

Remuneration committee report

The Group's remuneration policies strive to reward employees in a fair and responsible way, which ensures a culture of high performance to deliver returns to shareholders through employees who are motivated, engaged and committed. The Group's remuneration policies and philosophies are contained in this report and their intended consequences are to attract, retain and develop employees with scarce and critical skills that contribute to building sustainable businesses.

MEMBERS

The members of the committee consisted of Mr M H Ahmed (chairperson, independent non-executive director), Ms N B Jappie (independent non-executive director) and Mr J A Copelyn (non-executive director). On request of the committee members the chief executive officer attends the meetings, but recuses himself from the meetings before any decisions are made in which he is affected.

GOVERNANCE

The board delegates responsibility for the oversight of the Group's remuneration practices to the remuneration committee. The committee ensures that the Group has a competitive remuneration structure which is aligned with the Group's strategy and performance goals. The key duties of the committee include:

- ensuring the Group upholds its entrenched remuneration philosophy that promotes the achievement of its strategic objectives;
- determining on an annual basis:
 - the remuneration of non-executive directors;
 - the total remuneration package of executive directors including, where appropriate, annual increases, short-term performance bonuses and long-term incentives; and
 - the remuneration packages of senior management and employees who report directly to the chief executive officer;
- ensuring the combination of fixed and variable pay is appropriate when benchmarking remuneration levels;
- reviewing and recommending to the board all proposals for executive share-based incentives and other short-term and long-term incentive schemes;

- determining targets for any performance-related pay schemes and requesting the board, when required, to seek shareholder approval for any share-based and other long-term incentive schemes; and
- compiling a report for inclusion in the company's integrated annual report.

The committee meets at least annually and seeks advice and guidance from external experts, as deemed appropriate.

Attendance of the meeting was as follows:

	24 June 2021	26 June 2020
M H Ahmed	✓	✓
J A Copelyn	✓	✓
N B Jappie	✓	✓

✓ In attendance

SHAREHOLDER ENGAGEMENT

The remuneration policy and the remuneration implementation report, which provide insight into the Group's remuneration practices, will be tabled for non-binding advisory votes of shareholders at the annual general meeting.

In the event that either the remuneration policy or the remuneration implementation report, or both, have been voted against by 25% or more of the voting rights exercised by shareholders at the annual general meeting, the company will formally engage with such dissenting shareholders to understand the reasons for the dissenting votes, and in respect of objections which are legitimate and reasonable to consider amending the remuneration policies or governance processes.

COMPOSITION OF REMUNERATION

Non-executive directors

Non-executive directors receive fees for their services as directors and for serving on board committees. These fees reward the directors fairly for the time, service and expertise that they provide to the Group. Non-executive directors do not participate in the Group's short-term or long-term incentive schemes.

Remuneration committee report (continued)

Messrs J A Copelyn, T G Govender, Y Shaik and M H Ahmed are directors of Deneb's ultimate holding company, Hosken Consolidated Investments Limited ("HCI") and Ms N B Jappie is a director of a fellow HCI subsidiary company.

Executive directors

The remuneration packages of executive directors comprise:

- a guaranteed remuneration package (structured on a cost-to-company basis);
- access to retirement fund and medical aid benefits funded from the guaranteed remuneration package;
- a short-term discretionary cash-based incentive bonus based on business and individual performance; and
- participation in the Deneb Share Incentive Scheme.

The remuneration structure of executive directors is linked to the Group's medium- to long-term business objectives and is therefore aligned to shareholder interests. The performance of the chief executive officer is evaluated by the chairperson, while the performance of the other executive directors is evaluated by the chief executive officer. The annual pay increases of the executive directors are aligned to the annual increase parameters as determined by the remuneration committee.

Executive directors participate in the annual short-term cash-based incentive scheme. To qualify for the incentive, minimum financial targets, based on the Group's return on equity (ROE hurdle) or budgets, are set by the remuneration committee. The financial targets to qualify for the incentive were achieved and executive directors qualified for short-term cash-based incentives as set out below.

The sustainability of the Group's business is critical in determining remuneration and the board is satisfied that the performance targets do not encourage excessive risk-taking by the executives. The Deneb Share Incentive Scheme in which executive directors may participate consists of a share option scheme, the details of which are disclosed in this report.

Management and non-bargaining unit employees

Senior management receives an annual guaranteed salary and participate in the short-term incentive bonus scheme. Guaranteed remuneration for senior executives is set at levels to retain and recruit management talent. Each senior executive position is graded, based on the business's turnover, number of employees, assets under management,

locations and the degree of complexity involved in the business. The associated package is benchmarked against an external market survey for a similar job rating. As the Group's philosophy is to reward performance, the salary benchmark is set at the 50th percentile median, which allows a lower fixed cost, but higher incentive structure.

The annual review of the performance of senior management is undertaken by the chief executive officer who provides a recommendation to the committee on any adjustments or incentive payments. Key senior managers participate in the Deneb Share Incentive Scheme, with selection based on their strategic contribution. Under the guidance of the remuneration committee the Group has introduced a uniform appraisal and evaluation process for all non-bargaining council employees. This process has been applied to all employees of the Group and is used as a guideline to determine remuneration adjustments.

The average salary increase parameter set by the remuneration committee for the year under review was 4,5% (2020: 5%) and the annual increase date is 1 July.

Bargaining unit employees

Collective salary increases are negotiated each year with the representatives of recognised trade unions.

INCENTIVE SCHEMES

Discretionary short-term incentive scheme

Key employees in each business unit participate in an annual discretionary short-term incentive scheme, which rewards the achievement of performance in excess of predetermined performance targets. The performance target is based on the business unit's core operating profit after interest, adjusted by an imputed interest charge at a hurdle rate. The imputed interest charge is calculated on the higher of net asset value or the average working capital level utilised by each business unit. In addition to the quantitative performance targets, the scheme includes predetermined qualitative performance targets.

The Deneb Share Incentive Scheme

The scheme was implemented to align executive directors' and senior management's objectives with those of the shareholders so as to ensure that those employees are encouraged and motivated to pursue sustainable growth and profitability. The aggregate number of shares which any one participant may acquire in terms of the scheme may not exceed 8 572 234 ordinary shares. The aggregate number of shares which may be utilised for the scheme may not exceed 42 862 171.

Participants are entitled to exercise options on a net equity-settled formulation, based on a minimum service period criteria, and are subject to the participant's continued employment on the date on which the option is exercised.

The required period of service is as follows:

- 10% from the first anniversary date;
- 20% from the second anniversary date;
- 30% from the third anniversary date; and
- 40% from the fourth anniversary date.

EMPLOYEE BENEFITS

Retirement funds

The majority of the Group's subsidiaries have defined contribution pension and provident fund arrangements in place. The assets of such retirement funds are managed separately from the Group's assets and are administered by

independent trustees and administrators within an umbrella fund. In addition to the independent administrators, a management committee with employee and employer representation has been appointed.

Medical aid

The majority of the Group's subsidiaries offer membership of approved medical aid funds to employees.

The Group carries a liability totalling R85 million (2020: R87 million) for post-employment medical aid benefits. Certain employees who joined the Group before 1 July 1996 are eligible for a 50% retirement subsidy of their total medical scheme contributions. The notes to the financial statements provide further detail of the post-employment medical aid benefits.

The Deneb remuneration committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

