African Bank

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African Bank Holdings Group King
IV Disclosure 2019

King IV™ Principle	Application	Reference in AIR, as examples of application of principles*
LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP		
Principle 1: **The governing body should lead ethically and effectively.**	The Boards of African Bank Holdings Limited (ABH) and African Bank Limited (ABH) (jointly referred to as the Board or the Boards or the Company) are ultimately responsible for ethical behaviour within the organisation and, in discharging this responsibility, is guided by the Group's Code of Ethics. Reference to the Group or the Company in this document includes ABH and all its subsidiaries. The Board ensures that the conduct of its members is aligned to the members' Code of Conduct, Company Code of Ethics and the Group's values and is measured accordingly through an annual fit and proper assessment process. The Board assessment, undertaken by an external party in 2019, confirms that the independent Board Chairman who was appointed in the current year, adds value to the business and ensures that the Board acts ethically and effectively at all times. Board members are also actively involved in setting and steering the direction of the Board (strategy development, risk assessments, identifying opportunities, performance management). The Board ensures that it takes decisions in the best interests of the company, having regard to fairness towards all stakeholders.	Page 8 – Strategy Page 40 – Governance Report
Principle 2: **The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.**	The Group's Sustainability, Ethics and Transformation Committee (SETCom) oversees the embedding of an ethical culture throughout the organisation. It is assisted by the Chief Executive Officer (CEO), the Human Capital Executive, the Ethics Officer and Ethics Champions within the various business units. The SETCom regularly reviews the Group's policies and practices designed to enhance ethical behaviour. Processes have also been implemented to enable whistle-blowing, reporting of inappropriate behaviour and the management of any incidents of unethical behaviour. The Bank's Whistle-blowing Policy was approved in 2018 and is reviewed regularly. Internal and external stakeholders are encouraged to make use of the externally-managed ethics line, which allows for anonymous reporting. Significant activities were undertaken during the year to embed the Code of Ethics with employees and to improve awareness in terms of ethical behaviour. Disclosure in relation to organisational ethics is reported in the Group's Annual Integrated Report (AIR).	Page 80 – Human Capital; Page 108 - SetCom Report (Ethics disclosure)

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Principle 3: **The governing body should ensure that the organisation is, and is seen to be, a responsible corporate citizen.**	The Board is ultimately responsible for how the consequences of the organisation's activities and outputs affect its status as a responsible corporate citizen. The SETCom plays an instrumental role in this regard. It monitors the Group's performance against target in the following areas: • Workforce – continued employment equity drive, fair and responsible remuneration, promoting diversity and inclusion, regular engagement surveys, creating a safe and healthy work environment. • Economy - exercising responsible lending through improved credit policies and scorecard, embedding changes to anti-money laundering legislation through the Financial Crime Unit and mitigating fraud. • Society - our purpose of 'Advancing lives', executing on the Board-approved Treating Customers Fairly (TCF) Policy, reinforcing and instilling an ethical culture that underpins the five values entrenched in the strategy. • Environment - the Environmental Sustainability Policy and strategy have been approved and the Sustainability Committee is operational. Its objective is to promote protection of the environment and reduce the environmental impact of business operations. The Group's B-BBEE Scorecard, as verified by an independent external verification agency, guides us in terms of focus areas, targets, anti-money laundering and ethics. The Group has a successful Corporate Social Investment (CSI) programme focussing largely on education, to advance the lives of people. The Group's CSI Policy has been developed and will be tabled for Board approval in the current financial year.	Page 80 – Corporate Social Investment Page 102 – Natural Capital

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STRATEGY, PERFORMANCE AND REPORTING		
<u>**Principle 4:**</u> **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 Board recognises that the outcomes of its activities can have both positive and negative impacts on the triple context in which we operate (economy, society and environment) and on the capitals we utilise in our business to create value for our stakeholders, by achieving good business performance. The Board sets and steers the direction for the realisation of the Group's core purpose and values through its strategy. Management formulated the 2021 business plan, which was approved by the Board in 2018 and re-affirmed in April 2019. In developing the strategy, the risks and the opportunities were assessed and presented in relation to our risk appetite and risk tolerance, which took into account the triple context. The strategic scorecard was established based on these findings. It includes finance, people and customer metrics and targets. Regular updates on the strategy, strategic pillars, targets and progress made are presented to, and interrogated by, the Board. Progress on the implementation of the Group's strategic plan was notable during the current year, with the launch of our transactional banking offering being a key diversification element of the strategy. In addition, the Group launched the Omni-platform to enable seamless interactions with and for our customers. Significant focus is placed on identifying, managing and remediating risks to ensure the Group remains a sustainable entity. The viability of the organisation, the effect of risks on its capitals, its solvency and liquidity, internal capital adequacy assessment process (ICAAP), Recovery Plan and going concern status are discussed regularly by the Risk and Capital Management Committee (RCMC), the Audit and Compliance Committee (AuditCom) and the Board.	Page 44 – Financial Capital Page 42 – Governance Report (Board role and value creation)

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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 Group publishes various reports throughout the year to ensure all stakeholders remain informed and that the integrity of the information included in the reporting is overseen by the Board, with specific areas of reporting reviewed and challenged for appropriateness by the relevant Board Committees, as well as the Internal Audit and combined assurance functions. Reports generated by the group include: • Interim Financial Results. • Annual Financial Results. • Pillar 3 Disclosures. • Annual Integrated Report, including Audit, Risk, Remuneration and Governance Reports, and the Group's application of King IV™. • Prescribed and voluntary Stock Exchange News Service (SENS) announcements. We engage with our stakeholders throughout the year to provide them with information on our performance, the challenges we face and our view of the future business environment. During the current year, there were numerous engagements held with our stakeholders and shareholders on funding and other relevant matters.	Pages 120 – Audit Report Pages 34 – Risks Report Pages 111 – Remuneration Report Pages 40 – Governance Report

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GOVERNING STRUCTURES AND DELEGATION		
<u>**Principle 6:**</u> **The governing body should serve as the focal point and custodian of corporate governance in the organisation.**	The Board performs its duties in overseeing the implementation of its strategy and achieving its goals and objectives within an approved Governance Framework and Board Charter that provides for effective risk management, ethical leadership and ethical business practices. Both the Governance Framework and Board Charter were updated to take into account legislative and governance developments and were approved by the Board in February 2019. The Board Charter details the responsibilities of the Board and protocols for members to obtain independent external professional advice, requisitioning documentation from, and setting up meetings with, management. The Board meetings held and member attendance at meetings are disclosed in the AIR. The Board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period.	Page 40 – Governance Report

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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.**	The Board is committed to ensuring that its composition reflects an appropriate balance in terms of independence, diversity, skills and experience. Diversity factors are a key consideration taken into account by the Directors' Affairs and Governance (DAG) Committee when reviewing performance contributions of current Directors (prior to rotation and re-election at the Annual General Meetings (AGMs)) and in considering new Director appointments. Explicit race and gender targets will be considered in the current year. The Board currently comprises 12 Non-Executive Directors (NEDs) (11 of whom are independent) and 2 Executive Directors (EDs), being the CEO and the CFO. During the current year, two new appointments were made, being the Board Chairman who is an Independent Director (thus, a Lead Independent Director has not been appointed) and one additional Independent Director. In the year ahead, the Group will be appointing new Directors to address succession planning and augment the strength of its Board. Succession planning for the Board Chairman is in progress. In the past year, the Company approved a Selection and Nominations Policy and an Independence of Directors Policy, which encapsulate processes to assess candidates' profiles, qualifications, capacity and independence prior to their appointment to the Board. At least one-third of NEDs retire by rotation at the AGM each year. This process invigorates the Board capabilities by introducing members with new expertise and perspectives, while retaining valuable knowledge, skills and experience, and maintaining continuity.	Page 40 – Governance Report

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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.**	Through the appointment of strong, independent Directors and the separation and distinct definition of the roles and responsibilities of the Board Chairman and CEO, the Group has established a clear balance of power and authority at Board level. The Board executes on its responsibilities with support from its five Board Committees and three Sub-Committees of the Risk and Capital Management Committee (RCMC), each of which function through an approved Terms of Reference which is reviewed annually. The Committees established are the DAG Committee, RCMC, AuditCom, SetCom and Remuneration Committee (RemCom). All Board Committees comprise a minimum of three NEDs and, on the Sub-Committees, a minimum of two NEDs. All Board members are entitled to attend any Committee meeting as an observer. Each Committee as a whole, has the necessary knowledge, skills, experience and capacity to execute its duties effectively. However, independent advisors are appointed to assist the Board and Board Committees as required. Details relating to each Committee are disclosed in the AIR, including composition, responsibilities, meeting attendance, external advisors and attendees at meetings. Additional disclosures are made in relation to the activities of the AuditCom.	Page 40 – Governance Report (Board Committees)
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.**	The Group undertakes annual Board, Board Committee, peer and self-assessments. Every third year, the assessments are undertaken by an independent external party, as was the case in 2019. The outcomes of the assessments are reviewed by the individual committees and action plans developed in terms of any areas that require improvement, or where additional training may be required. The overall outcomes are reviewed and deliberated by the DAG Committee and the Board. Individual Director assessments are undertaken by the Board Chairman in one-on-one discussions. However, an external process was utilised in 2019, as the Board Chairman was appointed just prior to the annual assessment process. The Board is satisfied with the outcomes of the 2019 assessment process, which confirms that the Board and all the Board Committees are operating effectively, with Board members being suitably qualified and skilled.	Page 40 – Governance Report (Annual Assessment)

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		application of ethical principle*
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.**	The Board is responsible for the appointment of the Group CEO and delegates its authority (in writing) to the CEO, who is responsible for executing the Board approved strategy, policies and business plans. The latest Delegation of Authority (DoA) was revised and approved in August 2019. The CEO's contract is for an indefinite period and may be terminated by mutual agreement or three months' written notice. The CEO's contracted performance criteria, which are aligned to the strategic objectives of the Group and Group Balanced Scorecard (BSC), are reviewed annually for the year ahead and the CEO's performance against those criteria is monitored by the DAG Committee, RemCom and the Board. The DAG Committee and the Board regularly review the succession plans for the Executive Committee (Exco) members (including the CEO), as well as key/critical roles. The recruitment process for two Exco members who resigned during the year, is underway. The EDs (CEO and CFO) are supported by the Exco. The CEO has delegated the operational execution of the Board-approved strategy to the Exco, which comprises members with suitable skills, experience and knowledge. The Board is responsible for appointing a suitably qualified and experienced Company Secretary, who provides guidance to the Board and is empowered with necessary authority. She has unfettered access to the Board and maintains an arm's length relationship with Executive Management.	Page 40 – Governance Report Page 111 – Remuneration Report (CEO and Prescribed Officers)

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GOVERNANCE OF FUNCTIONAL AREAS		
<u>**Principle 11:**</u> **The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.**	The Board sets the direction for how risk in the Company should be approached and addressed and oversees risk management in the organisation through its RCMC. The Board delegated to management the responsibility for implementing and executing effective risk management, guided by the Enterprise Risk Framework (ERM) and the Risk Appetite Policy, which are approved annually by the RCMC and the Board. As part of the RCMC quarterly reporting, the risk appetite dashboard includes both risks and opportunities and is set to ensure that the company achieves its strategic and financial objectives. The RCMC holds quarterly meetings at which pertinent risk-related matters (including reviews of the group's ICAAP, Recovery Plan, business continuity, disaster recovery, and business risk exposures) and governance processes are addressed. Levels of potential loss and appetite towards risk are also included as part of the quarterly risk appetite reporting and the annual Risk Appetite Policy approval process. Trigger framework reporting is undertaken monthly to the Risk Exco and quarterly to the RCMC. The trigger framework includes Business as Usual (BAU), Early Warning Indicator (EWI) and recovery triggers. The Board undertakes its own independent assessment of top risks on an annual basis, to ensure that risks are identified, monitored and managed in order for the Group to achieve its strategic objectives. The RCMC has three Sub-Committees, namely, Model Risk Committee (MRC), Asset and Liability Committee (ALCO) and Technology and Information Committee (TechInfo). The TechInfo specifically focuses on IT risks and optimisation. The Group utilises stress testing as a risk management tool to identify and quantify any potential adverse financial and operational conditions that could impact its capital, liquidity and return on equity risk appetite limits.	Page 34 – Risk report Page 44 – Financial Capital

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Principle 12: **The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.**	The Board has delegated oversight of its technology and information responsibilities to the RCMC, which in turn established a TechInfo Committee in the current year. The TechInfo Committee is responsible for governance of the Group's data and its information technology (IT) investment requirements, while the Group's Chief Information Officer (CIO) manages the operational aspects of the Group's IT requirements and ensures effective management of the Group's IT strategy. The IT strategy was developed and approved by the Board in April 2019 and the Architecture Blueprint was approved during July 2019. The data strategy has been formulated with critical focus placed on data across Protection of Personal Information (POPI), RDARR, Data Governance and the strategic Data Science capability. The IT Operational Update, which covers, stability, change delivery, security, Human Capital, Finance and enterprise architecture, risks and dependencies pertaining to third parties and outsourced service providers, is presented to the TechInfo Committee every second month. The Group has made significant investment in its IT environment in the current year, specifically in terms of the transactional banking and Omni platforms. It has also invested in people with the appropriate skills to support the Group's IT strategy. A report on IT is disclosed in the AIR.	Page 72 – IT Report

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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.**	The Board is committed to compliance with all applicable legislation, regulation, supervisory requirements and codes and has a zero tolerance for non-compliance. A Group Compliance Officer is appointed to head the compliance function, with compliance champions acting as a first line of defence in implementing the compliance process. The Compliance function distinguishes between legislative or regulatory requirements and non-binding rules, codes and standards. Monitoring and reporting within the Compliance function entails a more formal approach to the former and a more cultural approach to the latter. This is evidenced in the risk-based approach utilised by the Compliance function. The Compliance Officer mitigates our regulatory risk and the possibility of regulatory fines and reputational risk by: • Putting mitigation controls and procedures in place. • Investing in ongoing training aimed at establishing a culture of compliance in the Group. Compulsory compliance training is implemented throughout the Group on an annual basis. • Addressing legislative and compliance requirements on a proactive basis. The Compliance Officer reports administratively to the CEO, but also has unfettered access to the Board Chairman and the Chairmen of all Board committees. Quarterly reports are submitted to the AuditCom and the Board, which include compliance monitoring on adequacy and effectiveness testing, reviews of the Regulatory Universe and various compliance risk management plans. The Compliance function is audited on an annual basis by both the Bank's Internal Audit function as well as an external audit function.	Page 120 – Compliance Report

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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.**	The Board has delegated responsibility for oversight of its remuneration practices to the RemCom, which monitors the Group's remuneration practices and policies to ensure transparent, fair and market-related remuneration. The Group recognises the importance of attracting and retaining individuals of the highest calibre with appropriate skills and, therefore, its remuneration practices seek to fulfil these requirements. The RemCom regularly reviews the Board-approved remuneration framework, which comprises the Group's remuneration philosophy, Remuneration Policy and best remuneration practices. A full review of the Remuneration Policy will be undertaken early in 2020. The RemCom reviews the fees payable to the group's NEDs on an annual basis, for recommendation to the RemCom and the Board. The proposed fees are then presented to the Group's shareholders for consideration at its AGM. Details on the Background Statement, Remuneration Policy and Implementation Report are disclosed in the AIR. The latter two documents are submitted for a non-binding advisory vote at the AGM. They were unanimously approved at the AGM in February 2019.	Page 111 – Remuneration Report
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.**	The AuditCom, on behalf of the Board, is responsible for oversight of the Group's Combined Assurance approach and its integrated planning and reporting processes required to ensure the adequacy and integrity of information utilised by the Board in its decision making. The Combined Assurance Framework was approved in May 2019 and regular reports are tabled at AuditCom meetings. The established Combined Assurance forum meets quarterly and comprises the Chief Risk Officer, Group Heads of Enterprise Risk, Operational Risk, Legal, Compliance and Internal Audit. Tracking on progress of assurance activities is ongoing and is reported quarterly to the AuditCom. The Group's Internal Audit function was augmented with additional suitably skilled resources in the current year. The AuditCom reviews the plans of both the Internal Audit and external audit functions on a quarterly and annual basis respectively. The AuditCom also evaluates the independence, effectiveness and performance of the Internal Audit function. It reviews any material issues raised through the Internal Audit process and addresses and monitors appropriate remedial actions required in terms of any findings. The AuditCom oversees the identification of an appropriate external auditor for recommendation to the Board and the Group's shareholders, on an annual basis.	Page 120: AuditCom Report Page 40 – Combined Assurance

King IV Principle	Application	Reference*
STAKEHOLDER RELATIONSHIPS		
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.**	Every part of our business interacts with stakeholders and these stakeholder relationships impact directly and indirectly on our business, its reputation and its ability to create value for our stakeholders. The Board and the Company strive to ensure a systematic and integrated approach to stakeholder engagement to ensure that all stakeholder issues are identified, prioritised and appropriately addressed. Oversight of the Group's stakeholder engagements is the responsibility of the Board, through its SetCom. A Stakeholder Engagement Policy was designed to provide guidelines on appropriate communications with stakeholders and was approved early in 2019. The Company's major stakeholders are: Customers, People, Investors (Equity and Debt Investors / Financiers), Regulators, Societies, Governments, Associations and Industry and Professional Bodies, Business Partners, Suppliers and Contractors, Unions and Media. The Board believes that engagement with its shareholders and regulators forms a material corporate governance matter that it addresses through regular reporting. In the current year, there will be a stronger focus on improving our relationship with our regulators, as well as ensuring that we become a meaningful investable proposition for our investors.	Page 90: Social and Relationship Capital

* To be fully populated subsequent to completion of the AIR