



Remuneration Report

The purpose of this report is to provide a full overview of the governance and the philosophy, policies and practices relating to the company's remuneration, with particular focus on executive and non-executive directors.

Remuneration Governance structure

The Board is responsible for the company's remuneration policies and is assisted in its endeavours by the Remuneration and Nominations Committee (RemNomco).

RemNomco operates according to its Terms of Reference as reviewed and approved by the Board on an annual basis. RemNomco's Chairman reports to the Board after each RemNomco meeting and attends the Annual General Meeting (AGM) to take questions from shareholders on RemNomco's areas of responsibility.

RemNomco's role and responsibilities are to:

- determine, agree and develop the Company's remuneration policies. These policies are fully set out later in this report;
- determine and agree the remuneration packages for the executive directors and other executive committee members;
- ensure competitive reward structures that facilitate the recruitment, motivation and retention of high performance employees at all levels in support of corporate objectives and to safeguard stakeholder interests;
- consider the extent of, and participation in, the discretionary performance bonus and make recommendation to the Board;
- consider the treatment of any non-allocated portion of the discretionary performance bonus and make recommendations to the Board regarding the potential allocation of this portion to the long-term incentive;
- consider the appropriateness of participants of the long-term incentive as well as the extent of their individual participation and make recommendations to the Board;
- review and recommend to the Board the relevant performance measures for executives and the evaluation of such measures;
- consider other special benefits or arrangements of a substantial financial nature;
- review promotions, transfers and terminations of employment; and
- ensure compliance with applicable laws and codes.

Some of the matters noted during the past financial year included:

- the assessment of the status of directors classified as independent;
- discussion on the results of the Chairman and Board evaluations conducted during 2013;
- consideration of nominations for Board appointments and making recommendations to the Board;
- consideration of the composition of the Board and all committees and making recommendations to the Board;
- consideration of the remuneration of non-executive directors and submission of the recommendation to the Board;
- review of the remuneration policies and practices, including incentive schemes for approval by the Board;
- review of increases to guaranteed packages, awarding of bonuses, and long-term incentives within the framework of the remuneration policy for approval by the Board; and
- review of the succession planning of the Board, the committees and Senior Management.


Remuneration Philosophy

Strate aims to attract, retain and motivate executives of the highest calibre, while at the same time aligning their remuneration with shareholder interests and best practice.

All incentives are performance based. Strate rewards executives for their contribution to the achievement of the objectives set out in its Corporate Balanced Scorecard. This is based on contributions to the *Financial*, *Stakeholder*, *Operational* and *Learning* elements, for which performance parameters are defined.

Remuneration is thus conducive to developing and retaining appropriate top talent, critical skills and intellectual capital, ensuring the sustainability and growth of the business based on sound discipline and the contribution by staff to the results of Strate.

Strate's performance management process is aligned to the Corporate Balanced Scorecard, with performance appraisals conducted bi-annually. Further to this, at an executive and management level, an annual 360 degree feedback process is conducted, followed by comprehensive one-on-one feedback sessions that are used for the purpose of building competence and awareness in areas needing development. The outcome of the performance appraisal process influences the remuneration of executives.



Although we take an holistic approach to reward, we are biased towards enhancing the company as a Learning Organisation, with education in the forefront. Our employee value proposition is balanced across the following elements:

- individual growth and development;
- a stimulating work environment;
- a guaranteed package;
- variable pay in the form of:
 - a short-term bonus;
 - a discretionary performance bonus, and;
 - a long-term incentive scheme.

The primary philosophy behind the bonuses is to align rewards of employees with those of the other stakeholders by sharing the profits of the company in a 50:30:20 ratio with 50% of Net Profit After Tax being returned to the shareholders by means of dividends, 30% being retained in the business for growth and 20% being allocated to employees who have met and exceeded set performance targets, in the form of discretionary performance bonuses and long-term incentives. While a share incentive scheme would have advantages in incentivising staff to focus on the future success and sustainability of Strate, being unlisted, this approach is not pragmatic. Consequently, all incentives are cash based.

Remuneration Policies and Practice

Fair and competitive reward is vital to being an employer of choice. To ensure that Strate remunerates its employees and executives competitively, it utilises reputable benchmark remuneration surveys undertaken by an independent service provider using a spectrum of applicable industry information. This is considered the most appropriate benchmark for Strate since its activities are broader than just the pure financial industry; it includes for example, benchmarks for Information Technology (IT) and Regulatory Services.

The base remuneration (cost to company) is reviewed bi-annually. These benchmarks are used by RemNomco to set the guaranteed base remuneration for executives. The cost to company is benchmarked at the median, unless special circumstances require this to be set higher.

In determining an employee's guaranteed base remuneration, job grading and the classification of the division (whether support or critical services) are considered.

Remuneration structure

The remuneration structure consists of the following elements:

- Guaranteed base remuneration; and
- Incentives in the form of short-term bonuses;
- Discretionary performance bonuses; and
- Long-term incentives.

Of these elements, only the base remuneration is guaranteed and all other elements are performance based against defined and measurable criteria.

Employment contracts

Except for the CEO, who has a six-month notice period, the service contracts of the executive directors of Strate are subject to a three-month notice period. There are no service contracts in place with non-executive directors. The remuneration policy is tabled at the AGM for a non-binding advisory vote, in terms of King III.

The process starts with setting the objectives of the company and is cascaded down through the CEO to Exco, managers and all employees. Job evaluation and grading is done with reference to the qualifications and experience required, problem solving and communication abilities required and the financial impact and influence required to fulfil the mandate for each role, using the Paterson scale. From this a matrix has been created against which each role is measured and benchmarked appropriately.

Remuneration structure

The 4 main elements of the remuneration package are summarised as follows:

Remuneration Structure		
Element	Type	Objective
Guaranteed base remuneration	Fixed	Reflects scope and nature of role, experience required and performance expected.
Short-term bonus	Variable	Motivates and rewards achievement of performance objectives.
Discretionary performance bonus	Variable	Motivates and rewards achievement of performance objectives and aligns with shareholder interests.
Long-term incentive	Variable	Encourages longer-term performance and loyalty and helps retain key skills. Aligns with shareholder interests.

Short-term bonuses

Short-term bonuses are paid to reward employees for their contribution to the success of the company. The value of the bonus is calculated by a formula, taking into account the monthly guaranteed package, individual performance, seniority and length of service.

It is paid twice a year with the first bonus paid in June, amounting to a maximum of 70% of one month's guaranteed package, and the second bonus, paid in November which can amount to a maximum of 5 times monthly guaranteed package for executive directors.

Discretionary performance bonus

Discretionary performance bonuses are paid at RemNomco's discretion from a pool not exceeding 10% of the Net Profit After Tax. Each Exco member has agreed upon targets and stretch targets set each year. The attainment of stretch targets are required for an appraisal score of 4.5 or 5, adding a measurable hurdle to achieving better than 90% of the discretionary performance bonus. This bonus is calculated with reference to the ratio of the short-term bonus pool.

The discretionary performance bonus calculation could result in a portion of the discretionary performance bonus pool remaining undistributed, allowing RemNomco to exercise its discretion regarding the application of any undistributed balance to enhancing the long-term incentive pool. This bonus is paid in two instalments, 75% in November, after the appraisal process, and the balance after the financial results have been finalised, usually March/April.

Long-term incentives

The long-term incentive, which is a cash scheme, was implemented in 2006 and is designed to retain and reward critical staff members over the long term and is set at 10% of Net Profit After Tax.

Should the profits for any year be insufficient to constitute a pool, RemNomco has discretion, subject to Board approval to determine an amount to constitute a pool. Guidelines are considered annually by RemNomco to ensure that the needs of the various stakeholders are met.

Participants are nominated each year by the CEO in consultation with Exco for approval by RemNomco. Selection to participate in one year does not guarantee participation in future years.


Factors considered in the nomination and selection of participants include:

- importance and role played in achieving the company's strategic objectives;
- specialised skills or knowledge;
- mobility;
- business continuity, including succession planning; and
- achieving a minimum of 3.5 in the appraisal process.

It is a 5 year scheme, with payments spread evenly over three years starting with year 3 and earning interest at the corporate rate achieved by Strate. Category multiples are used to weight each participant's portion within the long-term incentive pool.

The category multiples used are on the basis of:

- Executive directors - 5 times annual guaranteed package
- Exco - 4 times annual guaranteed package
- All other staff levels - 2 times annual guaranteed package.



The multiples are used for apportionment of the annual long-term incentive total pool to each participant only and are not indicative of an award earned by each participant on gross annual packages alone.

The participant's interest is capped not to exceed the participant's guaranteed package times the multiple allocated, and in addition, is not to exceed 20% of the long-term incentive pool.

OTHER AWARDS

Leave and leave bonus days

Leave ranges from 16 days per annum for support staff with less than 5 years of service with Strate to 30 days per annum for Exco members who have served more than 5 years with Strate.

On the 5th anniversary of the commencement of their employment and every 5th year thereafter each staff member is awarded an additional 5 days leave. This is granted for that year only.

Sabbatical

This applies only to employees who have served as Exco members for at least 5 years and have achieved at least a rating of 4 in their most recent appraisal. It is intended to allow Exco members to apply themselves to personal or professional development.

The following issues must be motivated when applying for this type of development:

- the benefits to the Exco member and to Strate;
- the institution hosting the programme;
- the cost of the programme;
- the total cost may not exceed R100 000 including subsistence allowance, adjusted annually for inflation after 2013;
- the duration of the programme should not exceed two weeks; and
- the absence of the member should not impact the divisional operations, so timing must be decided with the best interest of Strate in mind.
- There is an obligation to reimburse Strate a pro-rata portion of the cost on leaving within 12 months of taking a sabbatical in terms of this policy.

The CEO has the final say, with motivation being submitted to RemNomco for noting.

Reward and Recognition Awards (incl. Exco Special Award)

To encourage excellent performance and achievement, Strate uses special awards that are flexible and meaningful. The factors considered in making these awards include:

- the contribution being of measurable significance to Strate. The extent of that contribution will decide which award is given;
- initiative being shown;
- where personal time has been infringed to a large extent, particularly lengthy projects; and
- effort expended and dedication shown in completion of a task successfully and on time.

Reward and Recognition awards may be made to individuals or to teams, depending on circumstances. They are nominal in value and infrequent in occurrence.

Job Matching and Grading Process

In 2010, a position and grading analysis was undertaken by a reputable service provider to ensure that employees are paid at a level which meets market expectations for that particular job category. Over time, as new positions are created, the same process of grading analysis and job evaluation is undertaken. Furthermore, RemNomco has passed a resolution that Executive positions will be fully evaluated after every five years.

The job evaluation and grading process involves assessing the relative worth of the various activities in the organisation in order to provide a rational basis for determining the remuneration and grading of each position.

Based on the job evaluation and grading the remuneration of each position is determined. The base remuneration is determined using the defined comparator group and the quartile comparison.

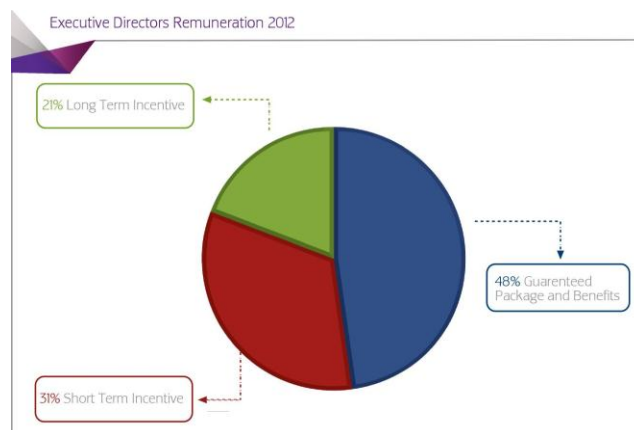
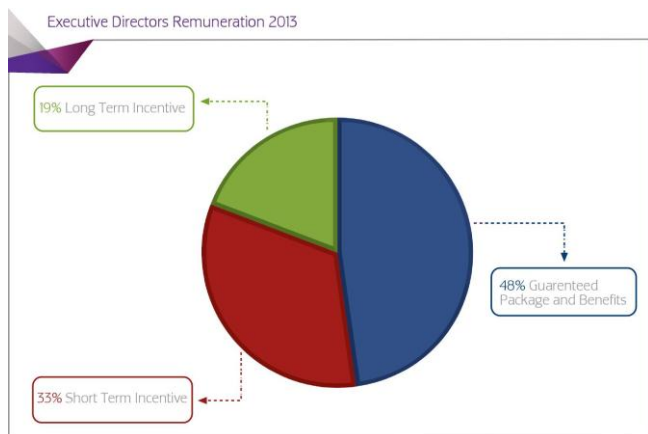
The market benchmark for the base remuneration is obtained twice a year to ensure that remuneration remains market related.

Executive director remuneration

Executive director remuneration is disclosed in the Annual Financial Statements. The only people who may act as prescribed officers are the executive directors.

In line with the remuneration philosophy, executive remuneration is normally set at the market median with exceptional cases up to the 75th percentile. This is reviewed annually by RemNomco.

Composition of Executive Directors' total remuneration for the year:



Non-executive director remuneration

Following a detailed report and recommendations by PwC a comprehensive analysis of the fee and time spent for Board and committee activities was undertaken in 2013. Non-executive director fees were determined based on this analysis for a three year period terminating December 2015 during which period the annual fee is adjusted for inflation. Non-executive director remuneration is disclosed in the Annual Financial Statements.

During the year, the Company commissioned a report by PwC. This report recommended that fees should be based on the number of hours spent by directors at each meeting and preparation time. Chairmen of committees should also be remunerated for time spent on issues related to their functions as chairmen. This method of computation was agreed. The hours and rates used by PwC were not considered appropriate and an extensive exercise was conducted into the actual time spent on each Committee during the year. This outcome of the exercise resulted in the actual hours being lower than those included in the report. A suitable rate was determined and the proposed

fees were put to the AGM for approval on a three-year basis with an annual CPI escalation in the fee rate. If any Committee warranted a downward revision of hours spent, such revision would take place but no increase would occur.

It was further decided that the Company Chairman should be paid a retainer but no additional payment for attending Board meetings. The Chairman would be paid separately for "non-Chairman activities" such as being a member of the Regulatory & Supervisory Committee.

All other directors would receive a retainer and payment for attendance at meetings. An hourly rate was approved for attendance of ad hoc meetings.

These fee proposals would apply to the independent directors but not to shareholder nominated directors who would continue to receive no fees from the Company.

The emoluments of non-executive directors for 2014 and the actual emoluments paid for 2013 were:

Non-Executive Director Fees

Non-Executive Director Fees	Approved for 2014		Approved for 2013	
	Retainer	Meeting	Retainer	Meeting
Chairman of the Board ¹	R 911 600	-	R 860 000	-
Lead Independent Director ²	n/a	n/a	n/a	n/a
Board Member	R 26 500	R 29 200	R 25 000	R 27 500
Audit, Risk and Compliance Chairman	-	R 63 600	-	R 60 000
Audit, Risk and Compliance Member	-	R 31 800	-	R 30 000
Regulatory and Supervisory Chairman	-	R 97 000	-	R 99 000
Regulatory and Supervisory Member	-	R 47 700 ³ or R 18 600 ⁴	-	R 45 000 ³ or R 17 500 ⁴
Remuneration and Nominations Committee Chairman	-	R 57 200	-	R 54 000
Remuneration and Nominations Committee Member	-	R 21 200	-	R 20 000
Adhoc rate per hour Member	n/a	R 2 700	n/a	R 2 500
Adhoc rate per hour Chairman	n/a	R 3 200	n/a	R 3 000
Participant Failure Committee Chairman	-	R 3 200 ⁵	n/a	-
Participant Failure Committee Member	-	R 2 700 ⁵	n/a	-

- 1 The Chairman's retainer is inclusive of meeting fees. The Chairman is a member of the Regulatory and Supervisory Committee and will be entitled to remuneration in his capacity as a member of that committee.
- 2 No Lead Independent Director to be appointed given the independent status of the Chairman of the Board.
- 3 Fee payable to a member for attending committee training sessions, the confidential and the non-confidential parts of the meeting.
- 4 Fee payable to a member for attending committee training sessions and the non-confidential parts of the meeting.
- 5 To be remunerated at the hourly rate until such time as the fees have been determined.