

African Bank Holdings

An assessment of the effectiveness of our application
of the King Code of Corporate Governance, King IV

November **2018**

INTELLECTUAL CAPITAL

CORPORATE GOVERNANCE THAT ENSURES AND PROTECTS VALUE

Assessing the effectiveness of our approach to corporate governance, our Board and management recognise that to achieve our central strategic objective of *Advancing lives* and to gain the trust of our stakeholders requires transparency, sound corporate governance, ethical business practices and responsible corporate citizenship. We welcome the outcomes-driven approach to corporate governance of King IV, the latest update of the King IV Report on Corporate Governance principles, which provides us with the opportunity to assess whether our approach to corporate governance, an essential element of our intellectual capital, is facilitating:

- ethical and effective leadership
- an ethical culture
- responsible corporate citizenship
- accountability and effective control
- effective risk governance
- transparency that ensures our stakeholders are provided with the information they need to make informed decisions about our business
- value creation for all our stakeholders.

Towards achieving an ethical culture

By our application of:

Principle 1: The governing body should lead ethically and effectively and

Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture

Our Board is ultimately responsible for ethical behaviour within the Group. To this end it approved the Group Code of Ethics (the Code) in 2016 and established the Sustainability, Ethics and Transformation Committee (Setcom) to which it delegated responsibility for ensuring the adequate formulation and implementation of policies and practices that support the establishment of an ethical culture in the Group. An Ethics Committee, that reports into the Setcom, forms part of our management governance structure. During 2018 the Ethics Committee and Setcom reviewed and revised the Code and the enhancement of the process to further embed the code and associated behaviours. In addition, as part of our efforts to continually improve the governance of behaviour and compliance in the Bank a new whistle-blowing policy was developed and approved by the Board in August 2018.

A Board-approved Treating Customers Fairly policy (TCF) and our TCF initiative are an important part of our efforts to establish an ethical culture in African Bank and ensure we achieve a key aspect of *Advancing Lives*, which is treating our customers fairly.

Establishing an ethical culture is a key element of our focus on instilling a culture in the Bank that underpins the five values through which we seek to bring a greater degree of humanity to our banking.

The reporting of any suspicion of unethical behaviour is becoming entrenched in the Bank as our employees are developing an awareness of how important it is for us to establish an ethical culture. Their willingness to report their suspicions to the Ethics Office is an encouraging indication that they feel safe to do so. Our whistleblowing line, which allows for anonymous reporting and is available to both our internal and external stakeholders, is also well used.

Responsible corporate citizenship

By our application of:

Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen

Our Board and Setcom are responsible for ensuring the Bank is and is seen to be a responsible corporate citizen. The Setcom oversees the development of the policies and practices governing our corporate citizenship role and our

performance as a responsible corporate citizen, by monitoring our performance with regard to the:

Workplace: Employment equity, fair and responsible remuneration and the safety, health and wellness, dignity and development of our employees; seeking feedback from our employees through the People Engagement Survey and, where appropriate, acting on this feedback.

Economy: Exercising responsible corporate citizenship by tightening our credit policy; implementing a refined credit scorecard and reducing our risk appetite; complying with legislation and regulations to address fraud and corruption by establishing an anti-money laundering (AML) function and an AML/countering financial terrorism (CFT) compliance risk management programme and system; responsible and transparent reporting and compliance with tax legislation.

Role of African Bank in society:

Advancing lives is at the core of our business strategy and our commitment to protecting the human rights of both our employees and our customers; ensuring we are treating customers fairly through our TCF programme and TCF Committee; seeking feedback from our customers through the NPS[®] and the South African Customer Satisfaction Index (SAcsi) and, where appropriate, acting on this feedback; the funding of community education and sports projects with measurable outcomes through the African Bank Development Trust; and helping small, medium and micro enterprises (SMMEs) grow their businesses through a business accelerator initiative and mentoring programme provided by members of our management team.

Environment: Implementing our Board-approved sustainability policy and an effective environmental management plan aimed at responsible management of our waste, increasing our energy efficiency, reducing our carbon footprint, including our IT carbon footprint, and conserving water.

Achieving good performance

By our application of:

Principle 4: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process

The Bank recognises that its activities and the outcomes of these activities can have both positive and negative impacts on the triple context (the economy, society and the environment) in which we operate and the capitals we employ in our business to create value for our stakeholders by achieving a good performance.

When we agreed our strategies, we assessed the risks and opportunities they present in relation to our risk appetite and risk tolerance, which take into account the triple context, and established our strategic scorecard and our financial, customer and people targets to be achieved by 2021. We measure our performance against these targets. The business model we use to create economic value incorporates the triple context and explains how we use our stock of the six capitals to create value.

We have made good progress with our Board-approved strategic plan intended to secure the Group's future. It includes creating a diversified bank by developing new products, new channels to market and a transactional banking offering using the latest technology.

Our investment in the replatforming of the Bank's systems (the upgrading and repositioning of our branches to ensure their optimal location), allowed us to achieve a very pleasing return on equity in our branch network of 21% in the year under review.

Our commitment to creating social value includes our investment in internships, which has given unemployed graduates job opportunities and access to skills development not previously available to them. The focus of our efforts to address the social and economic needs of South Africa is on helping good performers to gain access to career opportunities that will allow them to become valuable members of society.

AN ETHICS COMMITTEE, which reports into our Setcom, forms part of our management governance structure

OUR CORPORATE GOVERNANCE is designed to protect and create sustainable value

The Setcom advises and provides guidance to the Board on the effectiveness of management's efforts in respect of social, ethics and sustainable development-related

matters. It also carries out its duties as prescribed in the Companies Act, 71 of 2008 and reports on its discharge of its duties in this regard to the Board and stakeholders .

By our application of:

Principle 5: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and custodianship of corporate governance in the organisation

The Board assumes responsibility for the integrity of our integrated report (see page 03 of our integrated report for 2018).

We engage with our stakeholders throughout the year to provide them with information on our performance, any challenges we are facing and our view of the future. We do this through our interim and annual reporting, presentations, one-on-one conversations, face-to-face meetings and Stock Exchange News Service (SENS) announcements. The materiality process we follow helps us identify and address the matters material to our stakeholders in our reporting.

The aim of our combined assurance model, which includes both internal and external assurance services, is to provide our Group Audit and Compliance Committee (Auditcom) with the comfort that significant areas of risk within the Group are adequately addressed and that suitable controls exist to mitigate these risks. Our aim is to include external assurance on the integrity of economic, social and environmental information in our combined assurance plan.

The matters we identified as being of concern to our stakeholders and our response to these concerns are set out on pages 90 to 95 of our integrated report for 2018.

Achieving effective control and legitimacy

By our application of:

Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation

Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and

independence for it to discharge its governance role and responsibilities objectively and effectively

Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties

Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness

Principle 10: The governing body should ensure that the appointment of and delegation to management contributed to role clarity and the effective exercise of authority and responsibilities

Our application of **Principles 6 and 8**

Our Board performs its duties within a governance framework (the framework) of policies and controls that apply to all the businesses in the ABH Group and provide for effective risk assessment and management of our economic, social and environmental performance. The framework sets out the Board's commitment to ethical leadership, the application of ethical business practices and sound corporate governance. It also takes into account the requirements of King IV, the Companies Act, 71 of 2008 (as amended), the Banks Act, 94 of 1990 (as amended), and other relevant legislation, regulations and local and global best practice. The framework, which supports the achievement of our business strategy, is continually reviewed to ensure it continues to support effective decision-making, provides robust controls and is aligned to evolving best practice.

Our Board Charter, which is closely aligned with the recommendations of King IV, details the responsibilities of the Board, while our Memorandum of Incorporation (MOI) also addresses certain of our directors' responsibilities and powers.

The Board's MOI also sets out the shareholder's delegation of authority to the Board, which has a formal schedule of matters reserved for its consideration and decision. Its delegation of certain matters to its committees and businesses in the the Bank is described in the terms of reference of these committees, which are available from

INTELLECTUAL CAPITAL CONTINUED

the Company Secretary. In addition, the Board delegates authority to the Chief Executive Officer who delegates to and is supported by the Executive Committee.

The Board regulations require that one-third of our non-executive directors retire annually by rotation. Before recommending their re-election to the shareholders the Board evaluates the performance of the directors due for re-election and establishes whether or not they are available for re-election.

Our application of Principle 7

The profiles of our Board and committee members, demonstrate that the good balance of knowledge, skills, experience, diversity and independence of our Board members more than adequately equips them to discharge their responsibilities effectively and objectively. We do, however, recognise that there is room for improvement in the composition of our Board in terms of achieving an appropriate balance of knowledge, skills, experience, diversity and independence and we have addressed this in 2018. The analysis on page 16 of our integrated report for 2018 set out the diversity and independence of our Board members. In accordance with the JSE Listings Requirements of February 2017 our integrated report for 2018 includes the racial and gender targets we have set for our Board and our performance against these targets on page 16 of our integrated report for 2018.

Our application of Principle 8

Through the application of strong, independent directors and the separation and clear definition of the roles and responsibilities of the Chairman and Chief Executive Officer, the Bank has established a clear balance of power and authority at Board level. Our Board and committee activities in 2018 can be found on page 71 of our integrated report for 2018.

The Board established that the appointed Company Secretary maintains

an arm’s length relationship with the ABH executive team; the Board does not interfere with the performance of her corporate governance responsibilities and, as required in terms of section 3.84(h) of the JSE Listings Requirements, having assessed her abilities based on her qualifications, experience and levels of competence, endorsed and confirmed her appointment as Group Company Secretary.

Our application of Principle 9

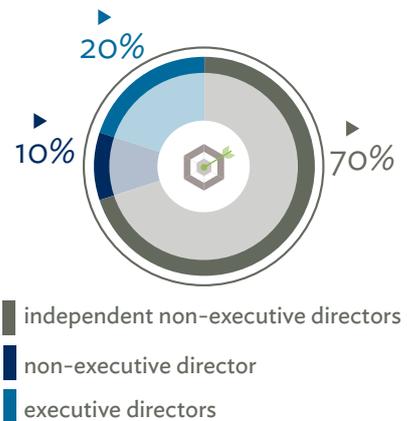
The Chairman conducts an annual assessment with each director, following which succession needs and/or training needs are determined. To facilitate continued improvement, the Board evaluated its performance and that of its committees during 2018 and the Chairman and individual Board members also conducted self-evaluations of their performance as Board members.

These assessments will be conducted by an independent external consultant in 2019.

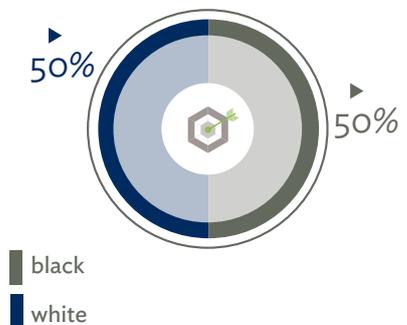
BOARD GENDER AND DIVERSITY TARGETS

African Bank Holdings has adopted gender and diversity targets for its Board, which have been included in our Group employment equity policy. These targets are based on those applied throughout our business. Our preference is to appoint black females, then black males. We remain cognisant, however, of the need to ensure we have the specialist skills we require.

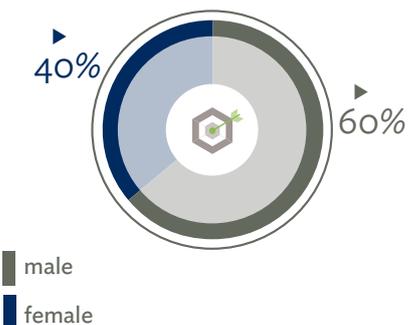
BOARD INDEPENDENCE AS AT 30 SEPTEMBER 2018



BOARD AND RACIAL PROFILE



BOARD GENDER PROFILE



(75% of female members of the Board are black)

Our board and committee activities in 2018

What kept our Board busy this year	What will keep the Board busy in 2019
Our omnichannel and transactional banking journey	Public launch of transactional banking and omnichannel
Adoption of the Bank's digital model	Implementation of the Bank's digital model
Board succession	IT stability, information and cyber security
MMI partnership	Execution of liquidity facility
Application of King IV	Securing new partnerships (insurance and telco)
IT stability, information and cyber security	Board succession
	Further embedding of King IV
What kept our Auditcom busy this year	What will keep the Auditcom busy in 2019
Revision of the compliance risk management policy and approval of the Group Anti-money laundering policy	Implementation of IFRS9
Changes to the impairments model principles in terms of the IAS39 principles, which address concerns raised by the external auditor	Transactional banking assurance processes
The Group's methodology for arriving at its IFRS9 range	Company valuation for LTI purposes
Governance, including IT governance associated with the transactional banking project with a focus on change controls, AML issues and risks	Governance, including IT governance associated with the transactional banking project with a focus on change controls, AML issues and risks
Termination of the co-source arrangement with KPMG for certain internal audit work	Monitoring of control environment in transactional banking environment
Transactional banking assurance processes	
MMI partnership accounting policies	
Company valuation for LTI purposes	
Appointment of external auditors 2018 - 2020	
Change of designated audit partner	
<i>The Auditcom, RCMcom and Setcom reports are available on pages 108 to 112 of our integrated report for 2018</i>	
What kept our RCMcom busy this year	What will keep the RCMcom busy in 2019
Monitored the performance of the new V5 credit scorecard	Continually monitoring transactional banking risks
Considered project risk and risk generally for transactional banking	Monitor credit risk in relation to developing macroeconomic factors
IT risk/cyber security <ul style="list-style-type: none"> Received independent report on cyber risk and recommendations Responded to Prudential Authority guidance on cyber resilience 	Monitor risk relating to development and implementation of DebiCheck processes
Received report on new bureau strategy and credit performance	Monitor risk relating to implementation of National Credit Amendment Bill
Considered impact of DebiCheck	Monitor risk in terms of impact of launch of transactional banking on employees
Considered Credit Regulator queries and impact of proposed new legislation	Monitor IT risks relating to system stability, network congestion and cyber security (ongoing)
Received reports on BCBS 239 implementation	Monitor risk in terms of execution of liquidity facility
Considered individual director risk assessments	Monitor risk relating to resources and capability in the IT environment
Approved ICAAP and Recovery Plans, monitored triggers	Monitor risk relating to data collection and storage.
Approved revisions to ALCO charter and counter-party limits	
Undertook annual reviews of Risk Framework and risk appetite, material malfunction definition and threshold	
Received presentations on the Viceroy reports and African Bank's practices	
What kept the Remcom busy this year	What will keep the Remcom busy in 2019
Ensuring equity in remuneration practice	Continued focus to ensure equity in remuneration process and practice
Review of variable remuneration policies and practice	Continue focus on remuneration policies and practice to identify risk to key employees and where skills demand, consideration of retention incentives
Identification of new variable remuneration	Implementation of new long-term incentive scheme
Mandate for annual salary negotiation and outcome	Pay practice, impact and mandate for annual salary negotiation
Executive Succession Plan	Executive succession plan
Review of executive director, Exco and Assurance Provider packages	Identified remuneration needs for specialist skills required to deliver the Bank's digital model
What kept the Setcom busy this year	What will keep the Setcom busy in 2019
Achievement of employment equity plan	Continued employment equity drive
Establishment of B-BBEE tactical plan	Drive strategies to achieve Level 4 B-BBEE accreditation
Readying our employees for transactional banking, aligning skills, training and incentives	Drive employee readiness for transactional banking, aligning skills, training and incentives
Formalising ESE management and reporting	Manage stakeholder relations in terms of sustainability, ethics and transformation
	Identify and manage sustainability risks across the business
	Engage independent third-party assessor
	Establishing culture required for digital model, and drive
What kept our DAG Committee busy this year	What will keep the DAG Committee busy in 2019
Considered King IV readiness	Ensure further embedding of King IV
Considered Board performance assessment	Consider Board and Board Committee assessments and action plans
Approved Board, Board Committee and Executive succession plans	Consider Board and Executive succession and approve plans
Established a nominations sub-committee, who undertook the identification of possible new directors and conducted interviews	Consider new directors as identified in succession plans and appoint Ensure effective induction of new directors

INTELLECTUAL CAPITAL
CAPITAL
CONTINUED

Our application of **Principle 10**

As indicated in the structure that follows a Board-approved delegation of authority is in place, which together with the duties and authorities that form part of the Board Charter, delineate the authority of the Chief Executive Officer (CEO) who is responsible for the implementation and execution of the Group’s Board-approved strategy, policies and business plans.

The CEO’s contract is for an indefinite period, which may be terminated by the Group or the CEO by mutual agreement, with a minimum notice period of three months. The Board appoints the CEO whose performance is assessed against key performance metrics annually. These metrics are aligned to the key performance objectives of the Group and are approved by the Board for each forthcoming year.

The Bank’s effective succession planning resulted in a replacement for its CEO, Brian Riley, already being in place when he announced his intention to retire.

The executive team that the CEO has established to assist her in fulfilling her obligations is made up of professionals with the banking industry skills and experience necessary to ensure the sustainability of the Group’s existing business and the successful implementation of strategic initiatives.

The structure of the management committees that ensure effective corporate governance within the Group is set out in the diagram that follows.

The Board also appoints the Company Secretary who is accountable to the Board.

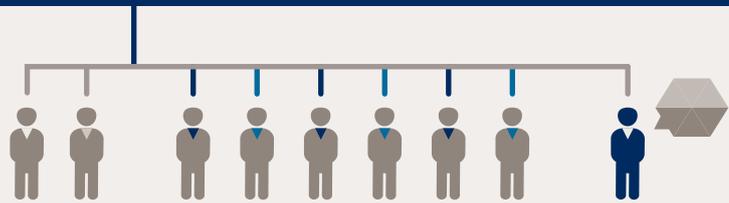
Corporate governance designed to protect and create sustainable value

The diagram that follows explains how our governance structures create value for our stakeholders by providing direction and leadership, facilitating the setting and steering of strategy, establishing an ethical culture, effective control and legitimacy through accountability, delegation, monitoring and oversight.

By applying **Principle 4**

The Board

Provides direction to the business with the aim of creating sustainable value by setting, steering and overseeing our business strategy and plans, risk and opportunity management, performance and sustainable development

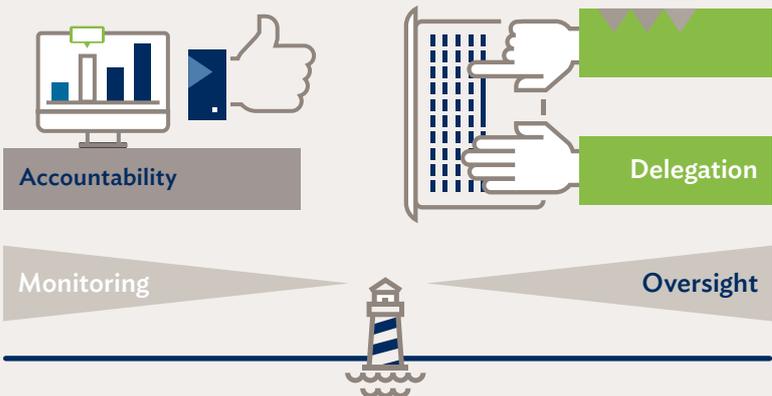


Performs its role as custodian of governance in African Bank by establishing accountability, delegation, monitoring and oversight

By applying:
Principles 1, 2, 3 and 6 – ethical leadership, establishing an ethical culture, responsible corporate citizen.

Principles 3, 11, 12, 13, 14, 15 and 16 – appropriate strategies, policies, charters, terms of reference, assurance services and functions in place to achieve compliance with relevant laws and regulations; effective control at Board, committee, executive and management levels; effective risk management and technology and information governance; responsible corporate citizenship and stakeholder inclusiveness.

Principle 10 – Board-approved delegation of authority is in place that promotes independent judgement, a balance of power, role clarity and effective discharge of duties at Board, committee, executive and management levels.



Delegation to Board committees

By applying **Principle 8 – accountability monitoring and oversight**

Our Board committees report to the Board on the statutory duties and Board-assigned responsibilities set out in their terms of reference every quarter. These terms of reference are regularly reviewed and are available from the Company Secretary.



By applying **Principle 10 – appointment of and delegation to management**

The roles and responsibilities of the Chairman and the Chief Executive Officer (CEO) are separate and clearly defined. The CEO is accountable to the Board for leading the implementation and execution of our Board-approved strategy, policies and business plans.

MANAGEMENT GOVERNANCE STRUCTURE



USING CORPORATE GOVERNANCE TO CREATE SUSTAINABLE VALUE FOR OUR STAKEHOLDERS

1 Treating Customers Fairly Council
 2 The Heads of Internal Audit and Group Compliance have functional reporting lines to the CEO and have unfettered access to the Chair of the Auditcom, RCMcom and all other Board Committee chairs.

INTELLECTUAL CAPITAL CONTINUED

Achieving effective control

By our application of:

Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives

The contribution risk governance makes to our intellectual capital

Our risk governance structures and processes, which include the oversight, management and assurance of risk management, are based on the three lines of defence model. Our use of this model has two important aims: to provide the Board and its committees with oversight of the Group's risk management activities and to embed the culture and practice of risk management in our day-to-day business activities. It also provides the Group with three independent views of risk in the organisation.

RISK GOVERNANCE AT AFRICAN BANK USING THE THREE LINES OF DEFENCE MODEL

RESPONSIBILITY	ACCOUNTABILITY	GOVERNANCE STRUCTURES																		
First line of defence																				
Chief Executive Officer, Executive Committee and client-facing business units																				
Formulate Group business strategy	Accountable for ensuring African Bank has and maintains an efficient and transparent risk management process	Executive Committee's management committees																		
Second line of defence																				
Chief Risk Officer and Group Risk function																				
Monitor Group risk relative to strategy	Accountable for developing a culture of performance monitoring and compliance and facilitating compliance throughout the organisation	Executive Risk Committee																		
Third line of defence																				
Board and Board committees																				
Approval of risk appetite policy and ERM framework Approval of strategy and oversight of its implementation	Oversight of total risk management process and forming an idea of its effectiveness	African Bank Board of Directors																		
		Board committees																		
		<table border="1"> <thead> <tr> <th>RCMcom</th> <th>Auditcom</th> <th>DAG</th> </tr> </thead> <tbody> <tr> <td>Risk and sustainability, capital and liquidity management</td> <td>Audit and compliance</td> <td>Sustainability, ethics and management</td> </tr> <tr> <td>Setcom</td> <td>RCMcom</td> <td></td> </tr> <tr> <td>Ethics and transformation</td> <td>Human Capital Risk Reward Remuneration equity</td> <td></td> </tr> <tr> <td>Subcommittees</td> <td></td> <td></td> </tr> <tr> <td>ALCO</td> <td>MRC</td> <td>ITC</td> </tr> </tbody> </table>	RCMcom	Auditcom	DAG	Risk and sustainability, capital and liquidity management	Audit and compliance	Sustainability, ethics and management	Setcom	RCMcom		Ethics and transformation	Human Capital Risk Reward Remuneration equity		Subcommittees			ALCO	MRC	ITC
		RCMcom	Auditcom	DAG																
		Risk and sustainability, capital and liquidity management	Audit and compliance	Sustainability, ethics and management																
Setcom	RCMcom																			
Ethics and transformation	Human Capital Risk Reward Remuneration equity																			
Subcommittees																				
ALCO	MRC	ITC																		
Assurance																				
External audit																				
Independent audit of annual financial statements	Accountable for providing an opinion on the Group's financial statements in accordance with IFRS standards and the requirements of the Companies Act and the Banks Act Regulatory return audit	Auditcom Combined assurance forum																		
Internal audit																				
Internal Audit and other assurance providers in terms of our combined assurance framework	Internal Audit is accountable for delivering on the risk-based Internal Audit plan approved annually by the Auditcom Other assurance providers are accountable in line with their relevant professional standards																			

Our Board has taken responsibility for the governance of risk in the African Bank Group, by:

- setting the direction for how we approach and address risk
- annually reviewing the Bank's risk management policies and processes
- reviewing the Group's risk appetite and risk tolerance annually and more frequently if necessary
- ensuring we have the appropriate enterprise risk management (ERM) framework, people, processes and technology in place to evaluate and manage the uncertainties we face in protecting and creating stakeholder value

The Board has ultimate responsibility, not only for risk and opportunity management but also for developing our risk appetite and setting and monitoring our risk tolerances. In addition to the Board and Risk and Capital Management Committee's (RCMcom) assessment of our risks, individual directors annually assess the Group's top five risks that fall within their particular areas of expertise/focus. If the Board and RCMcom consider it necessary any new risks that have been identified are added to the risk register.

The role of the RCMcom

The Board delegates oversight responsibility for the quality, integrity and reliability of risk and opportunity management in the Group to the RCMcom. The roles and responsibilities of the committee are set out in a Board-approved charter.

The RCMcom:

- assists the Board with identifying and monitoring key risk and performance areas
- provides the Board with a quarterly report on risk and opportunity management
- monitors business unit risk exposures and the effectiveness of the risk management function
- considers external factors (social, competitive, economic, political, regulatory, legislative and environmental) that could impact African Bank or provide it with opportunities, when identifying and monitoring key risk areas.

The RCMcom's subcommittees – the Asset and Liability Committee (ALCO) and the Model Risk Committee (MRC) – and the Technology and Information Committee (ITC), which specifically focuses on IT risk and optimisation of our digital strategy and innovation initiatives, assist it with the discharge of its responsibilities in terms of the management of risk, and capital and compliance across the Group.

The Board-approved recovery plan policy includes a trigger framework. This framework includes triggers in respect of capital, liquidity and operational risks. Its ratios are applicable to African Bank Limited, which is where the Group's primary risk resides. The Group's risk assessment and quantification process is measured against the framework's various triggers and is reported on monthly to the ALCO and quarterly to the RCMcom.

Our business continuity plan, which is owned by the Group's Chief Risk Officer, and our operational risk function and disaster recovery plan, which is owned by the Chief Information Officer, form part of our overall recovery plan.

The embedding of stress testing in our risk management governance framework

Our group uses stress testing as a risk management tool to identify and quantify the potential adverse financial and operational conditions that could impact our capital, liquidity, return on equity (RoE) and risk appetite limits. We perform capital stress testing as part of our overall annual internal capital adequacy assessment process (ICAAP).



70%
OF OUR DIRECTORS ARE INDEPENDENT NON-EXECUTIVE DIRECTORS

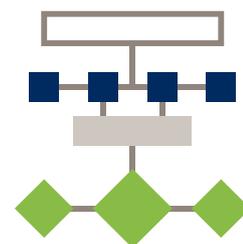


100%
ALL THE MEMBERS OF OUR AUDIT AND COMPLIANCE COMMITTEE

are independent non-executive directors

EFFECTIVE CONTROL AND LEGITIMACY

By applying King IV Principles 6 and 8, we provide a governance framework of policies and controls that apply throughout the ABH Group



THE RISK AND CAPITAL MANAGEMENT COMMITTEE'S SUBCOMMITTEES

assist with the discharge of the Bank's risk and capital management and compliance responsibilities

INTELLECTUAL CAPITAL CONTINUED

Achieving effective control continued

The contribution information governance makes to our intellectual capital

By our application of:

Principle 12: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives

Technology and information governance is a focus area of Auditcom, responsibility for which was delegated to it by the Board. Executive responsibility for technology and information lies with the Chief Information Officer who heads up the IT Steering Committee, reporting into the Executive Committee. There is a clear link between the Bank’s strategic objectives and its IT focus. Our three-year IT investment, underpinned by the @2020 IT approach, includes an investment in IT governance and stability. Previously a significant concern

as a result of severe historic under-investment, our investment in this area has created stability and provided us with an opportunity to add value to our IT governance capability. We continue to invest in our systems. Consolidating and improving the quality of our data has also been a focus for the Group. We have made substantial progress in this regard over the past two years (see page 66 of the intellectual capital section of our integrated report for 2018 for more information on our use of data science).

IT governance and stabilisation has been a key system investment area at African Bank in the past two years					
IT governance, stabilisation	IT risk management	IT security	IT governance	Systems stability and performance	Leadership and people plan

Achieving legitimacy

By our application of:

Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen

We have established an independent Compliance Office in accordance with the requirements of the Banks Act, the Board’s approach to compliance and the continually expanding compliance requirements of the South African financial services industry.

The compliance office mitigates our regulatory risk and the possibility of regulatory fines and reputational risk, by:

- putting in place mitigation controls and procedures
- investing in ongoing training aimed at establishing a culture of compliance in the Group
- addressing legislative and regulatory compliance requirements.

The Group Compliance Officer is accountable to the Board and the Auditcom, to whom he reports every quarter, and has unfettered access to the Chairman of the Board and the chairs of all the Board committees. The Group Compliance Officer’s functional reporting line is directly to the Chief Executive Officer of African Bank. Should any case of non-compliance or of significant compliance risk arise the Auditcom will report the situation to the Board and oversee any remedial action required to its resolution.

Compliance governance

Our Board is committed to full compliance with the letter and spirit of all applicable laws and regulations, supervisory requirements, policies and relevant codes at all times. Our compliance is aligned with the Group’s strategic objectives. The Board has delegated responsibility to the Auditcom for ensuring that the Group’s compliance universe is documented and prioritises legislation and regulation using a risk-based approach, which ensures that the compliance office prioritises high risk areas.



INITIATIVES UNDERTAKEN TO STRENGTHEN THE GROUP’S COMPLIANCE DURING 2018

Supported by compliance champions the Compliance Officer:

- ▶ increased monitoring of compliance-related business activities to ensure business activities comply with relevant legislation and regulation requirements
- ▶ conducted adequacy and effectiveness reviews.

Anti-money laundering

The Group established an anti-money laundering (AML) function in accordance with the requirement of the Financial Intelligence Centre Act (FICA), 2001 (as amended), which is implementing all the critical AML policies, including the core AML policy and risk framework, which have been approved by our Board.

The head of the Group's AML function reports to the Chief Risk Officer, has unfettered access to the Chairman of the Board and the chairs of all the Board committees and provides the Auditcom with AML reports every quarter. His office facilitates the Group's compliance with the FICA provisions and is responsible for submitting all the requisite reports to the Financial Intelligence Centre (FIC). The FIC is responsible for combating money laundering activities and the financing of terrorism and related activities.

During 2018 the Bank introduced a new Board-approved AML/countering financial terrorism (CFT) compliance risk management programme. The systems we have in place to enable the Bank's compliance with its customer risk assessment and reporting obligations have been independently tested by a third party agency to ensure they meet best practice international standards. Our AML system is regularly enhanced to ensure the controls we have in place can mitigate AML/CFT risks.

During 2018 the following AML initiatives took place:

- Implementing the Financial Intelligence Centre Amendment Act (Act No 1 of 2017) with a special focus on:
 - migration from a rules-based regime to a risk-based methodology
 - reviewing current AML policies, processes and systems in line with the New FIC Amendment Act
 - conducting an AML risk assessment and updating the Bank's compliance risk management programme
 - updating core banking systems in line with new customer due diligence requirements, including simplified, ongoing and enhanced due diligence for each customer segment
 - updating of AML training materials
- Participating in:
 - industry-related forums
 - the forthcoming country evaluation by the Financial Action Task Force
- Contributing to the safeguarding of the financial system.

By our application of:

Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term

We understand it is essential that our strategy, risks, performance and rewards are aligned if we are to create shareholder value. Our Remuneration Committee's (Remcom) mandate includes ensuring our remuneration philosophy, policy and practices achieve this. Remcom also assists the Board in fulfilling its obligations to ensure the Group remunerates fairly, responsibly and transparently by ensuring our Board-approved remuneration framework and supporting policy are applied throughout the Group and that our remuneration policies and practices are designed to attract talent, retain key officials and support our succession planning.

In accordance with the requirements of the Companies Act, the fees to be paid to our non-executive directors for their services as directors of the Group are submitted for approval by shareholders by means of a special resolution at our annual general meeting.

To provide shareholders with the opportunity to express their views on our remuneration philosophy, policy and implementation report, they are tabled every year for separate non-binding votes by shareholders at our annual general meeting. Should either our remuneration policy or our implementation report be voted against by 25% or more of the voting rights exercised, our Board commits to taking steps in good faith towards engaging to establish the reasons for the dissenting votes and appropriately addressing legitimate and reasonable objections and concerns raised.

By our application of:

Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation's external reports

Combined assurance

To ensure we have adequate assurance across the Group, and to prevent gaps or duplication in assurance efforts, we have adopted a combined assurance approach. To facilitate combined assurance we employ an integrated planning and reporting process, which is achieved by aligning the activities of the separate functions across our Group.

To facilitate the communication and discussion necessary to achieve combined assurance we have established a combined assurance forum, that meets quarterly. The members of the forum include our Chief Risk Officer, who chairs the forum, our Chief Financial Officer, the Group Heads of Enterprise Risk, Operational Risk, Legal and Internal Audit (who led the discussion in the meetings) the Group Compliance Officer and our External Auditors. Tracking of progress on assurance activities is ongoing and it is reported on quarterly to the Auditcom, depending on the nature of the area assured.

The Auditcom obtained assurance on the financial statements and internal controls included in the ABH Group's integrated reporting and carried out its statutory duties set out in section 90 of the Companies Act, 71 of 2008. It satisfied itself as to the expertise and experience of the Chief Financial Officer and the financial function. It also assessed the independence and performance of the internal and external audit functions. (See the Auditcom report in the annual financial statements available online at www.africanbank.co.za.)

INTELLECTUAL CAPITAL CONTINUED

OUR COMBINED ASSURANCE MODEL

MANAGEMENT COMMITTEE STRUCTURES SUPPORTING OUR APPROACH TO COMBINED ASSURANCE

1 MANAGEMENT

Ownership of risk and executive review
Policies and procedures (including critical controls)
Management review
Periodic self-awareness



2 RISK FUNCTION, LEGAL, COMPLIANCE, ANTI-MONEY LAUNDERING

Risk oversight and monitoring



3 INTERNAL AND EXTERNAL AUDIT

Independent and objective assurance of the effectiveness of the controls, compliance and risk management



4 EXCO, BOARD AND BOARD COMMITTEES

Unlimited and unrestricted access to all information and reports issued by the three lines of defence



Internal Audit

Our Internal Audit function, which is governed by our Auditcom and Board-approved Internal Audit Charter, is responsible for implementing our combined assurance initiative. It reports to each Auditcom meeting on audits concluded during the previous period and their outcomes. The resolution of any adverse findings arising from audits is the responsibility of the executive responsible for the area concerned. Internal Audit tracks the resolution of adverse findings and reports on their status to the Auditcom.

The RemCom, the membership of which includes the Chair of Auditcom and a member of the Auditcom, oversees the Head of Internal Audit's performance assessment and the remuneration packages of the Group's senior assurance providers, including the Head of Internal Audit.

The Head Group Internal Audit is solely responsible for the function, scope of work and quality of delivery of the Group's Internal Audit. His functional reporting line is to the Chairman of Auditcom and his administrative reporting line is directly to the Group's Chief Executive Officer. The Head Group Internal Audit has unfettered access to the Chairman of the Board and the chairs of all the Board subcommittees.

The Internal Audit function has completed the three-year programme it embarked on in 2016 to strengthen its internal skills and competencies and to ensure that its team members have the appropriate professional qualifications. It now has the skills and resources it needs to execute the Internal Audit plan. The provision of certain specialist internal audit functions by external services providers has allowed our Internal Audit function to augment and strengthen its competencies in key areas.

The activities of Internal Audit, which are aligned with the Group strategy and our core values, are designed to ensure quality, efficiency and agility in the delivery of assurance services and to meet the assurance expectations of our stakeholders.

A risk-based Internal Audit plan

The Internal Audit plan for the year ahead is approved annually by the Auditcom and its execution is tracked to completion by the committee. The plan is also reviewed during the year to ensure it remains relevant should changes take place in the business and our operating environment. If changes are necessary they are approved by the Auditcom.

THE PROGRESS INTERNAL AUDIT MADE WITH THE KEY FOCUS AREAS REQUESTED BY THE BOARD AND THE KEY INITIATIVES PLANNED FOR THE 2018 AND 2019 FINANCIAL YEARS

Initiatives	Progress
Credit	Completed and continuous monitoring of aspects of credit models
Treasury (including capital management)	Completed and consistent/ongoing review of key aspects of balance sheet and capital management
Information technology	Completed
Proactive assurance of Group strategic transformation activities	Proactive and real-time assurance on Omnichannel and transactional banking programme - with Internal Audit walking the path with the programme
Advanced, continuous and more proactive data analytics	Embedded continuous auditing in payments, credit and collections and rolling out, where applicable, to other streams of operations
Ongoing execution of its professional development plan	Significant progress made in professional qualifications of Internal Audit personnel. Ongoing and continuous mentoring, on the job training, certification and courses are currently being completed for professional development

Some key initiatives Internal Audit will be undertaking in FY2019 to ensure it can provide high quality risk-based advisory and assurance services aligned to the Group's top strategic and operational objectives include:

- advanced and more predictive analytics
- functional re-alignment with changes within the Group.

This is in addition to the key focus areas requested by the Board of:

- credit
- treasury (including capital management)
- information technology
- Omnichannel and transactional banking.

Internal Audit was able to conduct its work free of any restrictions and is of the view that at year-end there were no material internal control weaknesses/deficiencies that would render the internal financial controls and financial systems ineffective in producing reliable information for the financial statements.

The Group's sensitivity towards cyber and information security is at an all-time high following recent incidents in the financial services sector. Relatively minor cyber-related incidents can be devastating. The negative effect on consumer confidence in the transactional offering and the Bank as a whole could severely impact the ability of the Bank to attract new customers onto our transactional banking platform. Internal Audit is adopting a risk-based approach for the current financial year and the year ahead, which incorporates continuous real-time assurance of access control aspects of information security and traditional assurance reviews of governance and security posture controls.

As part of the Bank's strategic objectives of growing and diversifying its product offering, being more customer-centric and being a fully-fledged retail bank, the Bank has embarked on a strategic programme and project that addresses the digitisation of the Bank, improving and opening new channels for customer interfaces, and growing and improving customer product offerings. The growth in our operations and the introduction of transactional banking changes in the way the Bank functions, will result in our exposure to risk and opportunities evolving from where it is currently. The controls embedded in our processes will need to be more real time, more frequent and automated. In addition, management oversight needs to incorporate the analysis of information for behavioural trends outside the norm.

The principle controls required must cover the spectrum from preventative, detection and mitigation actions if improvement is needed. As part of the process of giving assurance on these controls during the build and implementation phase, Internal Audit has adopted a programme approach and is undertaking deep dives on key operational processes.

INTELLECTUAL CAPITAL CONTINUED

Our combined assurance matrix follows

Key threats associated with strategic objectives/ Targets	First line of defence		Second line of defence		Third line of defence	Governance structured reported to	Frame-work/ standard	Outcome	Frequency of assurance and/or reporting
	Exco	Group Risk	Com-pliance/ AML/ Legal	Sustain-ability	Inde-pendent assurance providers				
Reliable financial and other reporting					External audit (PwC)	Exco and Auditcom	IFRS ¹ JSE ²	Adequate coverage	Biannual
					Internal audit	Setcom and RCMcom			
Performance against strategic scorecard					PwC	Exco and Board	Board ³	As above	Monthly Quarterly
					IA				
Financial targets					PwC	Exco, Auditcom and Board	Board ⁴	As above	Monthly Quarterly
					IA				
Efficiency of operations					IA	Exco, RCMcom and Auditcom	Divisional	As above	Ongoing through out the year
Customer targets					IA	Setcom and Exco	Third party ⁶ Measure-ment	As above	Monthly Quarterly
					NPS Provides customer engagement				
People targets						Exco, Setcom and Remcom	Measure-ment ⁷	As above	Monthly Quarterly
Compliance with laws and regulations					IA	Exco, RCMcom and Auditcom	Applicable legislation and regu-lation	As above	Monthly Quarterly
					PwC Inde-pendent assurance providers				

Legend

- █ Exco providing assurance
- █ Group Risk
- █ Auditcom
- █ Internal Audit
- █ External Audit (PwC)
- █ Other external assurance providers
- █ Sustainability

- 1 International Financial Reporting Standards
- 2 JSE Securities Exchange South Africa Limited Listings Requirements
- 3 Board-approved strategy
- 4 Board-approved business plan and budgets
- 5 Group and divisional performance, stability, monitoring targets and measures
- 6 NPS[®] and SAcsi
- 7 Performance assessments, engagement surveys, diversity targets

By our application of:

Principle 16: In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time

Balancing the needs, interests and expectations of our stakeholders is a key material issue for African Bank. Information on how we have approached our stakeholder relations can be found on pages 90 to 95 of our integrated report for 2018. Our Board has identified its responsibilities with regard to engaging with our investors and the regulators as being a material corporate governance issue, which is addressed through regular reporting and engagement (see page 92 of our integrated report for 2018).

