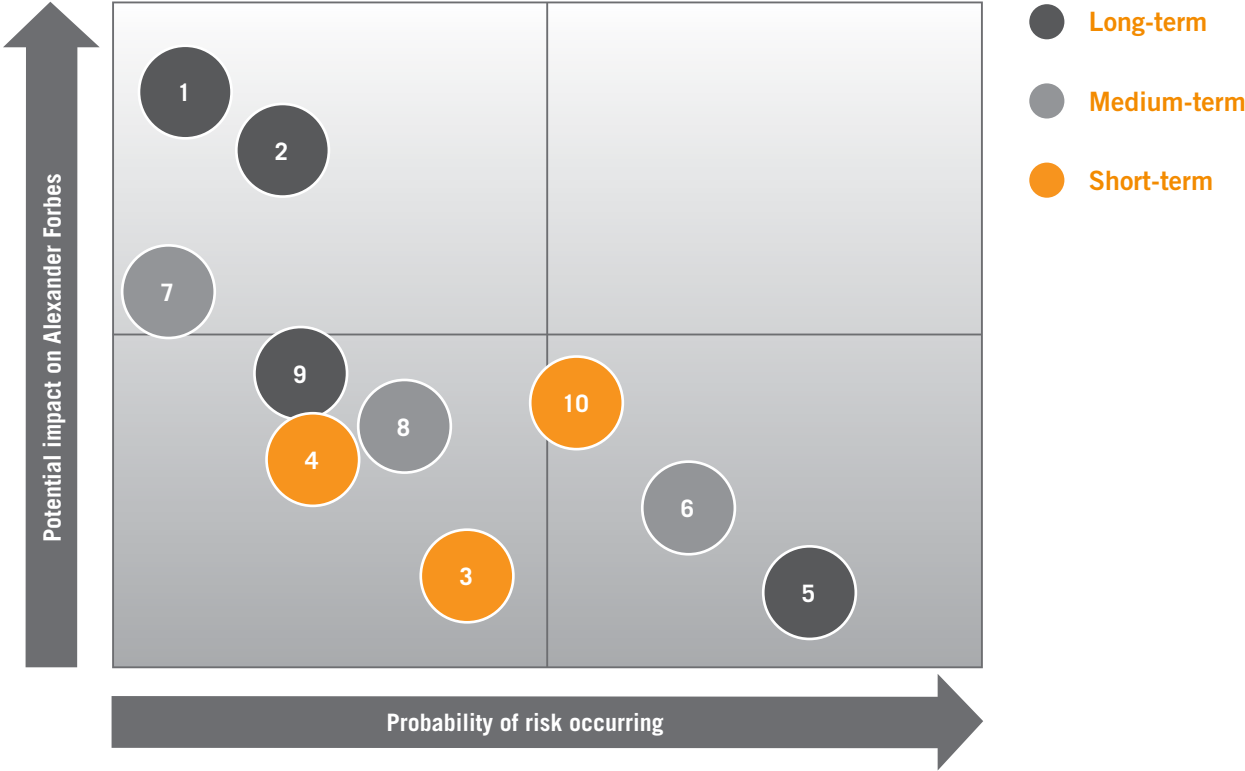


Dr D Konar
Chairman of the Audit Committee

Sandton
4 June 2015

MANAGING RISKS

KEY BUSINESS RISKS



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

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

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

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

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

MANAGING RISKS *(continued)*

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

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

MANAGING RISKS *(continued)*

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

KEY RISK MANAGEMENT HIGHLIGHTS AND DEVELOPMENTS IN THE YEAR UNDER REVIEW

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

Key achievements in the 2014/15 financial year were:

1. The Financial Services Board (FSB), during the 2014/15 year, issued many directives concerning the implementation of Solvency Assessment and Management (SAM). The group has responded by ensuring that the following were completed within the required timeframes:
 - Substantially completed and operationalised SAM capital adequacy requirements in line with pillar 1 requirements.
 - Ensured the successful implementation of Board Notice 158 – Governance and Risk Management Framework for Insurers. This framework requires an insurer to adopt, implement and document an effective governance framework that provides for the prudent management and oversight of its insurance business and that adequately protects the interests of policyholders. A significant subset of our implementation of Board Notice 158 was the enhancement of the group's three lines of defence governance model to ensure that all statutory governance requirements are met, with special focus on a strong sense of accountability, responsibility, independence, reporting, communication and transparency, both internally and with all key external stakeholders.

- Completed implementation of the standardised approach for operational risk, which assures the regulator that adequate systems and processes exist to avoid any operational risk failures that might place clients and stakeholders at risk.
 - Finalised own risk and solvency assessment (ORSA) framework which is now being implemented within the group. An ORSA is intended to ensure that an insurer assesses its risks and determines the capital required to protect against those risks. This process must be documented, evidenced and submitted to the regulator on at least an annual basis.
 - To minimise potentially inefficient provisions to meet regulatory capital requirements, the group applied to the FSB for permission for Investment Solutions to implement an internal model to calculate its capital requirements. Such permission was granted and significant progress made with the implementation of such an internal model.
2. In light of the group's greater strategic focus on AfriNet, the group extended the enterprise-wide risk management framework fully to integrate all AfriNet subsidiaries.
 3. To better understand the financial sustainability position of the group, an exercise to determine the stressed conditions that the group could be exposed to was undertaken with the participation of the board and senior executives. This subsequently led to the building of stress-testing models and accompanying contingency plans in the eventuality of the stressed situations identified arising.

4. The group continued to evolve its risk management approach to ensure flexibility and relevance to its business needs in a changing regulatory and operating environment. As a result of the listing of the group on the JSE, greater focus was placed on improving compliance requirements and enhancing the reputational risk management model.
5. Safety, health and environment and business continuity programmes were significantly modified.
6. The group's risk appetite measures and dashboard were realigned to ensure that risk-tolerance levels continue to protect our stakeholders, specifically our clients.
7. In light of the recent amendments and proposed amendments to money laundering and corruption laws, the group undertook a full due diligence assessment of its anti-money laundering and financial crime programme. At year-end, areas had been identified for enhancement so as to effectively deal with any form of risk.
8. The group completed the Alexander Forbes risk management strategy for implementation during the 2015/16 financial year.

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

GOVERNANCE OF RISK MANAGEMENT

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

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

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

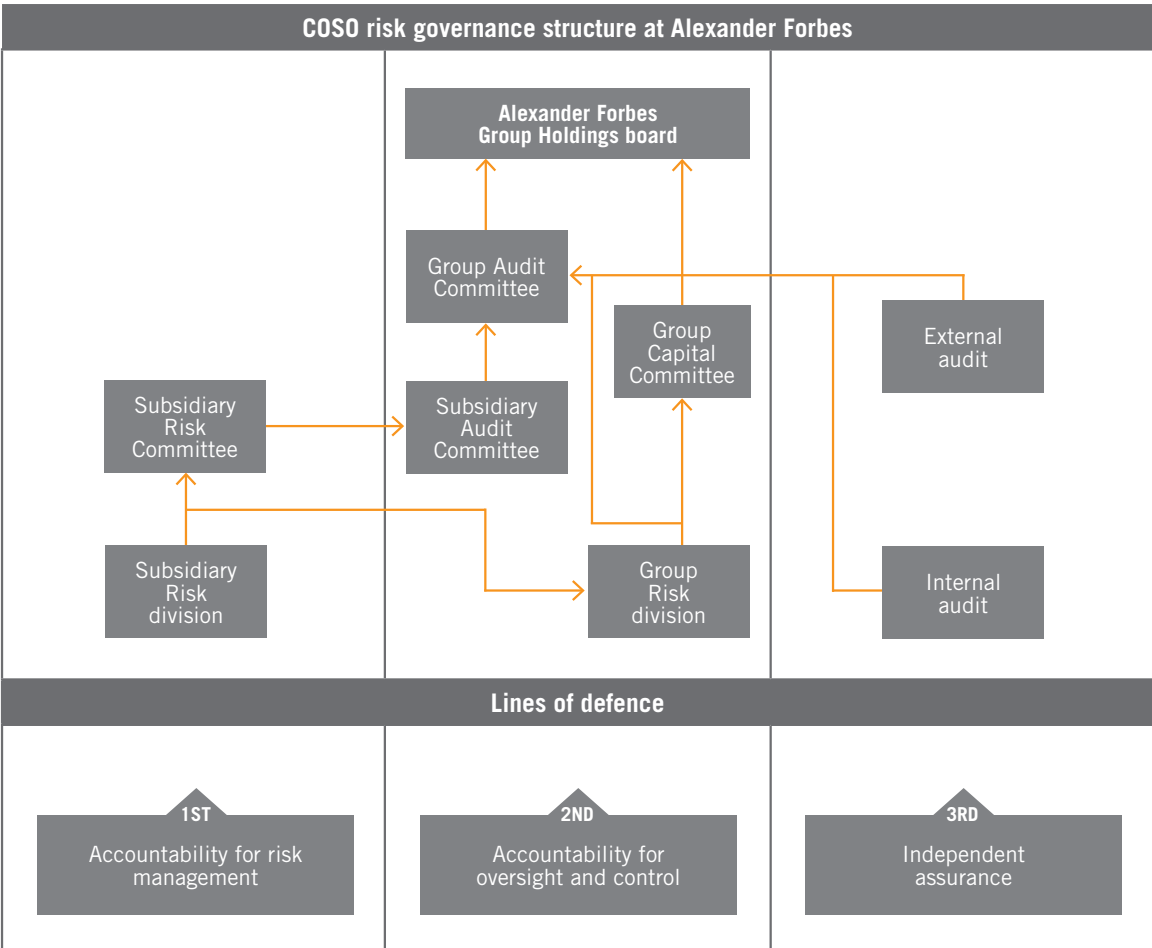
- **First line of defence:** centred on day-to-day management's responsibility and accountability. Management's role, through various operational committees, is to provide oversight including strategy implementation, performance measurement, risk management, company controls and governance processes.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

RISK APPETITE

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

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

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



REMUNERATION REPORT

REMUNERATION PHILOSOPHY

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

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

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

REMUNERATION PRINCIPLES

These principles inform the implementation of our remuneration policy:

- **Long-term interest** – overall remuneration policy and practice is in line with the group's business and risk strategy, profile, objectives, values, risk management practices, the interests of its stakeholders and long-term entity-wide interests;
- **Management of risk** – the remuneration policy applies to the group as a whole in a proportionate and risk-based way and contains specific arrangements that take into account the roles of the different levels of employees undertaking activities that involve significant risk taking;
- **Transparency** – there is a clear, transparent and effective governance structure for remuneration including the definition of the remuneration policy and its oversight;

- **Appropriate mix of short and long-term pay** – there is a balance between fixed and variable pay, with fixed pay representing a sufficiently high proportion of total remuneration to avoid employees becoming overly dependent on variable pay, except in situations where the market dictates otherwise. The variable portion is based on a combination of business and individual performance. The short-term incentive may vary year on year depending on the performance of the relevant division and individual's contribution;
- **Treating customers fairly** – performance scorecards and incentives are structured in such a way to ensure that the way in which we reward people, at all levels, does not result in any unfair outcomes for customers. Customers' interests and company interests are treated with equal importance;
- **Defining performance** – performance measurement is based on a balanced scorecard which includes both financial and non-financial measures and includes measures for current and future risks;
- **Internal and external disclosure** – the remuneration policy is transparent internally and adequately disclosed externally when required;
- **Legislative compliance** – the policy is cognisant of the remuneration-related guidance provided by legislative and regulatory regimes in all jurisdictions in which the group operates; and
- **Approvals and decision-making** – The group Remuneration Committee has a mandate to monitor, review and approve all changes to the remuneration policy including the long-term incentives (LTIs) and its rules (for final approval by the shareholders), the determination of the short-term incentives (STI) for the group, divisions as well as the group Executive Committee awards. The group chief executive has a mandate to approve remuneration and rewards for all executives reporting to the group Executive Committee.

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

REMUNERATION STRUCTURE

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

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

Guaranteed pay

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

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

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

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

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

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

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

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

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

Short-term incentive (STI)

STIs are discretionary. Senior employees above a certain grade may be eligible to participate in an annual STI plan.

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

- A direct link is established between performance management and rewards;
- Objectives and measures used in the incentive scheme are derived from the overall annual strategic objectives. These are cascaded down to determine relevant objectives and targets at all levels; and
- The incentive programme seeks to enable participants to have a clear understanding of value-adding remuneration opportunities and what they can do in order to maximise their pay.

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

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

- **Determination and size of the incentive pool** – The incentive pool is self-funded through a share of the net operating profit. The size of the incentive pool is dependent on a year-on-year increase of the required profitability.
- **Incentive capping** – Paterson A to D band employees are generally offered a 13th cheque equal to one month's pensionable salary while employees in E to G bands could receive up to a maximum of 200% of their on-target bonus as their incentive, as indicated by the bonus qualification percentages.
- **Performance measurement** – Incentives are dependent on performance measured over a 12-month period. Performance is measured according to personal and divisional measures. The divisional scorecard is evenly split between financial and non-financial measures but scorecards for individuals may have a different weighting. Performance measures are based on audited financial results of the company and the measures are independently verified by the group programme and project office and reviewed annually. Internal audit may also be required to independently verify reported results against scorecard measures when required.

- **Bonus deferral** – Bonus deferrals are applicable for divisional managing directors and any other identified roles. Deferral percentages will vary from time to time and will be determined depending on the needs of the

organisation. Such deferral and/or claw-back provisions as may be deemed appropriate may be approved by the Remuneration Committee from time to time.

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

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

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

Long-term incentive plan (LTIP)

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

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

The Share based LTIP's are governed by rules as approved by shareholders.

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

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

To align shareholders' and executives' interests, the vesting of the LTIP awards will be conditional on achieving performance conditions measured over a

REMUNERATION – REMUNERATION COMPONENTS

period appropriate to the strategic objectives of the company. Such performance measures are linked to factors enhancing shareholder value and require strong levels of overall corporate performance, measured against an appropriately defined peer group or other relevant benchmark/s.

Awarding of LTIPs is made on a sliding scale to avoid an ‘all or nothing’ profile and starts at a level that is

appropriate in comparison with guaranteed pay. Awards with high potential value may only be linked to commensurately high levels of performance. Full awards require significant value creation.

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

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

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

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

**The new share scheme became effective on listing the company on 24 July 2014.

Historical long-term incentive plans

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

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

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

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

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

REMUNERATION OF NON-EXECUTIVE DIRECTORS

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

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

The remuneration of non-executive directors consists of directors’ fees based on board and board committee participation. To compensate for additional responsibility, the chairmen of the board and committees are

compensated at levels higher than other members. Different levels of remuneration are also paid in respect of the different board committees based on the complexity and amount of preparation and level of responsibility required by the committees.

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

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

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

	Group board	Subsidiary boards	Group Audit Committee	Subsidiary Audit Committee	Remuneration and Nominations Committees	Social, Ethics and Transformation Committee
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
2014						
Chairperson	n/a	246 280	430 985	246 280	184 705	92 360
Member	430 985	123 140	184 705	123 140	92 360	49 260

INDUSTRY LEADERS

Taking compliance to the next level

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



OUR KEY RELATIONSHIPS

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

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

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

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

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

Key relationship	Their key issues	How we engage	Page reference
Clients	- Performance - Service - Value for money - Impact of investments - Innovation - Insight	- Face-to-face meetings - Regular reporting - Newsletters, emails and websites - Client engagement forums including LifeGauge, leading conversations, and Ready, Set, Retire - Benefits barometer - Financial well-being - Regular e-mail and posted reporting	See Providing impactful service to our clients on pages 43 to 45 for details of how we work to make a difference for clients
Employees	- Strategic issues - Business performance - Fairness - Care and concern - Reward and recognition - Career progression	- Line manager communication and team meetings - Group CE and managing director road shows 'Talk to Edward' email forum - Newsletters - Junior board and junior marketing and technology council - Personalised letters - Recognition through SuperSERVE - Well-being in the workplace	See Ensuring employee engagement on page 46 for more on how we engage with our people
Shareholders	- Return on investment and sustainable growth - Effective risk management and governance - Good corporate citizenship - Regulatory compliance - Transformation	- Integrated annual report - Full year and interim results road shows - SENS announcements - Annual general meeting - Analyst briefings - Ad hoc telephonic and electronic engagement	See the group chief executive's review on page 33 and Ensuring long-term financial integrity on page 37 for more on our engagement with shareholders

Key relationship	Their key issues	How we engage	Page reference
Governments and regulators	• Compliance • Stakeholder relationships • Governance and accountability • Fair treatment of members • Policy formulation • Economic crime prevention • Socio-economic impact	• Direct engagement • Industry forums • Statutory reporting • Policy formulation • Public-private partnerships • Informal issue-based engagement	See Complying with legislation and regulation on our website, Managing against fraud, corruption and economic crime on page 52 and committing to transformation beyond compliance on page 28 for details on our response
Suppliers	• Mutually beneficial business relationships • Consistent, fair and efficient procurement processes • Relationship management • Compliance • Opportunities for new business	• Direct consultation • Contract negotiations • Networking forums • Well-being in the workplace	See Putting transformation into practice on page 30
Media	• Newsworthy information • Information on group financial performance • Industry insights	• Results presentations • Regular media releases and opinion/ research features • Interviews with corporate and thought leaders • Website • Electronic communication	

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

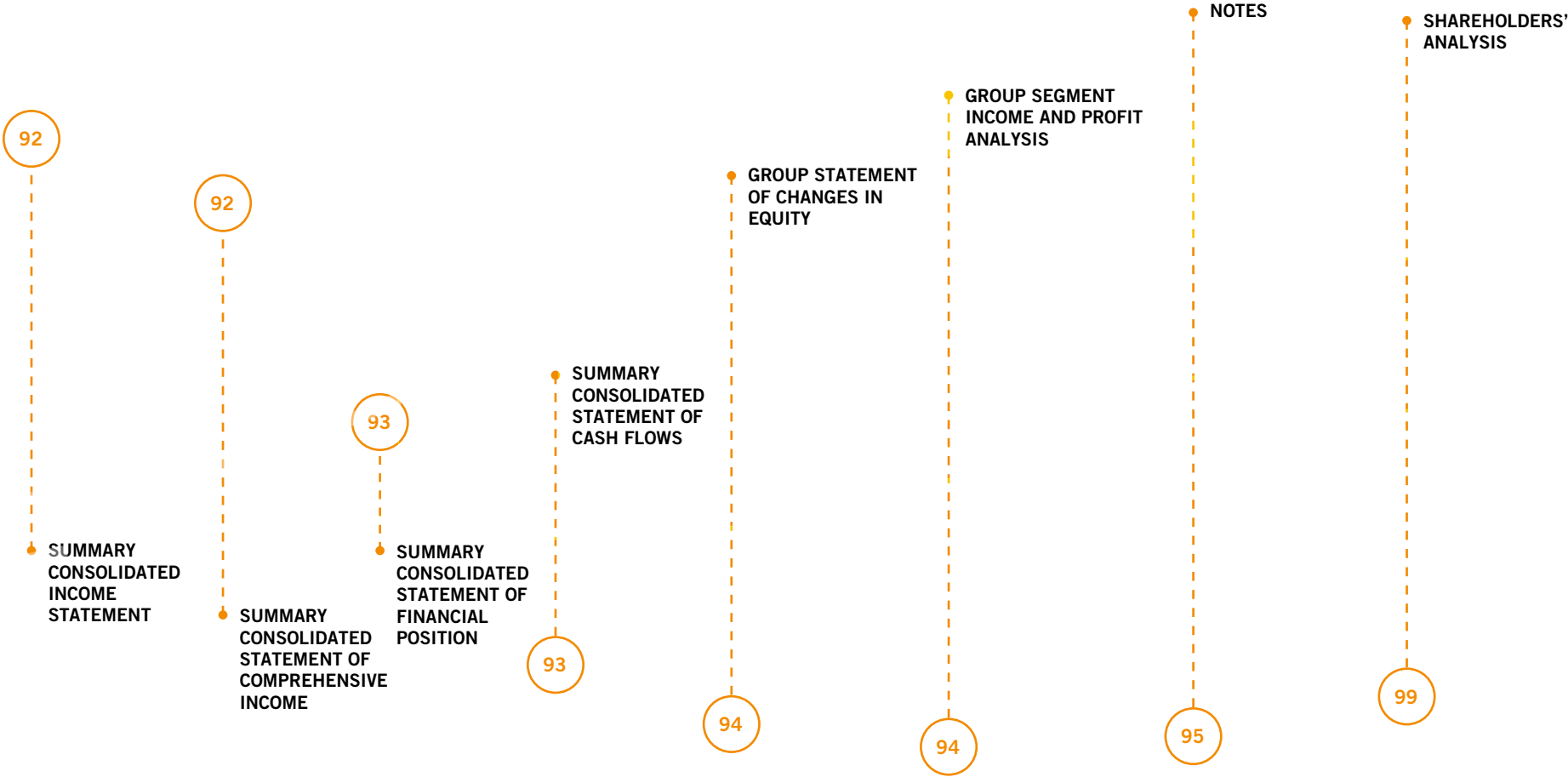


GREEN HEADQUARTERS – 2012

The Alexander Forbes head office in Sandton, Johannesburg, represents a commitment to our people – a place that is designed to allow us to deliver service with a positive impact. It is a stimulating, comfortable and healthy environment. It provides a magnificent platform from which to ensure we continue to have a positive impact on the financial well-being, quality of life and peace of mind of all stakeholders.

Accredited with a 4-star Green Star rating by the Green Building Council of South Africa, 115 West is both energy and resource efficient. It is environmentally responsible - incorporating design, construction and operational practices that significantly reduce or eliminate the negative impact of development on the environment and the users of the building.

ABRIDGED ANNUAL FINANCIAL STATEMENTS



92	SUMMARY CONSOLIDATED INCOME STATEMENT	92	SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION	93	SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS	94	GROUP STATEMENT OF CHANGES IN EQUITY	94	GROUP SEGMENT INCOME AND PROFIT ANALYSIS	95	NOTES	99	SHAREHOLDERS' ANALYSIS
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The audited annual financial statements of the company may be found on the companies website.
www.alexanderforbes.co.za

SUMMARY CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2015

Rm		2015	2014
	Notes		
Continuing operations			
Fee and commission income	3	5 268	4 718
Net income from insurance operations	4	498	417
Direct expenses attributable to fee and commission income		(915)	(797)
Operating income net of direct expenses		4 851	4 338
Operating expenses		(3 714)	(3 308)
Profit from operations before non-trading and capital items		1 137	1 030
Non-trading and capital items	5	(355)	(105)
Operating profit		782	925
Investment income		226	233
Finance costs	6	(119)	(843)
Reported loss arising from accounting for policyholder investments in treasury shares		(26)	–
Share of net profit of associates (net of income tax)		3	2
Profit before taxation		866	317
Income tax expense	7	(361)	(484)
Profit/(loss) for the year from continuing operations		505	(167)
(Loss)/profit on discontinued operations (net of income tax)	8	(145)	546
Profit for the year		360	379
<i>Profit attributable to:</i>			
Equity holders		253	269
Non-controlling interest		107	110
		360	379
Basic earnings per share (cents)	9	20.5	78.0
Headline earnings/(loss) per share (cents)	9	31.9	(52.5)
Diluted earnings per share (cents)	9	20.2	78.0*
Weighted average number of shares in issue (million)	9	1 237	345

*The group had no dilutionary shares in the prior year.

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2015

Rm	2015	2014
Profit for the year	360	379
Foreign currency translation differences of foreign operations	26	329
Foreign currency translation reserve of disposed operations recycled to profit or loss	–	82
Changes in fair value of cash flow hedges	–	(1)
Portion of cash flow hedge recycled to profit or loss	–	20
Other	–	(5)
Other comprehensive income for the year (net of income tax) that will be reclassified to profit and loss	26	425
Remeasurement of post-employment benefit obligations	(4)	4
Other comprehensive (loss)/income for the year (net of income tax) that will not be reclassified to profit or loss	(4)	4
Total comprehensive income for the year	382	808
<i>Total comprehensive income attributable to:</i>		
Equity holders	272	654
Non-controlling interest	110	154
Total comprehensive income for the year	382	808

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 March 2015

		2015	2014
	Notes		
ASSETS			
Financial assets held under multi-manager investment contracts	12	262 004	253 747
Financial assets of insurance and cell-captive facilities		358	315
Property and equipment		331	335
Purchased and developed computer software		84	80
Goodwill		3 899	3 985
Intangible assets		764	886
Investment in associates		9	6
Deferred tax assets		149	117
Financial assets		419	409
Insurance receivables		820	814
Trade and other receivables		782	873
Cash and cash equivalents		4 350	3 907
Assets of disposal group classified as held for sale	8	178	91
Total assets		274 147	265 565
EQUITY AND LIABILITIES			
Share capital		6 192	5 819
Treasury shares		(166)	(405)
Accumulated loss		(640)	(889)
Other reserves		(36)	102
Equity holders' funds		5 350	4 627
Non-controlling interest		190	210
Total equity		5 540	4 837
Financial liabilities held under multi-manager investment contracts	12	262 172	253 747
Liabilities of insurance and cell-captive facilities		358	315
Borrowings	13	1 000	1 652
Employee benefits		177	168
Deferred tax liabilities		323	432
Provisions		317	284
Finance lease liability		86	90
Operating lease liability		207	119
Deferred income		25	25
Insurance payables		2 536	2 270
Trade and other payables		1 334	1 591
Liabilities of disposal group classified as held for sale	8	72	35
Total liabilities		268 607	260 728
Total equity and liabilities		274 147	265 565
Total equity per above		5 540	4 837
Number of shares in issue (net of treasury shares) (millions)		1 282	1 155
Net asset value per ordinary share (cents)		432	419

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2015

	2015	2014
Rm		
Cash flows from operating activities		
Cash generated from operations	1 214	1 281
Net finance costs paid	(15)	(2 059)
Movement in working capital	(171)	75
Taxation paid	(524)	(387)
Operating cash flows from continuing operations	504	(1 090)
Operating cash flows relating to insurance and policyholder contracts	274	588
Cash flows from policyholder investment contracts	(2 901)	(5 054)
Cash flows from operating activities – discontinued operations	3	199
Net cash outflow from operating activities	(2 120)	(5 357)
Cash flows from investing activities		
Net proceeds from sale of subsidiaries and associates	(2)	1 236
Net proceeds/(investments) in financial assets	29	(14)
Capital expenditure incurred on property, equipment and computer software	(110)	(208)
Proceeds from sale of property, equipment and computer software	1	6
Cash flows from investing activities – discontinued operations	–	22
Net cash (outflow)/inflow from investing activities	(82)	1 042
Cash flows from financing activities		
Issue of shares (net of SPV treasury shares)	316	1 903
Redemption of B preference shares	(178)	–
Purchase of treasury shares	(24)	–
Net movement in borrowings	(250)	1 640
Repayment of borrowings in terms of debt restructure	–	(4 095)
Payments made to non-controlling interests	(130)	(126)
Net cash outflow from financing activities	(266)	(678)
Decrease in cash and cash equivalents	(2 468)	(4 993)
Cash and cash equivalents at beginning of year	12 129	16 975
Exchange gain on foreign cash and cash equivalents	13	147
Cash and cash equivalents at end of year	9 674	12 129
<i>Analysed as follows:</i>		
Cash and cash equivalents of disposal groups held for sale	27	24
Cash and cash equivalents of continuing operations	4 350	3 907
Cash held under multi-manager investment and insurance contracts	5 297	8 198
	9 674	12 129

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2015

	Share capital	Treasury shares	Other reserves	Accumulated loss	Total equity holders' funds	Non-controlling interest	Total equity
Rm							
At 31 March 2013	3 261	(21)	(8)	(1 162)	2 070	194	2 264
Profit for the year	–	–	–	269	269	110	379
Other comprehensive income	–	–	381	4	385	44	429
Total comprehensive income	–	–	381	273	654	154	808
Issue of share	2 558	–	–	–	2 558	–	2 558
Movement in treasury shares	–	(384)	–	–	(384)	–	(384)
Redemption of Pikco preference shares	–	–	(271)	–	(271)	–	(271)
Other movements in non-controlling interest*	–	–	–	–	–	(138)	(138)
At 31 March 2014	5 819	(405)	102	(889)	4 627	210	4 837
Profit for the year	–	–	–	253	253	107	360
Other comprehensive income	–	–	23	(4)	19	3	22
Total comprehensive income	–	–	23	249	272	110	382
Issue of shares	316	–	–	–	316	–	316
Movement in treasury shares	–	239	–	–	239	35	274
Issue of shares to management	57	–	–	–	57	–	57
Movement in share-based payment reserve	–	–	17	–	17	–	17
Redemption of B preference shares	–	–	(178)	–	(178)	–	(178)
Other movements in non-controlling interest*	–	–	–	–	–	(165)	(165)
At 31 March 2015	6 192	(166)	(36)	(640)	5 350	190	5 540

*This amount includes distributions made to non-controlling interests as well as changes due to acquisitions and disposals of equity held by non-controlling interests.

GROUP SEGMENTAL INCOME AND PROFIT ANALYSIS

for the year ended 31 March 2015

	Operating income net of direct expenses			Profit from operations before non-trading and capital items		
	2015	%	2014	2015	%	2014
Rm						
Africa continuing operations						
SA Financial Services	1 852	9	1 700	386	2	377
Investment Solutions	806	12	717	407	13	360
AF Insurance	407	16	350	105	19	88
AfriNet	291	17	249	60	25	48
Total Africa continuing operations	3 356	11	3 016	958	10	873
Total international (GBPm)	84	4	81	12	–	12
International financial services	1 495	13	1 322	219	7	204
Total continuing operations – excluding property lease	4 851	12	4 338	1 177	9	1 077
Accounting for the property lease	–	–	–	(40)	(15)	(47)
Total continuing operations – including property lease	4 851	12	4 338	1 137	10	1 030

	Depreciation and amortisation			Assets		
	2015	%	2014	2015	%	2014
Rm						
Africa						
SA Financial Services	13		10	69 655		63 063
Investment Solutions	4		3	262 269		253 872
AF Insurance	4		3	618		592
AfriNet	3		3	3 962		3 188
Total Africa	24	26	19	336 504	5	320 715
Total international (GBPm)	1		1	75		73
International financial services	16	23	13	1 343	(3)	1 388
Unallocated:						
Corporate services	46		48	1 038		986
Discontinued operations	1		20	178		91
Goodwill	–		–	3 899		3 985
Consolidation elimination*	–		–	(68 815)		(61 600)
Total group	87	(13)	100	274 147	3	265 565

* This amount relates mainly to assets invested by group companies with Investment Solutions.

** The prior year comparative figures in the table above have been restated following the discontinuance of AFCT. In certain instances, shared service costs previously allocated to discontinued operations that will continue subsequent to the disposal have been reallocated to the remaining continuing operations and comparative numbers restated accordingly.

NOTES

for the year ended 31 March 2015

1. BASIS OF PREPARATION

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of the consolidated annual financial statements from which the summary consolidated financial statements have been derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

This summarised report is extracted from audited information, but is not itself audited. The annual financial statements were audited by PricewaterhouseCoopers Inc., 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 for inspection at the company's registered office.

These summary consolidated financial statements were compiled under the supervision of Deon Viljoen, CA(SA), the group chief financial officer. The directors take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying annual financial statements.

	2015	2014
Rm		
2. EXCHANGE RATES		
The income statements and balance sheets of significant foreign subsidiaries have been translated to rand as follows:		
Weighted average R:GBP rate	17.8	16.4
Closing R:GBP rate	17.9	17.5
3. FEE AND COMMISSION INCOME		
Brokerage fees and commission income	26	25
Fee income from consulting and administration services	3 525	3 176
Fee income from investment management activities	1 670	1 499
Other income	47	18
Fee and commission income	5 268	4 718

	2015	2014
Rm		
4. NET INCOME FROM INSURANCE OPERATIONS		
Insurance premium earned	1 909	1 806
Less: amount ceded to reinsurers	(1 114)	(1 085)
Investment income from insurance operations	11	10
Less: insurance claims and withdrawals	(1 326)	(1 302)
Plus: insurance claims and benefits covered by reinsurance contracts	1 018	988
Net income from insurance operations	498	417
5. NON-TRADING AND CAPITAL ITEMS		
<i>Non-trading:</i>		
Professional indemnity insurance cell captive result	(23)	64
Amortisation of intangible assets arising from business combination	(131)	(141)
Corporate transaction and listing costs	(50)	(60)
Historic transaction incentive costs	(99)	–
Contractual payment to AF Management Trust resulting from the capital restructure	(58)	–
Other non-trading items	6	32
Total non-trading and capital items	(355)	(105)
6. FINANCE COSTS		
<i>Finance costs derived from financial liabilities classified and carried at amortised costs:</i>		
Interest on borrowings	(102)	(740)
Amortisation of debt raising fees capitalised to borrowings	–	(14)
Other interest	(17)	(29)
	(119)	(783)
<i>Finance cost derived from financial liabilities designated as fair value through profit or loss:</i>		
Fair value adjustment on put and call option	–	(60)
Total finance costs	(119)	(843)

NOTES *continued*

for the year ended 31 March 2015

Rm	2015	2014
7. INCOME TAX EXPENSE		
<i>South African income tax</i>		
Current tax	(280)	(295)
Current year	(266)	(232)
Prior year	(14)	(63)
Deferred tax	77	7
Current year	71	58
Prior year	6	(51)
<i>Foreign income tax</i>		
Current tax	(48)	(35)
Current year	(45)	(35)
Prior year	(3)	–
Deferred tax	(2)	4
Current year	(1)	2
Prior year	(5)	–
Change in rate	4	2
<i>Foreign withholding tax</i>	(5)	(3)
<i>Tax attributable to policyholders</i>	(103)	(162)
Current tax – current year	(139)	(76)
Deferred tax – current year	36	(86)
Total tax expense	(361)	(484)

Tax settlement relating to 31 March 2014

On 9 June 2014, the group published its annual financial statements for the year ended 31 March 2014. A SENS announcement was subsequently issued on 20 June 2014 stating that an in-principle agreement had been reached with the South African Revenue Service relating to tax deductions for interest expenses incurred by the group between 2007 and 2014 (SARS settlement). The formal settlement agreement was entered into on 1 July 2014. Accordingly, when the group released its pre-listing statements on 7 July 2014 in preparation for the listing of the group's shares in the JSE Limited, the consolidated financial statements for the group contained in the pre-listing statement (PLS) reflected the effects of the SARS settlement as an adjusting event, which occurred after the date the group published its annual financial statements, but before the date of finalisation of the consolidated statements contained in the PLS. The financial information presented in the PLS is available on the group's website. The comparative results presented for 31 March 2014 in these interim results reflect the effects of the SARS settlement as presented in the PLS financial statements.

8. DISCONTINUED OPERATIONS

In line with the requirements of IFRS 5, businesses that are considered discontinued are disclosed separately with comparative information for the consolidated income statement being restated. Assets and liabilities held at the end of the period in respect of discontinued operations, where the disposal process is ongoing, have been reclassified as assets and liabilities of disposal groups classified as held for sale. The segmental results have been re-presented to show the effects of discontinued operations.

In the prior year, the group discontinued and disposed of the Guardrisk group of companies, Euroguard in Gibraltar and the Swiss operations of LCP. The UK based Trustee Services business, which was discontinued in the prior year, was disposed in the first quarter of the current financial year. LCP Belgium continues to be held in discontinuance and is expected to be disposed in the first half of the 2015/16 financial year. In March 2015 the board of directors approved a management proposal to dispose of the Alexander Forbes Compensation Technology business (AFCT). For the purposes of financial reporting, the results of this business are now classified as discontinued operations until the date of their disposal.

Rm	2015	2014
Assets and liabilities of disposal groups classified as held for sale		
Long-term assets	24	27
Goodwill	–	21
Deferred tax asset	6	–
Financial assets	1	–
Trade and other receivables	21	9
Other current assets	99	10
Cash and cash equivalents	27	24
Total assets	178	91
Deferred tax liability	29	–
Provisions – non-current	18	–
Insurance related payables	–	6
Trade and other payables	25	29
Total liabilities	72	35

Rm	2015	2014
8. DISCONTINUED OPERATIONS continued		
Summary income statement from discontinued operations		
Operating income net of direct expenses	103	671
Operating expenses	(134)	(504)
Operating profit before non-trading and capital items	(31)	167
Non-trading and capital items*	(105)	(125)
Net investment income	(1)	–
Share of (losses)/profits from associates	(2)	3
Profit before tax	(139)	45
Taxation	9	(63)
Net loss for the year	(130)	(18)
(Loss)/profit on disposals	(15)	564
	(145)	546

*Included in non-trading and capital items is an impairment of goodwill (R95 million) and intangible assets (R7 million), both relating to Alexander Forbes Compensation Technologies. The comparative includes an impairment of goodwill (R114 million) relating to Guardrisk.

9. CALCULATION OF HEADLINE LOSS PER SHARE

9.1 Basic earnings per ordinary share

Basic earnings per share is calculated by dividing the profit/(loss) for the year attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

9.2 Headline earnings per ordinary share

Headline earnings/(loss) per share is calculated by excluding all non-trading and capital gains and losses from the earnings/(loss) attributable to ordinary shareholders and dividing the resultant headline earnings/(loss) by the weighted average number of ordinary shares in issue during the year. Headline earnings/(loss) are defined in circular 2/2013 issued by the SAICA.

9.3 Diluted earnings per ordinary share

Diluted earnings per ordinary share is calculated by adjusting the profit attributable to equity holders for any changes in income or expense that would result from the conversion of dilutive potential ordinary shares, and dividing the result by the weighted average number of ordinary shares increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Rm	2015	2014
9. CALCULATION OF HEADLINE LOSS PER SHARE continued		
9.4 Number of shares		
Weighted average number of shares (millions)	1 286	377
Treasury shares (millions)	(49)	(32)
Weighted average number of shares in issue (millions)	1 237	345
Dilutive shares	14	–
Diluted weighted average number of shares (millions)	1 251	345
Actual number of shares (millions)	1 302	1 251
Treasury shares (millions)	(20)	(96)
Actual number of shares in issue (millions)	1 282	1 155
9.5 Calculation of headline loss		
Profit attributable to equity holders (IAS 33 <i>Earnings</i>)	253	269
Adjusting items		
– Loss/(profit) on sale of subsidiaries	23	(564)
– Impairment losses and other capital items	118	114
Headline profit/(loss) for the year	394	(181)
Basic earnings per share (cents)	20.5	78.0
Headline profit/(loss) per share (cents)	31.9	(52.5)
9.6 Diluted earnings per share		
Diluted basic earnings per share (cents)	20.2	–
Diluted headline earnings per share (cents)	31.5	–

The group has implemented certain share schemes during the listing process that may result in dilution on both earnings per share and headline earnings per share at the future date of vesting. The dilutive effect is largely conditional on performance during the period for each award. The above dilutive effect is calculated based on the performance of the company for the current year in relation to the performance criteria.

NOTES *continued*

for the year ended 31 March 2015

	2015	2014
Rm		
10. CAPITAL EXPENDITURE FOR THE YEAR	110	208
Capital expenditure was funded from internal cash resources		
11. OPERATING LEASE COMMITMENTS		
Due within one year	211	164
Thereafter	2 177	2 316
Total operating lease commitments	2 388	2 480

12. FINANCIAL ASSETS HELD UNDER MULTI-MANAGER INVESTMENT CONTRACTS

The policyholder assets held by the group's multi-manager investment subsidiaries, Investment Solutions in South Africa and Namibia are recognised on balance sheet in terms of IFRS. These assets are directly matched by linked obligations to policyholders.

As a result of the group listing in July 2014, the investments by underlying asset managers in the listed shares of the group are recognised as treasury shares and all fair value adjustments recognised on these treasury shares are reversed, while the corresponding fair value adjustment on the liability continues to be recognised in the income statement. The resultant loss for the period of R26 million has been disclosed separately on the face of the statement of comprehensive income. This treatment also impacts the number of shares in issue, the impact of which is disclosed in note 10.

Below is a reconciliation of the assets held under multi-manager investment contracts with the linked liabilities under such contracts:

	2015	2014
Rm		
Total assets held under multi-manager investment contracts (per statement of financial position)	262 004	253 747
Reversal of adjustment made under IFRS:		
Alexander Forbes shares held as policyholder assets and reclassified in the group statement of financial position as treasury shares	142	–
Financial effect of accounting for policyholder investments as treasury shares	26	–
Total financial assets held for policyholders under multi-manager investment contracts	262 172	253 747

	2015	2014
Rm		
13. BORROWINGS		
Revolving credit facility	1 000	–
Term loan	–	1 250
SPV preference shares (refer below)	–	386
Total interest-bearing borrowings	1 000	1 636
Equity holder's loan	–	16
	1 000	1 652

On 31 March 2015, the terms of the term loan facility of R1.25 billion were renegotiated to a revolving credit facility of R1 billion. The revolving credit facility bears interest at JIBAR plus 1.25% per annum compounded quarterly. The interest is payable quarterly while the capital is repayable annually together with any unpaid interest on 31 March 2016. The facility is renewable annually for a 12-month period.

In order to facilitate participation in the capital restructure in the prior year, two special purpose vehicles (SPVs) were established to follow the rights on behalf of the Management Share Trust and the BEE consortium. The SPVs issued preference shares to a major bank and used the funds received to purchase ordinary shares in the company. Certain guarantees were provided by a subsidiary of the company which results in the SPVs being consolidated and the shares purchased being treated as treasury shares. The preference shares were fully redeemed when the company was listed. The preference shares paid quarterly dividends at a dividend rate of 75% of the South African prime rate with the first payment made on 31 May 2014.

SHAREHOLDER'S ANALYSIS

The company listed on the JSE Limited on 24 July 2014, which marked the exit of the private equity shareholders. Below is an analysis of the shareholding at 31 March 2015, reflecting the listed shareholding of the group, and at 31 March 2014, reflecting the private equity ownership.

	2015	
	Analysis of shareholders	Number of shares % 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	8.70
Liberty Life Association of Africa Ltd	78 287 396	6.01
	634 397 317	48.71
Investment management interests above 3% of the company's listed ordinary share capital		
STANLIB Asset Management	118 267 162	9.08
PIC	94 826 600	7.28
Allan Gray Investment Council	81 436 326	6.25
Abax Investments	69 754 671	5.36
Kagiso Asset Management Proprietary Ltd	45 323 718	3.48
Neuberger Berman Management LLC	44 051 865	3.37
	453 660 342	34.82

Shareholding spread at 31 March 2015

	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

ADMINISTRATION

ALEXANDER FORBES GROUP HOLDINGS LIMITED

Registration number: 2006/025226/06
(Incorporated in the Republic of South Africa)

Independent directors

MD Collier, D Konar, RM Kgosana, HP Meyer, B Petersen

Non-executive directors

MS Moloko (Chairman), DJ Anderson, WS O'Regan

Executive directors

E Chr Kieswetter (Group Chief Executive),
DM Viljoen (Group Chief Financial Officer)

Company secretary

JE Salvado

Investor relations

MK Dippenaar

Registered office

Alexander Forbes, 115 West Street, Sandown, Sandton, 2196

Transfer secretaries

Computershare Investor Services Proprietary Limited
Ground Floor, 70 Marshall Street, Johannesburg
PO Box 61051, Marshalltown, 2107

Sponsor

Rand Merchant Bank (A division of FirstRand Bank Limited)
1 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, 2196

Website

www.alexanderforbes.co.za

Date of issue: 30 June 2015

BASTION GRAPHICS

**ALEXANDER FORBES GROUP HOLDINGS LIMITED
("the Company")**

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PO Box 787240, Sandton 2146, South Africa 115 West Street, Sandown.

Certain subsidiaries of the Company are

LICENSED FINANCIAL SERVICES PROVIDERS
www.alexanderforbes.co.za